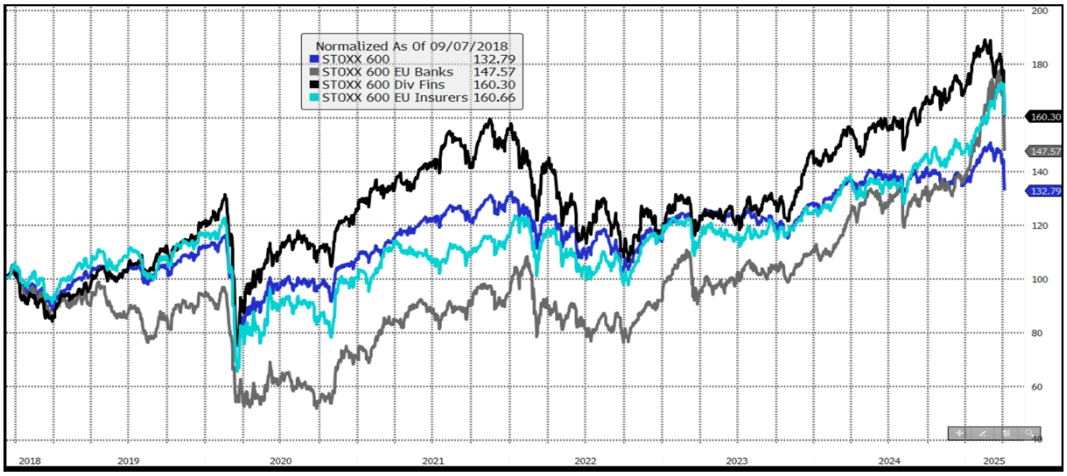
Banks vs. Tariffs: *Bank Snapshot 07/04/25*



Spec sales: Jonathan Tyce **Jonathan Tyce**

- The SX7P's **16% plunge from 16-year highs** has surprised in its speed, with tariffs and recession fears the catalysts
- One thing is clear - **Do not catch a falling knife.** We detail below **three cases studies** and conclude that this correction - equivalent to one year's consensus earnings - is **nowhere near enough to merit buying yet**
- **Unknowns** are still **plentiful** and **visibility** very poor and recent events may catalyze losses in long-discussed CRE exposures
- A **narrow 10% top-to-bottom spread** in mainstream bank slumps (CredAg to BPER) confirms a **knee-jerk blanket sell-off**
- Despite the SX7P's 7% outperformance of the SXXP since our Jan 13th '*Calling Time*' note, we are increasingly confident that **the sector's 54-month uninterrupted outperformance is well and truly over**

SX7P Performance Since 16-year High on 25/3/25

What we know: things just got worse

The impact of nascent tariff wars on inflation, interest rate policies, trade and by-country GDP is impossible to forecast accurately but one thing is certain. The outlook has dimmed significantly. We explore below the ECB excerpts from stress test publications to begin to think about how changing macro inputs affect bank earnings and outlook.

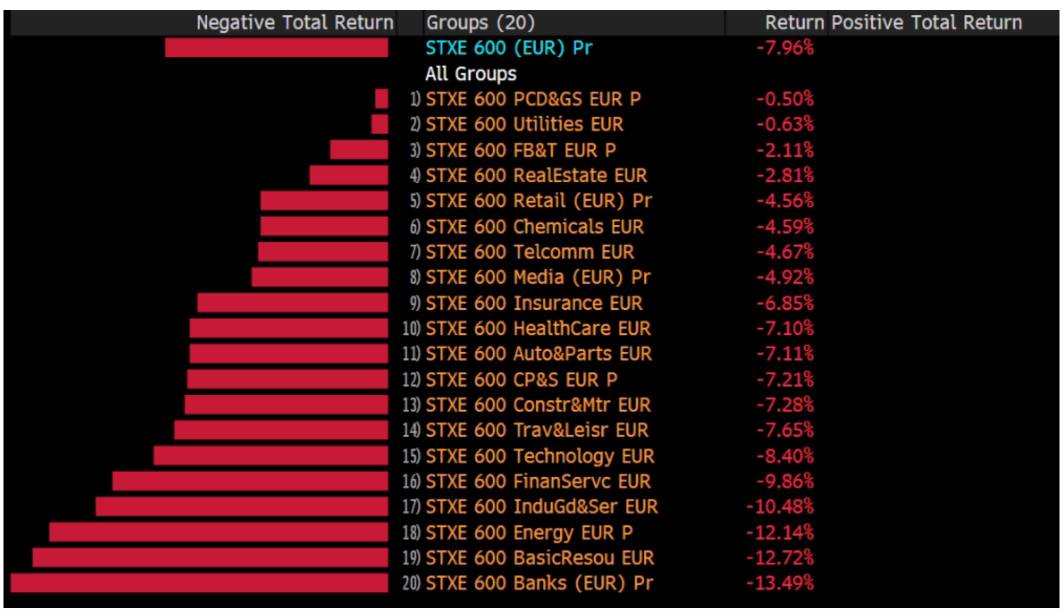
We also touch on how to think about bank valuation when EPS visibility disappears, and capital return plans are likely at risk - though to what extent is as yet unclear.

