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Macro & Markets Forecast Edition - December hikes still in view for the Fed and ECB

Marketing communication

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We still expect the Fed and ECB to hike in December and again in 2027. Sticky US inflation could force more Fed hikes, while an AI downturn could weigh most on short-term rates. Weaker euro area growth could prompt the ECB to pause sooner.

Unchanged Fed view, risks on both sides

We keep our Fed forecast unchanged: a hike in December and one more next year. Recent data show an economy that is still running hot and strengthen the case for our view. But the risks are larger than usual and go both ways. Inflation could force the Fed to do more. The downside risk comes from an AI setback, although we see that as a risk further out. And while it would pull rates lower, the decline could look different from what many expect, with a larger move at the short end than further out.

The data since our last update confirm that the US economy is running hot. Payrolls rose by 165,000 in October, more than double what was expected, and unemployment fell to 4.1%. Average hourly earnings rose 0.4% on the month. This week's CPI report added to the picture. Core consumer prices rose 0.3% in October, more than expected and the third such increase in a row. Core PCE inflation, the Fed's preferred measure, stood at 3.1% in September. The Fed held rates at 3.75-4.00% in October, but two members dissented in favor of a hike. This week, Governor Christopher Waller said he favors a 25bp hike in December, but that a 50bp move should be considered if inflation remains this strong. We have expected a December rate hike for some time, and recent developments have only strengthened the case for it.

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The latest data are perhaps not that surprising when you look at the underlying picture. Price pressures are broad. The ISM prices paid indices stood at 75.2 in manufacturing and 73.0 in services in October, and both have been above 70 for most of this year. Service firms also say they have not yet passed all of their higher costs on to customers. More price increases are likely in the pipeline, and that has been the case for a while. Demand is strong as well. The AI buildout keeps investment high and rising stock prices have lifted household wealth and supported consumer spending. The labor market is tight, with unemployment between 4.1% and 4.3% since March. Inflation has been above target for a long time, and several indicators are now pointing in the wrong direction. Policy may not yet be tight enough for an economy in this shape, which is the main reason we expect further hikes.

The risks to our forecast go both ways. On the upside, two more hikes may not be enough. Monthly core price increases of around 0.3% are consistent with inflation of roughly 3.6% annualized, far above the 2% target, with supercore inflation already running at around that pace year-on-year. If price pressures keep surprising on the upside and the labor market stays this strong, the Fed will have to do more than we expect. That debate has already started. Before this week's CPI report, Waller said that a 50 basis point hike should be considered in December if core inflation stayed around 0.3%. Hiking only 25 basis points, he warned, would put the Fed's credibility at risk. October's core reading met that bar, and markets now see roughly a 12% chance of a 50 basis point move. More hikes than in our baseline are a real possibility.

But we also see a risk on the downside, and it comes from the AI boom. Last Thursday showed how fast sentiment can turn. The Nasdaq fell over 5%, its worst day since April 2025, as chip and data center stocks slumped on worries that the buildout could slow. And we do not think those concerns are unfounded. The four largest US hyperscalers alone are expected to invest more than $1 trillion next year. But for those investments to pay off, AI demand needs to grow enormously. Much of that demand is expected to come from AI labs that have committed to buying huge amounts of computing power, even though they are still scaling unprofitable businesses. As we have written before, there are good reasons to question the business case. Running AI models is costly, competition is fierce, and users can switch easily between providers. Free open-weight models are only months behind the best paid ones, making it difficult to charge high prices. So, it is far from clear that demand will grow fast enough to justify the scale of investment now underway.

If these investments disappoint, the direct economic impact would be meaningful, but not as large as the scale of the AI boom might imply. Tech employment has already weakened, so unlike during the dot-com boom, there may be less of an employment expansion left to unwind. And while AI investment has contributed to growth, a relatively high import share means that not all of that spending translates directly into US GDP. Construction and related industries would still be hit as data center investment slowed, but we think the bigger effect would come through household wealth. Household net worth rose by $12.8 trillion in the second quarter alone, mostly because of higher stock prices, and is at a record high relative to income. With the stock market doing much of the saving, households likely have saved less of what they earn. The saving rate fell to 3.8% in September, the lowest since 2022 and well below the roughly 6% seen before the pandemic. A sharp fall in stock prices could reverse that dynamic. Households would likely save more and spend less. Given that consumer spending makes up about two-thirds of GDP, that would then feed through to the broader economy and eventually the labor market.

