Weekly Macro and Markets View

4 May 2026

Highlights and View

The Fed becomes more divided on policy guidance while Powell will stay on the FOMC

The FOMC kept rates on hold, but the three dissenters show that the Fed is likely to move away from its easing bias.

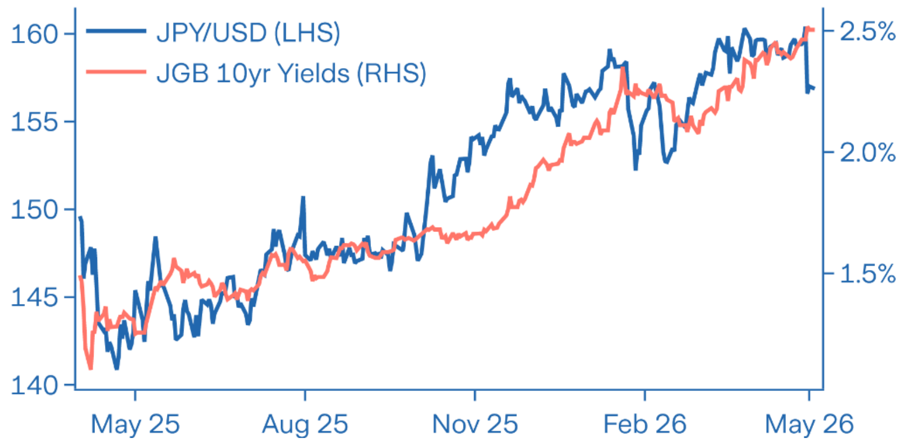
The European Central Bank keeps its deposit rate unchanged at 2%, delaying any tightening decision

Inflation is rising due to energy prices while economic activity indicators are softening markedly, making rate hikes an unappealing choice.

The Bank of Japan holds its policy rate at 0.75%, although three board members voted for an immediate hike, creating a 6–3 split

The BoJ's 'hawkish hold' has bought some time to assess the energy shock, but further delay risks deeper yen weakness, ultimately intensifying the inflation pressures, with higher inflation expectations adding further upward pressure on bond yields.

BoJ delays a rate hike, risking deeper yen weakness and higher yields



Source: Bloomberg

Last week, the Bank of Japan (BoJ) held its policy rate at 0.75%, but the decision carried a distinctly hawkish tone, with three board members voting for an immediate hike, creating a 6–3 split. The BoJ's outlook marked a material shift: core CPI was revised up sharply by 90bps to 2.8% for 2026 while core CPI ex energy rose 40bps to 2.6%, even as GDP growth was cut by 50bps to 0.5%. This highlights the deteriorating growth inflation trade off. Despite stronger inflation signals, the BoJ stopped short of pre committing to near term action. Markets saw this as the BoJ drifting further behind the curve and pushed USD/JPY beyond 160 following the meeting, forcing the Ministry of Finance into a notable FX intervention. Still, intervention alone is unlikely to reverse the yen's medium-term depreciation without firmer policy credibility. Meanwhile, 10yr government bond yields have pushed toward 2.5%, reflecting rising inflation expectations and concerns over the growing fiscal bills from fuel subsidies. All said, The BoJ's 'hawkish hold' has bought some time to assess the energy shock, but further delay risks deeper yen weakness, ultimately intensifying inflation pressures, with higher inflation expectations adding further upward pressure on bond yields. We expect the BoJ to deliver two rate hikes this year, bringing its policy rate to 1.25% by the end of 2026.

US

Powell intends to stay on the FOMC

GDP grew by 2% in Q1, up from 0.5% in the final quarter of 2025, supported by a solid pickup in business investment while consumer spending lost some momentum. Activity seems to have held up in April. The ISM Manufacturing index remained at 52.7, signalling a modest expansion, with new orders picking up slightly. Input prices have soared to the highest in four years while employment came under pressure, however. Consumer confidence improved slightly in April according to the Conference Board's latest survey. Perceived employment conditions have ticked up modestly to reach the highest level this year. As widely expected, the Fed left both rates and policy guidance unchanged at its meeting last week. However, there were three dissents against the implicit easing bias in the standing policy guidance, giving the FOMC meeting a slightly hawkish tilt. Finally, Jerome Powell announced that he intends to remain on the FOMC as a governor after Kevin Warsh takes over as the new chair later this month.