What we don't know: timings, severity

One of the biggest unknowns is Donald Trump - and his ability to '*volte face'* which leaves a not-insignificant risk of being whipsawed by the market. As banks are the lightning rod of the economy, mark-to-market risk in a prolonged downturn and the pro-cyclical nature of IFRS9 complicate matters further with consensus now a moveable feast

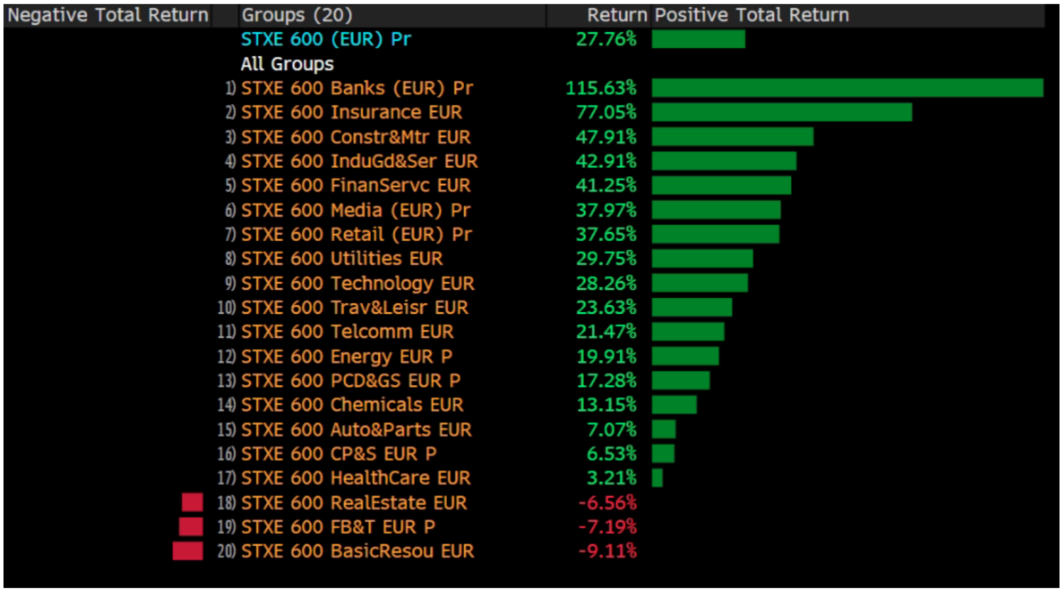
The SX7P's 6% relative underperformance since the announcement of US tariff plans on April 2nd, pales into insignificance versus an 80% TSR outperformance since the first ECB rate hike in 2022.

STOXX Performance since '*Liberation*' Day



Source: Bloomberg

STOXX performance since first ECB Rate Hike, July 2022



Source: Bloomberg

All that this confirms is that it is ***too early to try and catch a falling knife,*** when there is still much relative profit to be taken. Discretion will be the better part of valour for bank investing in the near-term.

We offer below a short and simple, but by no means exhaustive list of things to consider, and this note aims to provide some top-down context about the magnitude of potential changes to estimates and sector valuation.

How could banks be affected?

- **Cost of Risk Spike -** 40 bps to 80, 120 or 200bps?
- **Revenue Hit** - lower loan growth, rate cuts, fees, capital markets
- **Dividends -** cut or suspended?
- **Buybacks -** cut or suspended?
- **Lower CET1 -** lower capital generation, RWA inflation
- **AFS and OCI** - lower TNAV and CET1 impacts
- **Dollar weakness** impacts revenue and profitability

Mitigating actions and factors?

- **Cost-cutting and restructuring**
- **M&A -** create synergies and get a deal at a better price
- **Regional Co-ordination -** Move towards CMU accelerated?
- Trade deals and peace agreements? Unlikely but….

€200 Billion is nowhere near enough

The current unknowns facing the market have drawn numerous comparisons from the Smoot-Hawley Tariff Act (1930) to the 1970s and a decade defined by stagflation-high inflation combined with low growth and high unemployment.

From a bank earnings perspective, with IFRS9 (the effective standard since 2018) the model to calculate expected credit losses, the lack of history suggests that the Covid-19 pandemic and 2020 accounts is a useful place to start.

Lloyds' 2024-28 economic scenarios

Updated economic scenarios LLOYDS BANKING GROUP

Scenario	ECL (£m)	Measure (%)	2024	2025	2026	2027	2028	*Ave. 24-28*
Upside (30%)	2,634	GDP	0.8	1.9	2.2	1.5	1.4	1.6
		Unemployment rate	4.3	3.5	2.8	2.7	2.8	3.2
		HPI growth	3.4	3.7	6.5	6.6	5.4	5.1
		CRE price growth	0.7	7.8	6.7	3.2	0.5	3.7
		UK Bank Rate	5.06	4.71	5.02	5.19	5.42	5.08
		CPI inflation	2.6	2.8	2.6	2.9	3.0	2.8
Base case (30%)	3,204	GDP	0.8	1.0	1.4	1.5	1.5	1.2
		Unemployment rate	4.3	4.7	4.7	4.5	4.5	4.5
		HPI growth	3.4	2.1	1.0	1.4	2.4	2.0
		CRE price growth	0.7	0.3	2.5	1.9	0.0	1.1
		UK Bank Rate	5.06	4.19	3.63	3.5	3.5	3.98
		CPI inflation	2.6	2.8	2.4	2.4	2.2	2.5
Downside (30%)	4,159	GDP	0.8	(0.5)	(0.4)	1.0	1.5	0.5
		Unemployment rate	4.3	6.0	7.4	7.4	7.1	6.4
		HPI growth	3.4	0.6	(5.5)	(6.6)	(3.4)	(2.4)
		CRE price growth	0.7	(7.8)	(3.1)	(0.9)	(2.3)	(2.7)
		UK Bank Rate	5.06	3.53	1.56	0.96	0.68	2.36
		CPI inflation	2.6	2.8	2.3	1.8	1.2	2.1
Severe downside (10%)	6,515	GDP	0.8	(1.9)	(1.5)	0.7	1.3	(0.1)
		Unemployment rate	4.3	7.7	10.0	10.0	9.7	8.4
		HPI growth	3.4	(0.8)	(12.4)	(13.6)	(8.8)	(6.7)
		CRE price growth	0.7	(17.4)	(8.5)	(5.5)	(5.7)	(7.5)
		UK Bank Rate – adj.	5.06	4.03	2.7	2.23	1.95	3.19
		CPI inflation – adj.	2.6	3.6	2.1	1.4	0.8	2.1
Probability weighted	3,651							

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Source: Lloyds' FY24 Analyst results presentation

GDP growth and the central bank rate are the two most immediate inputs to focus on, with inflation, CRE (commercial real estate) and house price risk (HPI) likely to deteriorate more slowly.