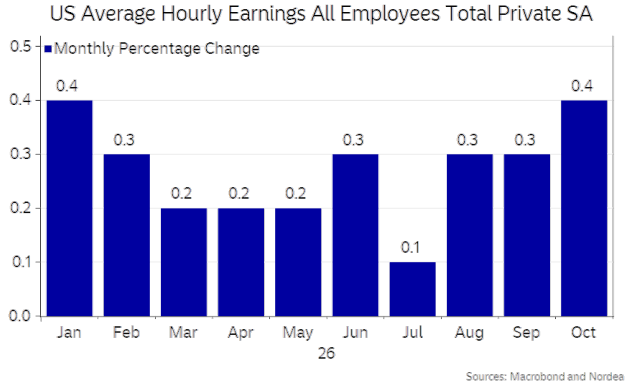
What would this mean for rates? The obvious answer is lower short-term rates. It is tempting to compare such a scenario with the dot-com bust, when the Fed cut its policy rate from 6.5% to 1.75% during 2001, and

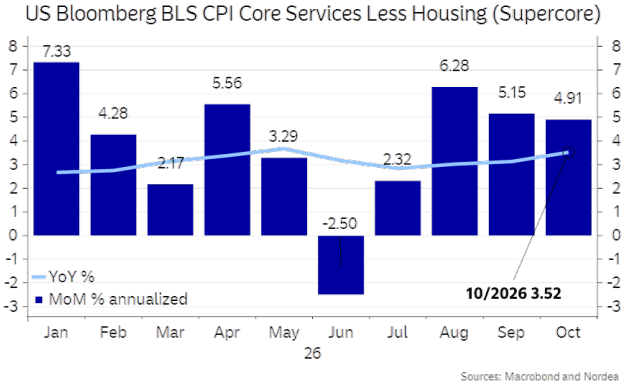
eventually to 1% by mid-2003. But the economy is in a very different position today. Inflation is already too high and, as discussed above, the initial rise in unemployment could be more limited. The Fed would therefore have less room to cut, and rates would be unlikely to fall as far.

The response in longer-term rates may be more comparable. The dot-com episode shows how differently the short and long ends of the curve can move. Despite the aggressive Fed cuts, the 5y5y forward rate fell by only around 2 percentage points even at its lowest. If such large cuts produced only a relatively limited decline in longer-term rates, a smaller cutting cycle today could leave the long end even more resilient. There are also additional reasons why long-term rates could remain relatively high.

One is the continued pressure from government borrowing. Yes, an AI downturn would remove some demand for capital as the investment boom faded. But AI investment is relatively small compared with the government's borrowing needs. The federal deficit was already close to $2 trillion last fiscal year, or about 6% of GDP. An AI-driven downturn would likely bring weaker tax revenues and more fiscal stimulus, increasing the government's borrowing needs just as private demand for capital falls. And as deficits and debt rise relative to GDP, investors may demand a higher term premium to finance that borrowing. That could put a floor under long-term rates, even as the Fed cuts. That means the recent relationship between the Nasdaq and longer-term yields may not hold in a prolonged downturn. Tech stocks could fall sharply, without long-term rates following nearly as far.

But this is not a near-term risk to our Fed call. For an AI downturn to materially change the outlook, investment would first have to slow, the effects would have to spread to jobs and household wealth, and weaker wealth would then have to feed through to consumption and growth. That process would take time. For now, inflation is too high and the economy too strong for this risk to change our near-term view. We therefore remain confident that the Fed will hike in December, followed by one more hike next year. Beyond that, however, the path becomes much more uncertain.