Eurozone

A rate decision is delayed

The ECB kept rates unchanged, citing the need for more information before the June meeting. Since the Iran strikes began, financial markets have been pricing an aggressive ECB tightening cycle. We are sceptical of this. While the increases in energy and related input prices will cause headline inflation to rise, the decision is complicated. April Eurozone inflation rose from 2.6% YoY to 3%, but core inflation slowed to 2.2%. In contrast, last week saw weak economic data. This includes a drop in consumer confidence across the EU, with overall economic sentiment at its lowest level since 2022. The situation differs from 2022, when the energy shock following the outbreak of the Russia-Ukraine war coincided with large fiscal loosening and pent-up consumer demand. Wage growth is slowing and government support is likely to be limited. Lastly, on Saturday, President Trump announced a 25% tariff on EU car imports (up from 15%). The direct economic implications are limited for the overall economy, but a larger risk comes from a possible breakdown of the Turnberry US-EU trade agreement.

LatAm

Central banks are looking beyond short-term pressures

In Brazil, the BCB cut the Selic rate by 25bps to 14.5%, in line with market consensus and the forward guidance provided in the March meeting. Still, the bank's messaging has turned more hawkish, reflecting a worsening external backdrop and stronger inflation inertia ahead. While we continue to expect the easing cycle to remain in place throughout the year, given the restrictive monetary conditions, we see it proceeding at a slower pace and with greater conditionality, closely tied to developments in the Middle East conflict. In Chile, the Central Bank unanimously kept the policy rate unchanged at 4.5%, as expected, reiterating a meeting-by-meeting approach. The Board acknowledged the deterioration in the Middle East conflict relative to its baseline scenario, while also highlighting weaker domestic activity and noting that inflation expectations over the policy horizon remain close to target. We maintain our view of an unchanged policy rate in the near term, while recognising the rising potential for tightening should medium term inflation expectations become meaningfully de-anchored.

Equities

Tech earnings fuel momentum

Despite oil hitting a new war-time high of USD126 intra-day on Thursday, investors remain in bullish mood, with the MSCI World Equity Index tacking on a further 0.9% gain. While war risks remain notable, investor focus has moved on to corporate earnings and, on that front, news was again positive. Over 60% of S&P 500 companies have now reported, with 85% of them beating analyst expectations, but it was the US tech giants that stood out last week. Generally, numbers were very strong and beat expectations, with cloud computing a particular stand out and indicative of the scale and pace of AI build-out. That noted, investors were again discerning. Meta was down 9.8% last week on strong numbers as increased capital spending, between USD125-145bn, spooked investors. In contrast, Alphabet surged 12%, lifting the stock 22% YTD as Google's parent posted profits that were up 81% YoY. We continue to believe that the tech story has a lot further to run but see an increasingly selective investor base. More broadly, equities appear a bit ahead of themselves, though momentum is strong.

US ABS

Spreads tighten as tax refunds offer respite

US Asset Backed Securities (ABS) spreads continued to grind lower last week, ending April 4bps tighter on the month. The ABS tightening was less pronounced than in Investment Grade (IG) corporate credit, largely because ABS spreads widened less than IG corporate spreads in March. In terms of total returns, ABS lagged IG corporates slightly but continue to materially outperform them year-to-date. Turning to consumer ABS collateral, March and April remittance data showed a seasonal drop in delinquencies as tax refunds supported household finances. Despite being larger than usual, we expect this year's tax refunds to provide only temporary relief rather than lasting improvement in collateral performance. Delinquencies remain historically high and affordability pressures on lower-income consumers are likely to persist, particularly after the recent rise in oil prices. While pockets of collateral weakness warrant monitoring, we still see ABS as supported by strong structural protections, with mezzanine tranches offering an attractive spread pick-up versus comparable corporate bonds.

What to Watch

- In the US, the ISM Services Index, consumer sentiment and labour market data will give crucial insights into the current state of the economy.
- Eurozone retail sales for March will be released this week. We also receive April PMI figures for Italy and Spain. In Germany, industrial production, factory orders, and trade data will be closely watched.
- CPI, PMI and unemployment data will be published for Switzerland.
- In Asia, Japan's March wage data, Indonesia Q1 GDP, Bank Negara Malaysia's policy meeting, and the RBA's rate decision, where a 25bp hike is expected, are key events to watch.

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