More than €200 billion in market capitalisation has already been wiped from the European bank sector in a week. Trying to understand what that actually represents in terms of lost net income and de-rating is fairly mechanical and the six examples briefly examined below gives some inkling that there is likely much further to go before investors can be comfortable that banks are now cheap.

Three case studies

The examples below are very back-of-envelope, mostly because attempting too much detail will prove a futile exercise in the coming months as the true damage to the sector's outlook and global profitability becomes clear.

One thing is immediately obvious - a sector de-rating will occur given the very sudden loss of earnings visibility, and consensus EPS for the next couple of years need to be pared back significantly. A 15% sector drop is nowhere near enough to capture this.

While the 2020 experience is shown as the only useful example we have of how IFRS9 and expected credit losses work in a downturn, some of the impacts then are likely to be replicated in coming months.

More pertinently, any recovery in profitability and share prices is likely to take longer than was the case post-pandemic.

HSBC

2020 consensus provisions vs. share price

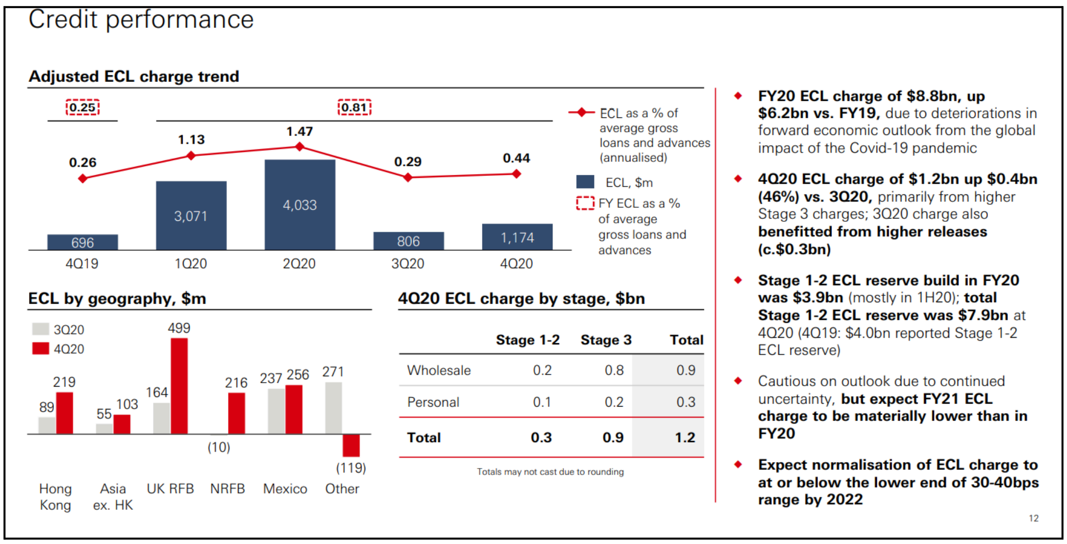
Source: Bloomberg MODL function

HSBC's restructuring and asset sales in recent years means it is no longer the global presence it once was but, along with Citi, is still one of the most international names and a good place to start.

Optically, on current consensus HSBC trades on 7.5x consensus 2025 EPS, 1.05x TNAV for an ROTE of c.15%.

Loss:	A 5-day loss of $25 billion in market cap
Equivalent to:	One year's net income
2025 consensus:	Net income $23.4bn
	Provision: $3.47bn
	PPOP: $32.5bn
	Cost of Risk: 38bps
2020 experience:	Provision: $8.8bn
	Cost of Risk: 81bps
	Revenue hit: 10%
	ROTE: 2.6%

HSBC FY20 slide on ECLs and charges



The desk's view is that GDP estimates for 2025 and 2026 will likely be cut 1-2 ppts near term and the drop could ultimately be steeper - again with the caveat that any recovery is likely to be much slower this time round than after 2020's pandemic rout.

For HSBC, a doubling of provision charge from current consensus plus a $5 billion hit to revenue (8% vs. consensus) would suggest a cut of about 25% to EPS is entirely possible. Should the current troubles also act as a catalyst to accelerate CRE troubles and writedowns, the cuts to EPS - while manageable - could extend towards 40% suggesting that HSBC currently trades at about 10x.

Santander

2020 consensus provisions vs. share price

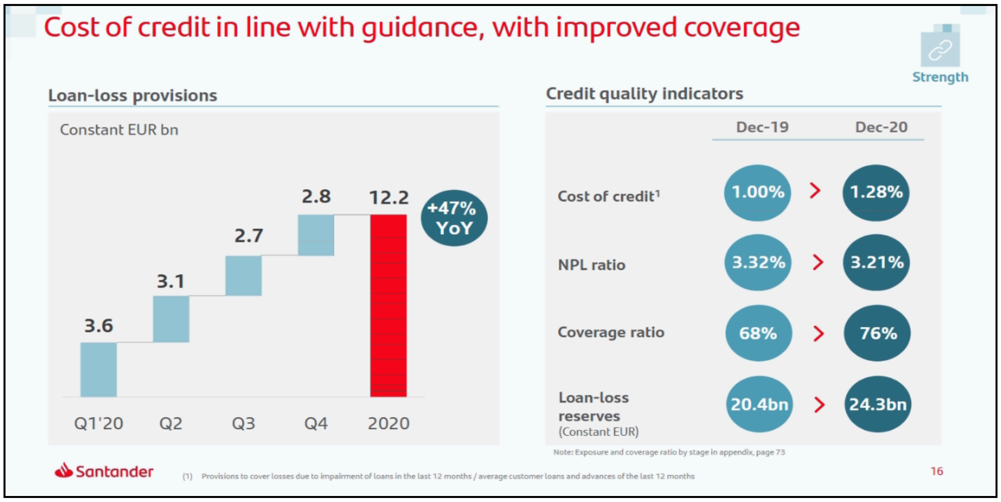
Source: Bloomberg MODL function

Santander's UK, euro zone and LatAm presence also suggests that its 2020 accounting is a useful reflection of the dramatic impact of a global trade shut down and unquantifiable market fears in 2020.

