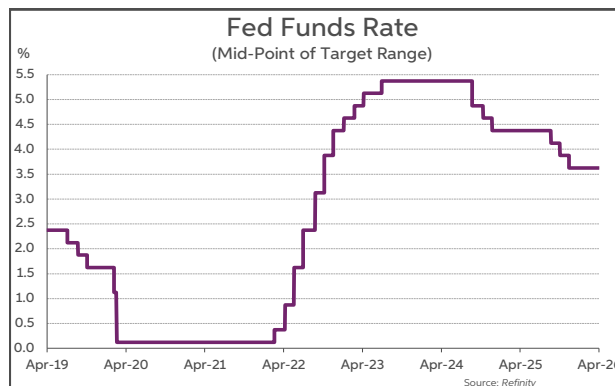


Fed remains in wait-and-see mode

The April meeting of the Federal Reserve Open Market Committee (FOMC) saw the central bank leave interest rates unchanged. The target range for the Fed funds rate was maintained at 3.50-3.75%, for a third consecutive meeting. This outcome was very much in line with market expectations. Once again, Governor Miran was the sole dissenter, voting for a 25bps rate reduction. The most recent 25bps rate cut from the Fed occurred at its meeting in December. The Fed has lowered the policy rate by a total of 175bps in its current easing cycle, which began in September 2024.

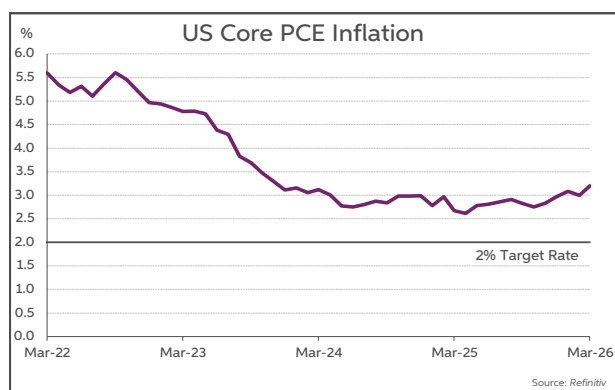


The April meeting statement had minimal changes compared to the March version. The Fed continued to view the economy to be “expanding at a solid pace”. It noted that employment gains have “remained low”, while the unemployment rate was described as “little changed in recent months”.

In acknowledgement of the recent rise in energy prices it now states that “inflation is elevated” compared to its previous characterisation of it being “somewhat elevated”. Meanwhile, it commented that the Middle East conflict is “contributing to a high level of uncertainty” and the FOMC remains attentive to the risks to both the employment and price stability aspects of its dual mandate.

The meeting statement also showed that the Fed has retained its easing bias. It continued to note that it is “prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment” of its goals. However, in a change to the previous month, there is no longer unanimity within the FOMC on this bias to cut rates further, if required. Three regional FOMC members (Hammack, Kashkari and Logan) did not support the “inclusion of an easing bias” in the statement at this time. These three members had been conveying more hawkish tones in comments/speeches in the lead up to this month’s meeting.

In his last post-meeting press conference as Fed Chair, Jerome Powell remained non-committal on the interest rate outlook commenting that “there is so much uncertainty about the path ahead” while also noting the Fed would have “new leadership in all likelihood” for upcoming policy decisions. Much of the press conference was dominated by questions on his decision to remain on the Board of Governors after his term as Chair ends on May 15th. He stated that he would remain until all legal investigations were resolved and his “intention was not to interfere” with the new Fed Chair’s role.

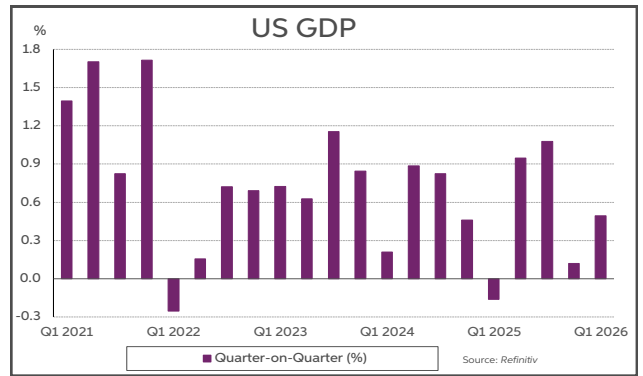


In terms of market expectations, futures contracts indicate that the market remains of the view that the Fed will not alter rates this year. However, following last night’s meeting, there has been some firming in rate expectations. The market is no longer ruling out the possibility that the Fed may hike rates next year, whereas prior to the meeting, the market was leaning towards rate cuts resuming by the end of 2027. **The most recent update to the Fed’s interest rate projections** was published at its last meeting in March. The ‘dot plot’ continued to show that the median projection was for one 25bps rate cut in 2026, followed by another reduction in 2027.

