



# Central bank depository.

**Divergence reigns in global policy.**

## SEI's view

The U.S. continues to exhibit solid growth and inflation remains materially above the Federal Reserve's (Fed) target. With more fiscal stimulus coming down the road in early 2026, a "wait-and-see" attitude appears appropriate. The question is whether the Fed will bend to the wishes of the Trump administration to lower rates more aggressively. The Fed is a proud institution that will lean hard against political pressure if it is obvious that further easing of interest rates would be detrimental to its twin mandates of full employment and low inflation. There's no denying that these two mandates are currently in some tension, but there is no reason to believe that a majority of members will follow the lead of a Fed chair who pushes a particular point of view for political rather than economic purposes. We see limited scope for additional interest-rate reductions by the Bank of Canada and the European Central Bank, given the relatively low levels that rates have already reached. Economic growth will probably remain sluggish, but fiscal policy provides support and U.S. tariffs are more likely to be reduced from here. The U.S. and the U.K. have more room to cut rates, although even these central banks may be hesitant to cut them more than once or twice next year. The Bank of England (BOE) probably has more room to cut than the Fed since U.K. fiscal policy is tighter and economic growth is weaker. Despite an uncomfortably high inflation rate, the BOE may deem it necessary to counteract the deflationary impact of tax increases on the economy.

## Federal Reserve (Fed)



- In a split 9-3 vote, the Federal Open Market Committee (FOMC) reduced the federal funds rate by 25 basis points (0.25%) to a range of 3.50%-3.75% following its meeting on December 9-10. One FOMC member favored a 0.50% decrease, while two regional bank presidents voted to leave the rate unchanged.
- In a statement announcing the rate decision, the FOMC noted, "Job gains have slowed this year, and the unemployment rate has edged up through September. More recent indicators are consistent with these developments." The Committee also noted that there has been an upturn in inflation since bottoming out in April of this year and "remains somewhat elevated."
- The Fed's so-called dot plot of economic projections indicated a median federal funds rate of 3.4% at the end of 2026, signaling that the central bank anticipates just one more rate cut by the end of next year. The Fed projected that core inflation, as measured by the core personal-consumption expenditures (PCE) price index will rise 3.0% for the full 2025 calendar year and then cool to 2.5% in 2026.

## European Central Bank (ECB)



- The ECB left its benchmark interest rate unchanged at 2.00% for its fourth consecutive meeting on December 18, citing signs of an improving economic outlook and a possible uptick in inflation.
- In a news release, the ECB's Governing Council commented, "Inflation has been revised up for 2026, mainly because staff now expect services inflation to decline more slowly. Economic growth is expected to be stronger than in the September projections, driven especially by domestic demand." The Governing Council also reiterated its commitment to "adjust all of its instruments within its mandate to ensure that inflation stabilises at its 2% target in the medium term..."
- ECB President Christine Lagarde commented, "There was a unanimous decision that was taken today concerning the rates that we decided to hold. But there was also a unanimous view that all optionabilities should remain on the table and that we would stick to the meeting by meeting data-dependent approach with no rate, path set and no set date for any move."

## Bank of England (BOE)



- At its meeting on December 17, the BOE voted by a slim 5-4 margin to reduce the Bank Rate by 0.25% to a three-year low of 3.75%. Four BOE Monetary Policy Committee (MPC) members favored maintaining the policy rate at 4.00%.
- In a statement announcing the interest-rate cut, the MPC members commented that "inflation has fallen since the previous meeting, to 3.2%. Although above the 2% target, it is now expected to fall back towards target more quickly in the near term. Reflecting restrictive monetary policy, and consistent with evidence of subdued economic growth and building slack in the labour market, pay growth and services price inflation have continued to ease."
- The rate-cut announcement provided insights into the views of the MPC members. BOE Governor Andrew Bailey said, "Data news since our latest meeting suggests that disinflation is now more established...The key question for me now is the extent to which inflation settles at the 2% target in an enduring way." In a dissent from the majority vote, MPC member Megan Greene stated, "I remain concerned the disinflation process has slowed and may stall further. Forward-looking indicators of wage growth...remain above target-consistent levels."

## Bank of Japan (BOJ)



- In a unanimous vote at its meeting on December 18, the BOJ raised its benchmark interest rate by 0.25% to a 30-year high of 0.75% and suggested that more rate hikes may be on the horizon.
- In a statement announcing the rate decision, the central bank said that economic growth initially may be moderate "as trade and other policies in each jurisdiction lead to some slowdown in overseas economies and to a decline in domestic corporate profits and other factors. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a growth path." The BOJ projected that the inflation rate will fall below its 2% target rate in the first half of 2026 before moving higher in the medium-to-long term due to a rising labor shortage.
- At a news conference following the meeting, BOJ Governor Kazuo Ueda said, "We'll keep making appropriate decisions at each policy meeting. The pace at which we adjust our rate will depend on the state of the economy and prices."

## Bank of Canada (BOC)



- The BOC maintained its policy rate at a three-year low of 2.25% at its December 10 meeting.
- The central bank cited the nation's relatively strong economic growth, slowing inflation, and improvement in the labor market. "If inflation and economic activity evolve broadly in line with the October projection, [the BOC] Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment," the BOC commented.
- During a news conference following the rate-cut announcement, BOC Governor Tiff Macklem said, "It's been a difficult year for Canadians and Canadian businesses. But as the year is closing, it's looking better than it looked in the spring, in the summer." He noted that the U.S. tariffs on imports from Canada have not had a significant impact on the country's broader economy. "Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy," Macklem said.

## Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	3.50%-3.75%	3.75%-4.00%	-0.25%	Jan. 27-28, 2026
ECB	2.00%	2.00%	Unchanged	Feb. 4-5, 2026
BOE	3.75%	4.00%	-0.25%	Feb. 5, 2026
BOJ	0.75%	0.50%	+0.25%	Jan. 22-23, 2026
BOC	2.25%	2.25%	Unchanged	Jan. 28, 2026

Sources: Fed, ECB, BOE, BOJ, BOC. As of December 19, 2025.

## GLOSSARY AND INDEX DEFINITIONS

For financial term and index definitions, please see: <https://www.seic.com/ent/imu-communications-financial-glossary>

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1 Freedom Valley Drive  
P.O. Box 1100  
Oaks, PA 19456  
610-676-1000