Optically, on current consensus Santander trades on 6.6x consensus 2025 EPS, 0.95x TNAV for an ROTE of c.15%.

Loss:	A 5-day loss of €12.5 billion in market cap
Equivalent to:	One year's net income
2025 consensus:	Net income €12.8bn
	Provision: €12.8bn
	PPOP: €36.7bn
	Cost of Risk: 118bps
2020 experience:	Provision: €12.2bn
	Cost of Risk: 128bps
	Revenue hit: 10%

Santander FY20 slide on ECLs and charges



As the ESRN 2025 Stress Test Macro-financial scenario (see below) shows, an adverse scenario outcome is modelled to knock 2025 GDP by 2.5ppts and a further 4 ppts from 20206. While this appears harsh, and is not necessary to demonstrate the near-term risk to bank earnings, we assume that Santander's 2025-26 revenue outlook could be cut by at least 5%.

From a provisioning perspective, Santander is relatively well positioned but modelling a €3 billion hit to revenues and €2 billion uplift to 2025 provision estimates could lower EPS by 30-40%, assuming some mitigating actions.

This would imply a 2025 PE of closer to 10x, and questions about capital return and buybacks - a key feature of the Santander story - could dent sentiment further.

The desk's point here is more to demonstrate how swiftly an optically cheap 6x- valuation becomes 10x, without overly harsh cuts to consensus, particularly when viewed in the light of what happened in 2020.

Barclays

2020 consensus provisions vs. share price

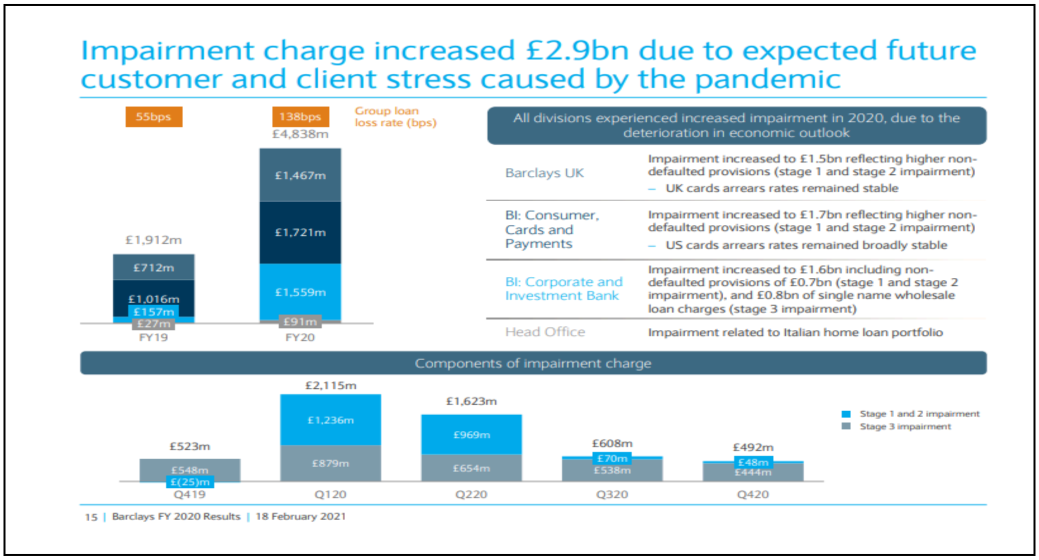
Source: Bloomberg MODL function

Barclays' investment banking and US exposure also suggests that its 2020 accounting is a useful reflection of the trading, IB and currency impacts that may be unfolding.

Optically, after a 15% slide in the last week, current consensus implies that Barclays trades on 6x consensus 2025 EPS, 0.7x TNAV for an ROTE of c.11%.

Loss:	A 5-day loss of £6.5 billion in market cap
Equivalent to:	~ One year's net income
2025 consensus:	Net income £5.9bn
	Provision: £2.2bn
	PPOP: £11bn
	Cost of Risk: 51bps
2020 experience:	Provision: £4.7bn
	Cost of Risk: 131bps
	Revenue hit: 0%

Barclays FY20 slide on ECLs and charges



Barclays' 15% drop in net interest income in 2020 and fall in investment income was offset by a £2.8bn jump in trading income. Modelling trading is difficult at the best of times, but with a significant structural hedge and trading operations, we would be inclined to suggest a relatively modest revenue hit near-term.

2025 Barclays consensus revenue is for 6% growth. Assuming that instead, a 2% growth is delivered would cut about £1 billion of revenues. For the provision charge, given large US credit card exposures and the 2020 experience, an additional £1.5 billion seems a fair starting point.

Taken together, this would cut consensus EPS by up to 40% - before any management actions, and assuming that trading doesn't repeat is heroics of 2020. This would leave Barclays trading on c.9x with risk to buybacks and a low payout ratio also an issue from a dividend yield perspective.

Disorderly adjustment time?

In 4Q24, the ESRB General Board stated that risks to financial stability in the EU had increased amid elevated geopolitical tensions. Tail risk scenarios included major new trade restrictions, the escalation of Russia's war in Ukraine and the conflict in the Middle East.