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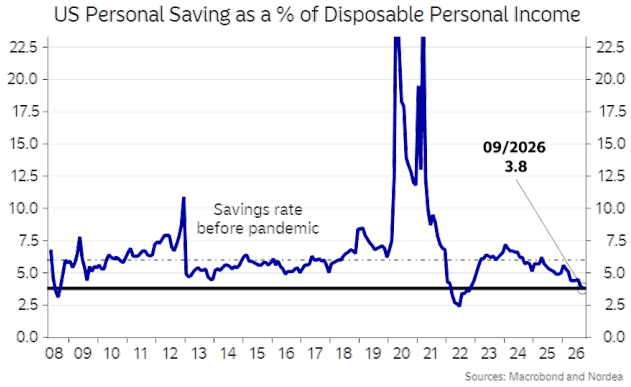

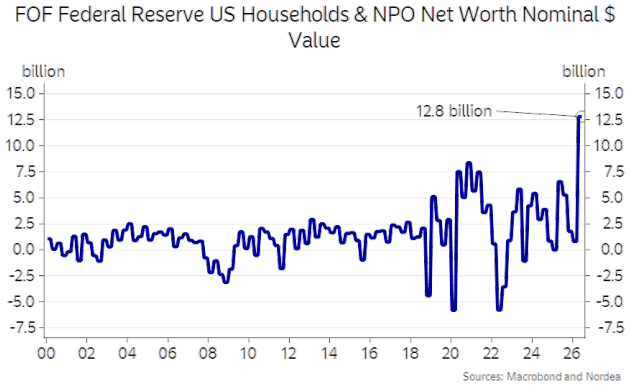

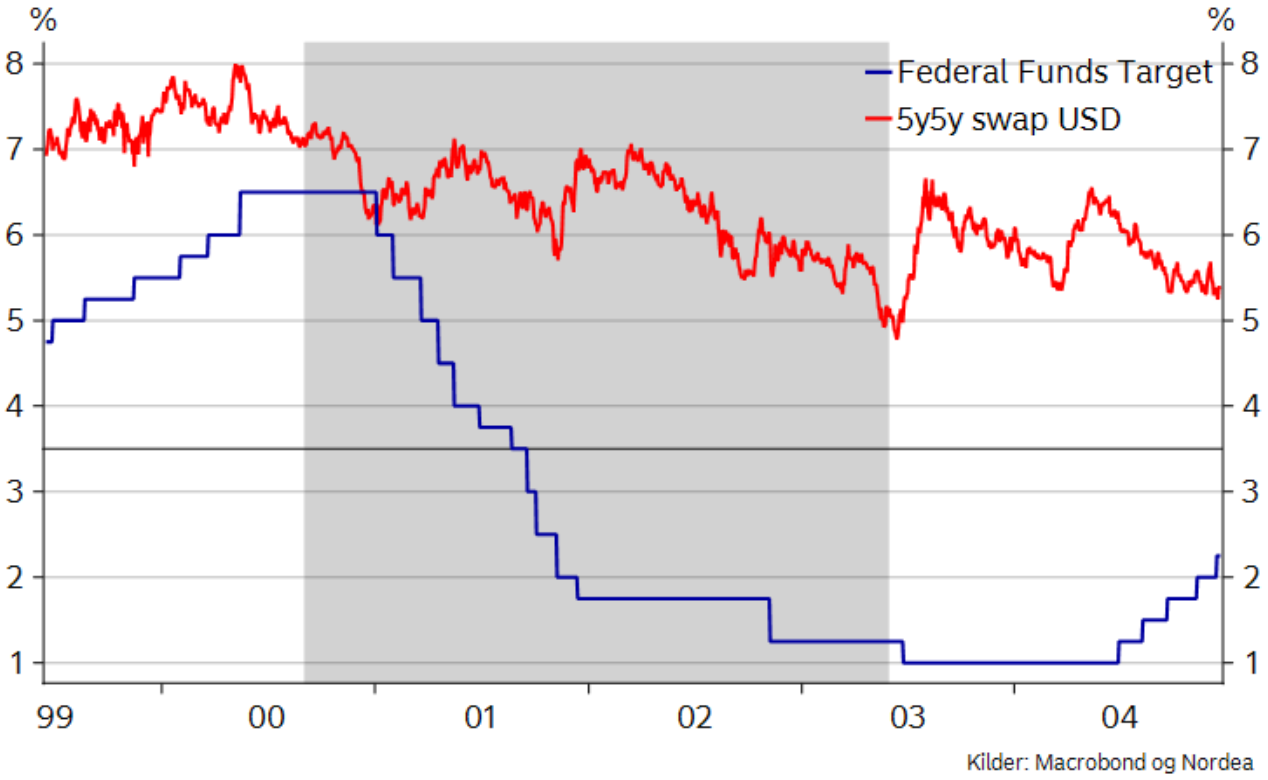

Kilder: Macrobond og Nordea

Government Bond Yield

USD	Spot	3M	Mid-27	End-27	End-28
Old forecast (updated 21-Oct-26)					
FF Upper		4,25	4,50	4,50	4,00
3M Sofr		4,20	4,45	4,45	4,00
2Y		4,50	4,50	4,50	4,20
5Y		4,80	5,00	5,00	5,00
10Y		5,00	5,20	5,40	5,40
30Y		5,30	5,50	5,70	5,70
New forecast (updated 13-Nov-26)					
FF Upper	4,00	4,25	4,50	4,50	4,00
3M Sofr	4,08	4,20	4,45	4,45	4,00
2Y	4,85	4,50	4,50	4,50	4,20
5Y	4,95	5,00	5,00	5,00	5,00
10Y	5,12	5,20	5,20	5,40	5,40
30Y	5,46	5,40	5,50	5,70	5,70

Source: Nordea

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SOFR swaps

Old forecast (updated 21-Oct-26)

USD	Spot	3M	Mid-27	End-27	End-28
Leading		4,25	4,50	4,50	4,00
3M		4,20	4,45	4,45	4,00
2Y		4,35	4,35	4,35	4,05
5Y		4,50	4,70	4,70	4,70
10Y		4,60	4,80	5,00	5,00
30Y		4,70	4,90	5,10	5,10

New forecast (updated 13-Nov-26)

USD	Spot	3M	Mid-27	End-27	End-28
Leading	4,00	4,25	4,50	4,50	4,00
3M	4,08	4,20	4,45	4,45	4,00
2Y	4,71	4,35	4,35	4,35	4,05
5Y	4,67	4,70	4,70	4,70	4,70
10Y	4,73	4,80	4,80	5,00	5,00
30Y	4,81	4,80	4,90	5,10	5,10

ECB on course to hike again in December

Despite large moves in financial markets lately, **the outlook for the ECB to raise rates again by 25bp at the December meeting has not changed**. This outlook was confirmed by the message at the October meeting, and again by Chief Economist Lane this week. He said that unless the incoming data change before the December meeting, it would be prudent to raise rates again.

The message at the October meeting did turn less hawkish, emphasising **that high energy prices pose downside risks to growth as well as upside risks to inflation, while pointing out the negative impact of tighter financing conditions on inflation and growth**. The picture beyond December thus looks more uncertain.