We continue to expect the Fed will resume rate cuts this year under new Fed Chair, Kevin Warsh, who has espoused a preference for lower rates as well as a smaller Fed balance sheet and was nominated by President Trump, who very much favours lower official interest rates. However, the timing of the next rate cut remains uncertain, complicated by the Middle East conflict and therefore may not materialise until the autumn-winter period. Indeed, the longer the war persists the less likely it is that the Fed will be able to resume its easing cycle this year.

Middle East conflict poses upside risks to US inflation

The US economy appeared to continue to perform robustly last year, with GDP rising by 2.1% in 2025, down from 2.8% and 2.9%, in 2024 and 2023. However, the headline growth figure masks significant volatility in the underlying data. In particular, shifting US trade policy and the longest government shutdown on record had a major impact on the quarterly GDP growth rates, which ranged from -0.2% to +1.1%. Overall though, US growth was driven by an increase in personal consumption and investment last year, amid a ramp up in AI-related infrastructure expenditure.



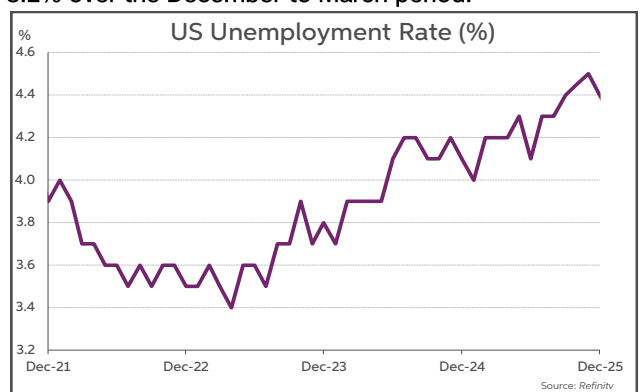
The latest GDP data for Q1 2026 show the annualised

growth rate at 2.0%. Personal consumption and investment remained the main drivers of growth at the start of the year. The former rose by 0.4%, while the latter jumped by 1.5%, boosted once again by the AI build-out. Together, these two components boosted GDP growth by 2.2 percentage points (p.p.). Meantime, government expenditure rebounded by 1.1% following the aforementioned government shutdown in Q4. An increase in defence spending also increased government spending, which added 0.7 p.p. to growth. Elsewhere, imports outpaced exports, meaning that net trade subtracted 1.3 p.p. from the total. However, this was partly offset by a modest rise in inventories, which contributed 0.4 p.p. to GDP in Q1.

Meanwhile, labour market conditions have softened. Payrolls fell for the first time since the end of 2020 last June, and contracted three more times in the second half of 2025. Overall, the pace of payroll expansion slowed to just 12k per month in 2025, compared to 168k during 2024. Payrolls have remained volatile at the start of 2026, rising by 160k in January, falling by 133k in February, before increasing by 178k in March. Meanwhile, the unemployment rate has oscillated between 4.3-4.5% since July, having started 2025 at 4.0%. It is currently at the bottom of this range. Against this backdrop, wage growth has slowed. Average earnings growth cooled to +3.5% year-on-year in March, the weakest level of wage inflation since May'21. However, the wages component of the Employment Cost Index - the Fed's preferred measure of wage inflation - rose by 0.8% in Q1, up from 0.7% at the end of last year.

On the inflation front, consumer prices rose markedly in March, with the headline CPI rate jumping to 3.3% from 2.4%. The increase at the end of Q1 was the largest since June 2022. It was primarily driven by a 21.2% surge in gasoline prices - which is the biggest monthly jump since records began in 1967. The core rate also rose (albeit at a much more modest pace) to 2.6% in March from 2.5%. Before the war in the Middle East broke out and energy prices spiked, CPI inflation was trending lower. In contrast though, core-PCE was already on an upward trajectory in the months before the conflict. Having troughed at 2.6% in April, it stayed in a narrow 2.7-2.9% range between May-November, before printing at between 3.0-3.2% over the December to March period.

Meantime, the limited available survey data at the start of Q2 have been mixed. Somewhat surprisingly, both the manufacturing and services PMI moved higher and printed firmly in expansion mode in April. Elsewhere, the Michigan and Conference Board measures of consumer sentiment improved somewhat in the month, although they remain at relatively weak levels historically.



In summary, headline figures suggest the US economy remains solid, however, the underlying details are not as strong. It is clear that conditions in

the labour market have weakened and inflation remains a concern. High levels of uncertainty, especially regarding US trade policy, have weighed on activity and contributed to sticky inflation. The ongoing war in the Middle East also adds further upside risks to the US inflation outlook. Meanwhile, AI-related investment has boosted US growth recently, but there are also some concerns that it may be creating a bubble in financial markets. Against this backdrop, the IMF now expects US GDP to expand by 2.3% this year (was 2.4%) and by 2.1% next year (was 2.1%).

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