> **2. Aggravation of geopolitical tensions leading to depressed global growth**
>
> **The escalation of geopolitical tensions, coupled with increasingly inward-looking trade policies globally, worsen geopolitical polarisation and contribute to a fragmentation of the global supply system.** The exacerbation of geopolitical tensions results in severe supply and demand shocks, culminating in a significant contraction in global economic growth. An increase in trade tariffs, along with retaliatory measures by several countries, results in more inward-looking global trade policies, further amplifying trade fragmentation.

Source: ESRN 2025 Stress Test Macro-financial scenario

The potential for a disorderly adjustment in global financial markets - given stretched valuations such as US stocks, crypto-assets and high-yield debt instruments - was also noted at the time.

We have clearly **arrived at the *supply and demand shock*** stage described above - and the question is how big will the contraction in asset values and economic growth be.

ECB sensitivities to frame the scope of disruption ahead - from credit spreads and stock prices to GDP outlook - are useful but an in-depth sensitivity analysis is, at this stage, fruitless. We also detail a number of potential risks identified by regulators in stress tests that are becoming more likely. We start with a few simple observations and sensitivities.

Defining the Recession Scenario

To start with, macroeconomic inputs typically seen in banking stress tests:

- **GDP decline**: –2% to –4% over a year?
- **Unemployment rise**: +1.5 to 3 percentage points?
- **House prices**: –10% to –25%? Is CRE Risk the bigger threat?
- **Interest rates**: Flat or negative depending on baseline. Cuts ahead
- **Corporate defaults**: Up significantly with macro prudential toolboxes running on empty

Adverse sensitivities

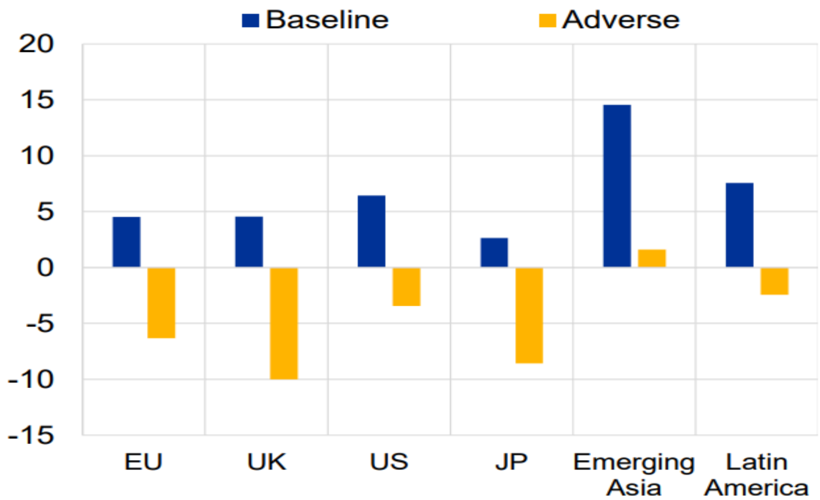
Real GDP heading south....