Second-round effects of higher energy prices remain largely absent, while signs of broadening price pressures are not yet clearly evident either. Headline inflation has risen to double the ECB's two percent target, but core inflation has remained broadly unchanged at 2.5%. Such developments do not mean that the ECB is done hiking rates, just that it is not in a hurry and can proceed at a quarterly pace.

We keep our forecast of two further 25bp rate hikes, in December and March 2027, which would raise the deposit rate to 3%. While there are risks both ways, **the latest developments have shifted the overall balance ofrisks slightly to the downside**. Though the tightening of financing conditions has eased somewhat, a further tightening coupled with disappointing growth data and the continued absence of broadening price pressures could make the ECB at least pause its quarterly rate hikes earlier than in our baseline. That said, the recent drop in energy prices could yet be reversed and the ECB's core inflation forecasts still point to prices rising too rapidly for the central bank's liking.

Longer bond yields have corrected lower after a notable climb during the summer and early autumn. We continue to find a long list of arguments supporting medium-term upward pressure on bond yields, especially via higher bond risk premia. **After the recent correction lower, it is again easier to argue for longer yields to rise from current levels**. A weakening in the cyclical economic outlook is the main downside risk to our view of higher bond yields, as a more pronounced deterioration in the growth outlook would likely outweigh the structural arguments for higher risk premia and push yields lower.

