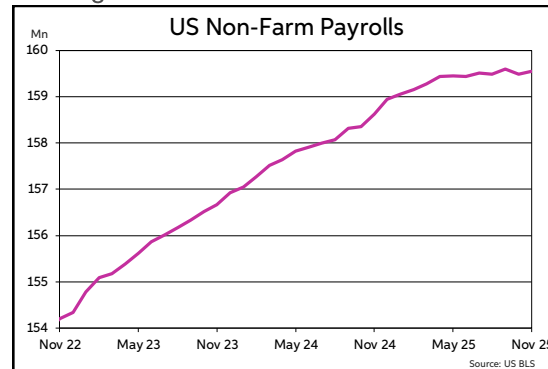


All's quiet on New Year's Day

- **At the turn of the year, it is worth looking back at key market events in 2025.** While the first half of the year was dominated by President Trump's trade war, in the end, it paled in comparison to the impact of AI on both financial markets and the real economy. On US tariffs, the impact appears to have been limited so far. Indeed, many of the threatened tariffs around Liberation Day were subsequently reduced or shelved. US firms also undertook a stockpiling spree ahead of expected tariffs, including those producing pharmaceuticals in Ireland. This sugar rush of activity boosted global GDP in 2025, with a potential hangover to come in the new year. Other countries have found ways around US tariffs, through transshipments via third counties (China) or administrative loopholes which Canadian exporters have used to push a greater share of their products through low tariff channels still subject to the USMCA agreement.
- **Nevertheless, there are already signs that the tariffs have negatively hit the US economy.** The disinflationary trend, evident throughout 2024, stalled in 2025 as tariff hikes were largely passed through to US consumers, while the labour market has been buffeted by weak trends in the US manufacturing sector, which is most exposed to trade barriers. This combination of sticky inflation and a weaker jobs environment has placed the Fed in an invidious policy position heading into 2026. On markets, the most long-lasting effect of tariffs has been the reversal in the dollar from early April. In 2025, the trade-weighted 'DXY' index lost nearly 10% of its value, its worst year since 2017.
- **In Europe, a surge of optimism followed the announcement of major fiscal stimulus in infrastructure and defence by the new German Government in March 2025.** While this is still expected to boost growth, the details of the infrastructure plan have disappointed expectations. The EU has also predictably lauded then largely ignored the Draghi and Letta reports, which laid out plans to boost single market integration, productivity and GDP growth. Analysis suggests c.10% of the recommendations of the 2024 reports have been implemented so far. Nevertheless, the euro gained 14% against the dollar, and the broad Euro Stoxx 600 posted 16% growth last year.
- **However, despite its laggard position in the AI development race, even the European economy is being boosted by the rapid deployment of AI technology, as firms invest heavily in AI tools.** As we discussed in our recent Economic Outlook, the rollout of AI has had little discernible impact on labour markets thus far, but there are some signs that sectors most exposed to AI replacement have seen job losses, while graduates are experiencing a more challenging labour market. Despite the negativity around tariffs, AI continued to underpin US equity markets in 2025, with the S&P 500 up 17%, driven by the 'Magnificent 7' stocks. The exceptional investment boom in AI infrastructure, including energy and data centres, is now a key driver of US GDP growth. This concentration risk within the US economy is a significant risk if markets begin to sour on the AI theme in 2026.
- **Turning to the week ahead, the main highlight will be the US labour market report for December.** The recent US government shutdown directly impacted the data and delayed the collection/publication of the report, at the end of last year. Overall though, it is clear that the US labour market has been on a slowing trajectory throughout 2025. Non-farm payrolls have contracted in three of the last six months, albeit they rose by a solid 64k last month. At the same time, the unemployment rate has been trending higher throughout H2, and stood at 4.6% in November, its highest level since September 2021, and up from 4.0% in January. The consensus is for payrolls to increase by 53k in December, while the jobless rate is expected to decline marginally to 4.5%. Meanwhile, average earnings growth is projected to accelerate slightly to +3.6% y/y from +3.5%. In terms of some other labour market data, JOLTS job openings are set to stay in and around 7.7m in November. Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are due. Both are forecast to be little changed, with the former staying in contractionary territory and the latter in expansion mode in December.