		Historical growth (%)	Baseline growth (%)			Adverse growth (%)			Cumulative growth from the starting point (%)	Minimum growth from the starting point (%)	Level of deviation in 2027 (%)
		2024	2025	2026	2027	2025	2026	2027			
Belgium	BE	1.0	1.2	1.4	1.2	-1.1	-3.7	-0.7	-5.4	-5.4	-8.9
Bulgaria	BG	2.2	2.7	3.4	2.7	-3.9	-3.6	2.0	-5.5	-7.3	-13.3
Czech Republic	CZ	1.0	2.4	2.4	2.4	-3.1	-5.5	0.6	-7.9	-8.4	-14.3
Denmark	DK	2.1	2.3	1.5	1.4	-2.9	-4.5	1.5	-5.9	-7.3	-10.6
Germany	DE	-0.2	0.2	0.8	0.9	-3.6	-4.2	0.3	-7.5	-7.7	-9.2
Estonia	EE	-0.7	1.6	2.9	2.9	-5.0	-4.4	0.9	-8.3	-9.2	-14.8
Ireland	IE	-1.3	4.0	4.5	3.7	-0.7	-3.7	0.4	-3.9	-4.3	-14.7
Greece	GR	2.3	2.5	2.3	2.0	-1.4	-4.3	-0.5	-6.1	-6.1	-12.2
Spain	ES	3.1	2.5	1.9	1.7	-2.5	-3.5	2.0	-4.1	-5.9	-9.8
France	FR	1.1	0.9	1.3	1.3	-1.3	-3.9	-0.7	-5.9	-5.9	-9.0
Croatia	HR	3.7	3.3	3.0	2.3	-1.0	-4.4	1.1	-4.3	-5.3	-12.1
Italy	IT	0.5	0.8	1.1	0.9	-1.6	-4.4	-1.5	-7.4	-7.4	-9.9
Cyprus	CY	3.7	3.0	3.1	3.0	-2.5	-4.7	0.7	-6.4	-7.1	-14.6
Latvia	LV	0.1	2.1	3.0	3.3	-2.7	-3.9	0.8	-5.8	-6.6	-13.2
Lithuania	LT	2.4	3.1	3.1	3.0	-1.0	-4.4	1.1	-4.3	-5.3	-12.6
Luxembourg	LU	1.3	2.0	2.5	2.5	-2.2	-4.0	1.0	-5.1	-6.1	-11.5
Hungary	HU	1.4	3.2	4.0	3.0	-1.7	-4.8	1.3	-5.1	-6.4	-14.2
Malta	MT	4.9	3.9	3.6	3.4	-1.8	-4.7	1.6	-4.9	-6.4	-14.5
Netherlands	NL	0.9	1.5	1.5	1.2	-1.6	-4.0	0.0	-5.5	-5.5	-9.4
Austria	AT	-0.5	1.1	1.6	1.3	-3.1	-3.8	1.2	-5.7	-6.8	-9.4
Poland	PL	2.7	3.6	3.5	2.3	-0.8	-4.7	-0.2	-5.7	-5.7	-14.0
Portugal	PT	1.7	2.2	2.2	1.7	-1.8	-3.8	-0.2	-5.8	-5.8	-11.3
Romania	RO	1.1	2.7	3.3	3.8	-1.9	-4.1	0.1	-5.8	-5.9	-14.4
Slovenia	SI	1.4	2.2	2.8	2.4	-1.4	-4.2	0.6	-5.0	-5.6	-11.6
Slovakia	SK	2.1	2.1	1.8	2.3	-2.9	-5.3	0.3	-7.8	-8.1	-13.3
Finland	FI	-0.5	0.8	1.8	1.3	-4.2	-2.8	-0.5	-7.3	-7.3	-10.9
Sweden	SE	0.7	2.1	2.3	1.8			0.5	-8.0	-8.5	-13.5
Euro area	**EA**	**0.7**	**1.1**	**1.4**	**1.3**	**-2.3**	**-4.0**	**0.0**	**-6.2**	**-6.2**	**-9.8**
European Union	**EU**	**0.9**	**1.4**	**1.6**	**1.5**	**-2.3**	**-4.2**	**0.0**	**-6.3**	**-6.3**	**-10.4**
United Kingdom	UK	1.1	1.5	1.5	1.5	-4.5	-4.5	-1.3	-10.0	-10.0	-13.9
Norway	NO	1.6	1.8	0.5	0.5	[illegible]	[illegible]	[illegible]	-4.3	-4.3	-6.9
United States	US	2.8	2.2	2.0	2.1	-5.1	-2.5	4.3	-3.4	-7.4	-9.3
Japan	JP	0.3	1.1	0.8	0.6	-5.4	-3.4	0.0	-8.6	-8.6	-10.9
Canada	CA	1.3	2.4	2.0	1.8	-6.5	-5.1	2.1	-9.4	-11.3	-14.8
Switzerland	CH	1.3	1.3	1.8	1.2	-5.1	-4.2	-1.1	-10.1	-10.1	-13.9
Australia & New Zealand	AU	1.2	2.1	2.2	2.2	-4.4	-2.1	1.0	-5.5	-6.5	-11.5
Türkiye	TR	3.0	2.7	3.2	3.4	-4.9	-2.7	1.0	-6.6	-7.5	-14.8
Russia	RU	3.6	1.3	1.2	1.2	-8.2	-1.0	-0.8	-9.9	-9.9	-13.2
Emerging Asia	AS	5.1	4.8	4.7	4.4	-2.3	0.9	3.1	1.6	-2.3	-11.3
China	CN	4.8	4.5	4.1	3.6	-2.6	0.0	1.6	-1.0	-2.6	-12.2
India	IN	7.0	6.5	6.5	6.5	-0.9	2.7	4.3	6.1	-0.9	-12.1
Hong Kong	HK	3.2	3.0	2.9	2.7	-3.1	-1.7	2.0	-2.8	-4.7	-10.7
Latin America	LA	1.7	2.3	2.5	2.6	-2.7	-0.6	0.9	-2.4	-3.3	-9.3
Brazil	BR	3.0	2.2	2.3	2.4	-3.3	-0.6	1.0	-3.0	-3.9	-9.2
Mexico	MX	1.5	1.3	2.0	2.3	-4.7	-2.2	-0.1	-6.9	-6.9	-11.9
Chile	CL	2.5	2.4	2.5	2.4	-5.1	-0.2	2.1	-3.3	-5.3	-10.0
Colombia	CO	1.6	2.5	2.8	3.0	-4.1	-0.1	1.6	-2.7	-4.2	-10.3
Peru	PE	3.0	2.6	2.3	2.3	-3.9	-0.6	0.9	-3.6	-4.5	-10.3
Rest of the world	WR	2.1	3.9	4.2	3.9	-3.2	-1.5	1.5	-3.2	-4.7	-13.9

Source: ESRN 2025 Stress Test Macro-financial scenario

Consensus GDP growth for the US is currently 1.9% in both 2025 and 2026 though no doubt this will be cut aggressively in coming days, as will be the case with other geographies. For the Eurozone, expectations are 0.9% and 1.3% currently, and for the UK 1% and 1.4%.

Estimated 3yr cumulative real GDP growth by region (%)



Sources: ECB and ECB/ESRB calculations

Bond yields, currency and equity market moves are important for fees and commissions, unrealised gains and movements in the available-for-sale portfolios and other comprehensive income (OCI), impact both tangible book value and liquidity.

ECB estimates are as good a place to start as any when anticipating what a worse case scenario may look like.

Stock Prices

	Deviation from the starting point (%)		
	2025	2026	2027
European Union	-50	-46	-42
Norway	-42	-39	-36
United Kingdom	-52	-48	-45
United States	-61	-56	-52
Japan	-35	-32	-30
Canada	-35	-33	-30
Switzerland	-43	-40	-37
Australia & New Zealand	-40	-37	-34
Rest of the world	-66	-61	-57