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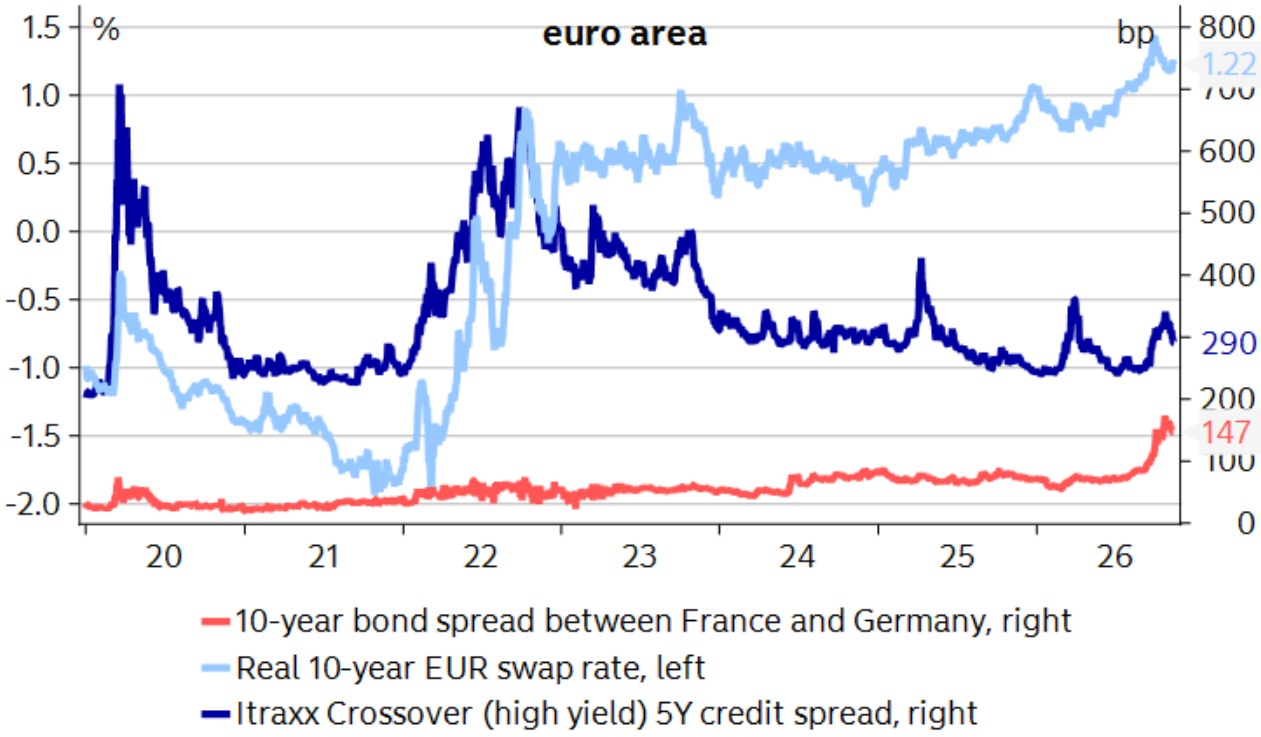
Tightening in financing conditions stopped for now