- **In the Eurozone, the focus will be on the flash estimate of HICP inflation for December.** Having declined in the first few months of last year, Eurozone inflation has been relatively steady recently. The headline rate has printed between 1.9-2.2% since March, and it is projected to edge slightly lower but remain in that range, at 2.0% in December. Like-wise, the core rate has been stuck between 2.3-2.4% since May. It is set to stay at 2.4% for a fourth successive month in December. A busy Eurozone data calendar also includes the unemployment rate reading for November. It is forecast to remain at 6.4%. Elsewhere, retail sales are expected to increase by 0.1% in the month, putting them 1.6% higher in year-on-year terms. Meantime, the EC sentiment indices for December will also feature. A miniscule improvement is pencilled in for both the services and industrial sectors. In Germany, industrial production (Nov) and orders (Dec) data will garner attention.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2026	2026	2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.50	3.50
BoJ OCR	0.75	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2026	2026	2026
EUR/USD	1.1738	1.17	1.18	1.18
EUR/GBP	0.8699	0.88	0.88	0.87
EUR/JPY	183.92	179	179	179
GBP/USD	1.3488	1.33	1.34	1.36
USD/JPY	156.67	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Cipollone (Tue); Lane (Fri)		
	BoE Speakers:				
	Fed Speakers:		Barkin (Tue); Barkin (Fri)		
			OPEC+ Meeting (Sunday 4th January)		
Mon 5th	EU-21:	09:30	EU Sentix (January)	-6.2	-5.0
	UK:	09:30	Mortgage Approvals (November)	65,018	64,400
	US:	15:00	Manufacturing ISM (December)	48.2	48.2
Tue 6th	IRE:	01:01	AIB Irish Services PMI (December)	58.5	
	FRA:	07:45	Flash HICP Inflation (December)	-0.2% (+0.8%)	+0.1% (+0.8%)
	ITA:	08:45	Final HCOB Composite PMI (December)	53.8	53.8
	FRA:	08:50	Final HCOB Composite PMI (December)	50.1	50.1
	GER:	08:55	Final HCOB Composite PMI (December)	51.5	51.5
	EU-21:	09:00	Final HCOB Composite PMI (December)	50.1	50.1
			- Final HCOB Services PMI (December)	52.6	52.6
	UK:	09:30	Final S&P Composite PMI (December)	52.1	52.1
			- Final S&P Services PMI (December)	52.1	52.1
	GER:	13:00	Final HICP Inflation (December)	-0.5% (+2.6%)	+0.4% (+2.2%)
	US:	14:45	Final S&P Composite PMI (December)	53.0	53.0
			- Final S&P Services PMI (December)	52.9	52.9
	IRE:	16:30	Exchequer Returns (December)	Dec'25: +€12.8bn	+€9.0bn
Wed 7th	JPN:	00:30	Final S&P Composite PMI (December)	51.5	51.5
	GER:	07:00	Retail Sales (November)	-0.3% (+0.9%)	+0.2% (+%)
	FRA:	07:45	INSEE Consumer Confidence (December)	89.0	90.0
	GER:	08:55	Unemployment Rate (December)	6.3%	6.3%
	EU-21:	10:00	Flash HICP Inflation (December)	+0.2% (+2.1%)	+0.1% (+2.0%)
			- Ex-Food & Energy	-0.5% (+2.4%)	+0.3% (+2.4%)
			- Ex-Food, Energy, Alcohol & Tobacco	-0.5% (+2.4%)	+0.5% (+2.4%)
	ITA:	10:00	Flash HICP Inflation (December)	-0.2% (+1.1%)	-0.6% (+1.2%)
	US:	13:15	ADP Employment Report (December)	-32,000	+45,000
	US:	15:00	Non-Manufacturing ISM (December)	52.6	52.3
	US:	15:00	JOLTS Job Openings (November)	7.67m	7.70m
Thu 8th	GER:	07:00	Industrial Orders (November)	1.5%	-0.9%
	EU-21:	10:00	Producer Prices (November)	+0.1% (-0.5%)	+0.2% (-2.3%)
	EU-21:	10:00	EC Economic Sentiment (December)	97.0	97.0
			- Consumer / Industrial / Services	-14.6 / -9.3 / 5.7	-14.6 / -9.0 / 5.9
	EU-21:	10:00	Unemployment rate (November)	6.4%	6.4%
	US:	13:30	Initial Jobless Claims (29th December)	199,000	220,000
Fri 9th	GER:	07:00	Industrial Production (November)	+1.8% (+0.9%)	-0.4% (-0.4%)
	GER:	07:00	Trade Balance (November)	+€16.9bn	+€16.7bn
			- Exports	+0.1%	+0.0%
	EU-21:	10:00	Retail Sales (November)	+0.0% (+1.5%)	+0.1% (+1.6%)
	US:	13:30	Non-Farm Payrolls (December)	+64,000	+53,000
			- Unemployment Rate	4.6%	4.5%
			- Average Earnings	+0.1% (+3.5%)	+0.3% (+3.6%)
	US:	15:00	Prelim. Uni. Michigan Consumer Sentiment (Jan)	52.9	53.2

♦ Month-on-month changes (year-on-year shown in brackets)

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