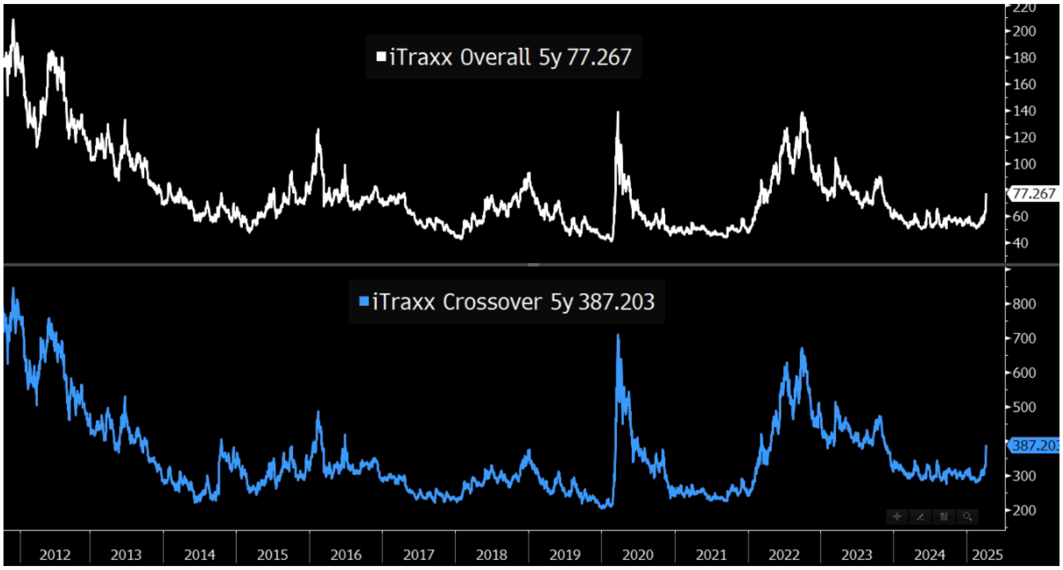
Source: ESRN 2025 Stress Test Macro-financial scenario

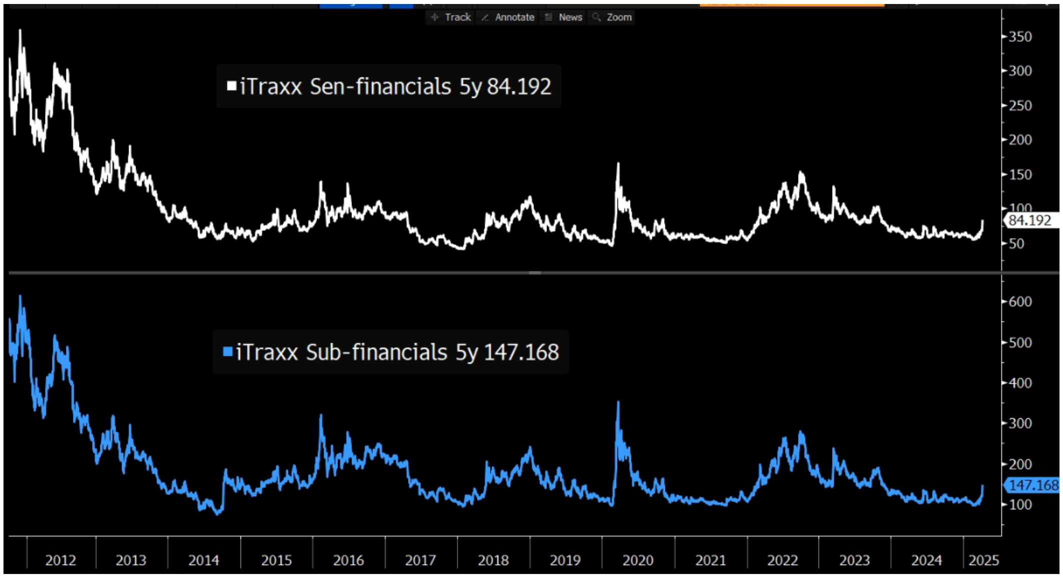
Credit blowout….

	Historical level	Baseline level			Adverse level		
	2024	2025	2026	2027	2025	2026	2027
iTraxx Overall 5y	56	71	76	81	240	198	168
iTraxx Crossover 5y	307	322	327	331	686	590	521
iTraxx Sen-financials 5y	64	79	84	89	286	233	196
iTraxx Sub-financials 5y	115	130	135	140	544	434	355

Source: ESRN 2025 Stress Test Macro-financial scenario

..still has a long way to go…..





Source: Bloomberg

ESRB risk assessment key points

- Materialisation of macroeconomic risks resulting in **balance sheet stress for NFCs and households**
- Disorderly market corrections possibly amplified by the non-banking sector - think **August 2024 JPY carry unwind**
- Deteriorating asset quality and funding risk for the banking sector - also noted that **global cooperation** regarding financial regulation and supervision may become **more difficult to pursue under the new US administration**
- Materialisation of accumulated risks in the residential and commercial **real estate** sectors - **Trump catalyses losses**
- Re-emergence of sovereign financing and debt sustainability concerns

Select EBA thoughts on key risks to sector

- Approximately **€500 billion** of EU/European Economic Area (EEA) banks' total exposures – equivalent to – are directly **linked to high-risk countries**.
- *Beware second-round effects through geopolitically sensitive sectors*
- EU/EEA banks' exposures to **non-banking financial institutions (NBFIs) represent almost 10% of total assets** - highly concentrated in larger banks.
- *Should banks' liquidity facilities for NBFIs be suddenly activated, or should failing off-balance-sheet entities need to be integrated into banks' balance sheets, **banks' capital and liquidity ratios at risk***
- In the **CRE** sector, valuations have stabilised, but risks persist for banks. **Restructuring** support has **driven significant loan increases**, particularly in office and multifamily CRE portfolios. It remains critical for banks to ensure that collateral valuations align with current market conditions.
- *Is this the catalyst that makes CRE and property prices a structural problem?*

Interest rates - an extra 25bps cut priced in

ECB & BOE rate trajectory - current vs. a week ago

ECB Trajectory

4/4/25

Region: Eurozone »
Instrument: Overnight Index Swaps »
Target Rate 2.5000
Pricing Date 04/04/2025
Effective Rate 2.4160
Cur. Imp. O/N Rate 2.411