Source: Nordea, Bloomberg and Macrobond

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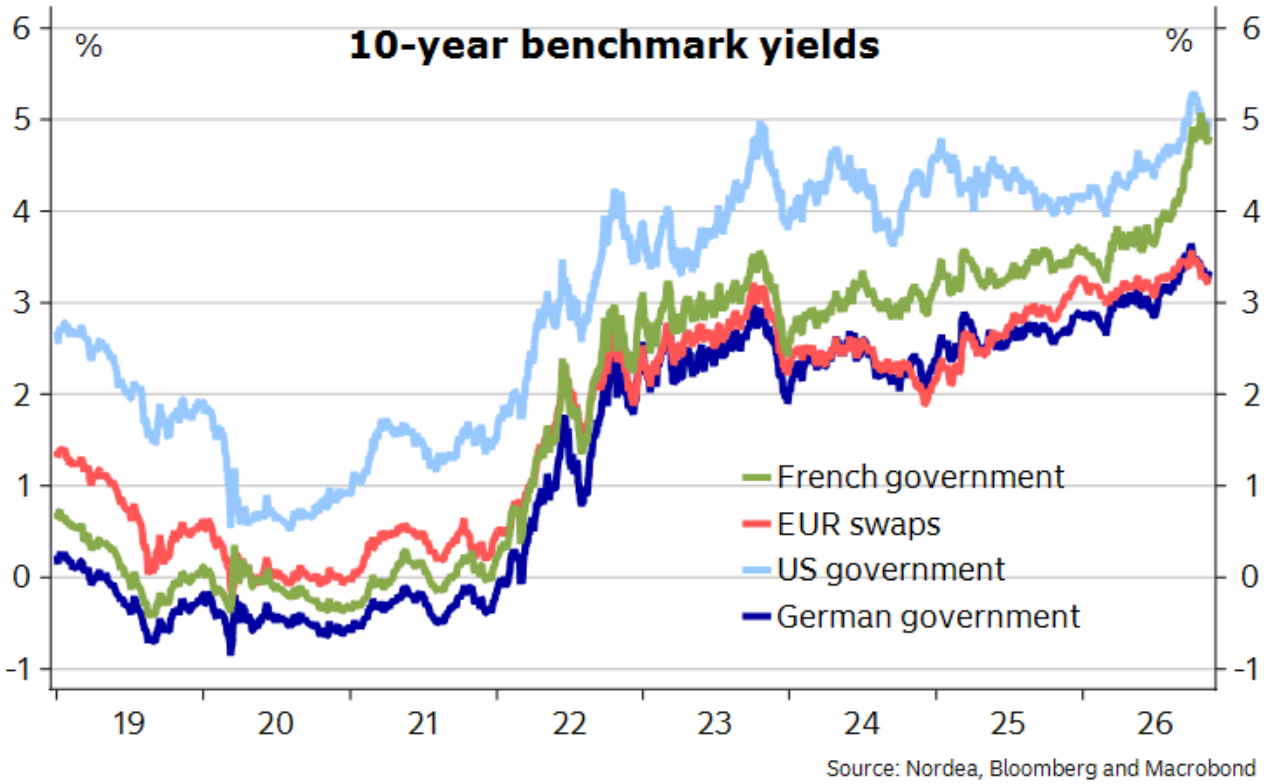
Longer bond yields corrected lower



Source: Nordea, Bloomberg and Macrobond

Our new forecasts for German bond yields

Old forecast (updated 16-Oct-26)					
EUR	Spot	3M	Mid-27	End-27	End-28
Leading		2.75	3.00	3.00	2.50
3M		2.80	3.05	3.05	2.50
2Y		3.10	3.10	2.95	2.60
5Y		3.25	3.30	3.20	3.00
10Y		3.50	3.65	3.55	3.40
30Y		3.90	4.05	4.10	4.05

New forecast (updated 13-Nov-26)					
EUR	Spot	3M	Mid-27	End-27	End-28
Leading	2.50	2.75	3.00	3.00	2.50
3M	2.77	2.85	3.10	3.10	2.50
2Y	3.10	3.10	3.10	2.95	2.60
5Y	3.14	3.20	3.30	3.20	3.00
10Y	3.30	3.45	3.65	3.55	3.40
30Y	3.66	3.85	4.10	4.05	4.00

Source: Nordea

Our new forecasts for EUR swap rates

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Old forecast (updated 16-Oct-26)					
EUR	Spot	3M	Mid-27	End-27	End-28
Leading		2.75	3.00	3.00	2.50
3M		2.80	3.05	3.05	2.50
2Y		3.35	3.30	3.10	2.75
5Y		3.45	3.45	3.30	3.10
10Y		3.55	3.65	3.50	3.35
30Y		3.50	3.65	3.65	3.60

New forecast (updated 13-Nov-26)					
EUR	Spot	3M	Mid-27	End-27	End-28
Leading	2.50	2.75	3.00	3.00	2.50
3M	2.77	2.85	3.10	3.10	2.50
2Y	3.37	3.35	3.30	3.10	2.75
5Y	3.34	3.40	3.45	3.30	3.10
10Y	3.36	3.50	3.65	3.50	3.35
30Y	3.23	3.45	3.70	3.60	3.55

Source: Nordea

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