MAY 2025

Central bank depository.

Banking on trade policy uncertainty.

SEI's View

The Trump administration's attempt to transform the international trading system via tariffs has engendered a tremendous amount of uncertainty and market volatility. The administration's decision to put the so-called reciprocal tariffs on hold pending negotiations with individual countries alleviated some of the concerns for the global economic outlook, at least in the near-term. Central banks continue to follow divergent monetary policies based on the conditions within their own countries/regions. The European Central Bank (ECB) cut its policy rate by another 0.25% in April, and the Bank of England (BOE) reduced its Bank Rate by the same margin in May—its first back-to-back rate cut since 2009. The BOE's action was somewhat surprising because near-term economic prospects have improved modestly, and wage growth remains elevated. In addition, the harmonized inflation rate came in at 3.4% year-over-year as of March. In the U.S., the Federal Reserve (Fed) continues to hold the federal-funds rate steady as expected amid concerns that the tariffs on China will result in a period of goods inflation.

U.S. Federal Reserve (Fed)

- As widely anticipated, the Federal Open Market Committee (FOMC) left the federal-funds rate unchanged in a range of 4.25% to 4.50% following its meeting on May 6-7.
- In its first monetary policy statement since the Trump administration's tariffs on imported goods and services took effect in early April, the central bank cautioned that the U.S. economy could be hampered by a weaker labor market and rising inflation. "Uncertainty about the economic outlook has increased further," the FOMC noted. "The Committee…judges that the risks of higher unemployment and higher inflation have risen."
- At a news conference following the FOMC meeting, Fed Chair Jerome Powell said, "The current stance of monetary policy leaves us well positioned to respond in a timely way to potential economic developments." He commented that if the tariffs are sustained, they could "generate a rise in inflation, a slowdown in economic growth and an increase in unemployment." However, Powell also noted that "the effects on inflation could be short lived, reflecting a one-time shift in the price level. It is also possible that the inflationary effects could instead be more persistent."

European Central Bank (ECB)

- On April 17, the ECB reduced its benchmark interest rate by 0.25% to 2.25%—its lowest level since December 2022 and the central bank's seventh rate cut over its past eight meetings—citing the possible impact of the U.S. tariffs on the euro area economy.
- In a news release announcing the rate decision this month, the ECB's Governing Council commented, "The euro area economy has been building up some resilience against global shocks, but the outlook for growth has deteriorated owing to rising trade tensions. Increased uncertainty is likely to reduce confidence among households and firms, and the adverse and volatile market response to the trade tensions is likely to have a tightening impact on financing conditions."
- The ECB also reiterated that its monetary policy decisions going forward "will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission."

Bank of England (BOE)

- In a split 5-4 vote at its meeting on May 7, the BOE reduced the Bank Rate by 0.25% to 4.25%. Two BOE Monetary Policy Committee (MPC) member voted for a 0.50% rate cut, while two members preferred to maintain the Bank Rate at 4.5%.
- In its announcement of the rate decision, the MPC again acknowledged the possible impact of U.S. trade policy on the U.K. economy. "Uncertainty surrounding global trade policies has intensified since the imposition of tariffs by the United States and the measures taken in response by some of its trading partners," the MPC commented. "Prospects for global growth have weakened as a result of this uncertainty and new tariff announcements, although the negative impacts on U.K. growth and inflation are likely to be smaller."
- Additionally, the Committee provided a mixed economic outlook for the U.K. "In one scenario, there could be weaker supply and more persistence in domestic wages and prices, including from second-round effects related to the near-term increase in inflation," the MPC stated. "In another scenario, inflationary pressures could ease more quickly owing to greater or longer-lasting weakness in demand relative to supply, in part reflecting uncertainties globally and domestically."

Bank of Japan (BOJ)

- The BOJ maintained its benchmark interest rate at 0.50% at its meeting on April 30-May 1. The central bank last raised the rate by 0.25% in late January.
- In a statement announcing the rate decision, the BOJ again expressed concerns about the possible economic impact of the Trump administration's tariffs and reduced its economic growth forecast for the current fiscal year (ending March 31, 2026) from 1.1% to 0.5%. The central bank noted that "economic growth is likely to moderate, as trade and other policies in each jurisdiction lead to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions are expected to provide support."
- During a news conference following the announcement of the rate decision, BOJ Governor Kazuo Ueda commented that U.S. trade policies may hamper the central bank's ability to reach its 2% inflation target rate. "We'll enter a period in which both inflation and wage growth will likely slow somewhat, but we expect a positive cycle of rising wages and inflation to continue due to a severe labor shortage," Ueda said.

Bank of Canada (BOC)

- The BOC left its policy rate unchanged at 2.75% following its April 16 meeting. The central bank had reduced the rate by 2.25% in total points at its previous six meetings.
- The BOC cited signs of a slowing economy and the impact of the Trump administration's tariffs on imported goods from Canada. "Consumption, residential investment and business spending all look to have weakened in the first quarter," the central bank commented. "Trade tensions are also disrupting recovery in the labour market. Employment declined in March and businesses are reporting plans to slow their hiring. Wage growth continues to show signs of moderation."
- The BOC also noted that it "will continue to assess the timing and strength of both the downward pressures on inflation from a weaker economy and the upward pressures on inflation from higher costs. Our focus will be on ensuring that Canadians continue to have confidence in price stability through this period of global upheaval."

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.25%-4.50%	4.25%-4.50%	Unchanged	June 17-18, 2025
ECB	2.25%	2.50%	-0.25%	June 4-5, 2025
BOE	4.50%	4.25%	-0.25%	June 19, 2025
BOJ	0.50%	0.50%	Unchanged	June 16-17, 2025
BOC	2.75%	2.75%	Unchanged	June 4, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of May 8, 2025.

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