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
04/17/2025	-0.859	-85.9%	-0.215	2.196	0.250
06/05/2025	-1.642	-78.3%	-0.410	2.001	0.250
07/24/2025	-2.083	-44.1%	-0.521	1.890	0.250
09/11/2025	-2.566	-48.3%	-0.641	1.770	0.250
10/30/2025	-2.782	-21.6%	-0.696	1.716	0.250
12/18/2025	-3.025	-24.2%	-0.756	1.655	0.250
02/05/2026	-3.097	-7.2%	-0.774	1.637	0.250
03/19/2026	-2.027	+107.0%	-0.507	1.904	0.250

3/28/25

Region: Eurozone »
Instrument: Overnight Index Swaps »
Target Rate 2.5000
Pricing Date 03/28/2025
Effective Rate 2.4170
Cur. Imp. O/N Rate 2.417

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
04/17/2025	-0.854	-85.4%	-0.214	2.203	0.250
06/05/2025	-1.523	-66.9%	-0.381	2.036	0.250
07/24/2025	-1.769	-24.6%	-0.442	1.975	0.250
09/11/2025	-2.133	-36.4%	-0.533	1.884	0.250
10/30/2025	-2.249	-11.6%	-0.562	1.855	0.250
12/18/2025	-2.400	-15.1%	-0.600	1.817	0.250
02/05/2026	-2.539	-13.9%	-0.635	1.782	0.250

BOE Trajectory

4/4/25

Region: United Kingdom »
Instrument: Overnight Index Swaps »
Target Rate 4.500
Pricing Date 04/04/2025
Effective Rate 4.45530
Cur. Imp. O/N Rate 4.454

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
05/08/2025	-0.971	-97.1%	-0.243	4.211	0.250
06/19/2025	-1.341	-37.0%	-0.335	4.119	0.250
08/07/2025	-1.998	-65.7%	-0.500	3.955	0.250
09/18/2025	-2.344	-34.5%	-0.586	3.868	0.250
11/06/2025	-2.782	-43.9%	-0.696	3.759	0.250
12/18/2025	-2.995	-21.2%	-0.749	3.706	0.250
02/05/2026	-3.279	-28.5%	-0.820	3.634	0.250
03/19/2026	-3.845	-56.5%	-0.961	3.493	0.250

3/28/25

Region: United Kingdom »
Instrument: Overnight Index Swaps »
Target Rate 4.500
Pricing Date 03/28/2025
Effective Rate 4.45580
Cur. Imp. O/N Rate 4.454

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
05/08/2025	-0.748	-74.8%	-0.187	4.267	0.250
06/19/2025	-0.930	-18.2%	-0.232	4.222	0.250
08/07/2025	-1.418	-48.8%	-0.355	4.100	0.250
09/18/2025	-1.636	-21.8%	-0.409	4.045	0.250
11/06/2025	-1.949	-31.3%	-0.487	3.967	0.250
12/18/2025	-2.085	-13.6%	-0.521	3.933	0.250
02/05/2026	-2.310	-22.5%	-0.578	3.877	0.250
03/19/2026	-2.489	-17.8%	-0.622	3.832	0.250

Source: Bloomberg WIRP function

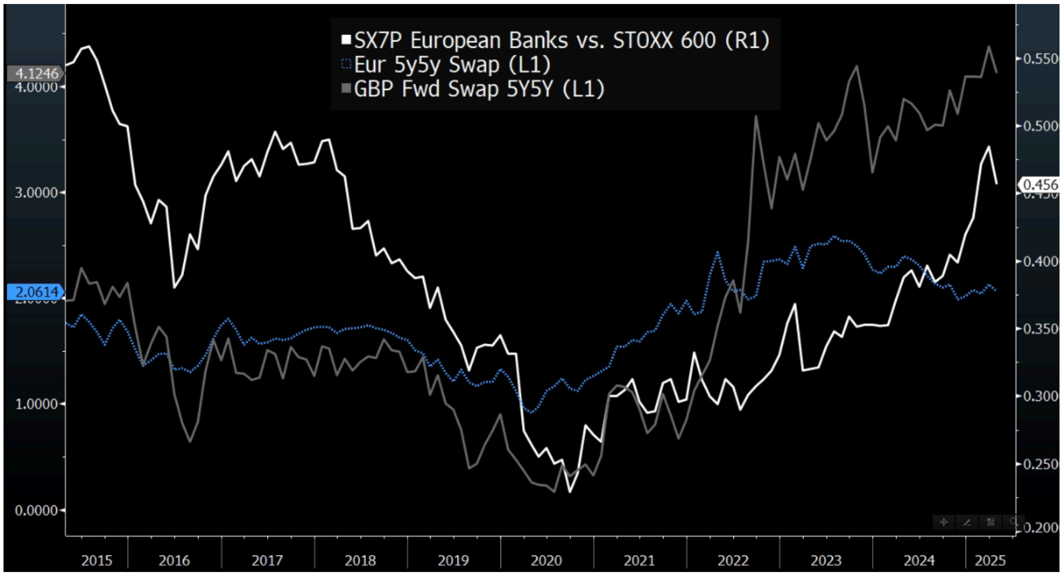
The pressure to cut rates has increased with the US tariff escalation and markets are now pricing in an extra 25-bp cut in the UK by the end of 2025. Both the ECB and the BOE are now expected to have cut by 75 bps by year-end, which seems a fair starting point.

Expectations for the Fed have also shifted with a full 1ppt of cuts now priced in versus 75 bps at the start of the week.

Inflation & supply chains now a problem

UK 5Y5Y inflation and 10-yr yield sums it up

SX7P vs. SXXP, UK and Eur 5Y5Y Swap



Inflationary expectations will rise from here, we expect, irrespective of whether tariff plans are watered down and the speed and communication of central banks and cuts will be a critical determinant.

While higher inflation stoked rate hikes which hugely boosted bank net interest income, fears about the inflationary impacts of tariffs will have the opposite effect from here, with banks likely to give back more performance vs. the wider market (white line, bottom chart).

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