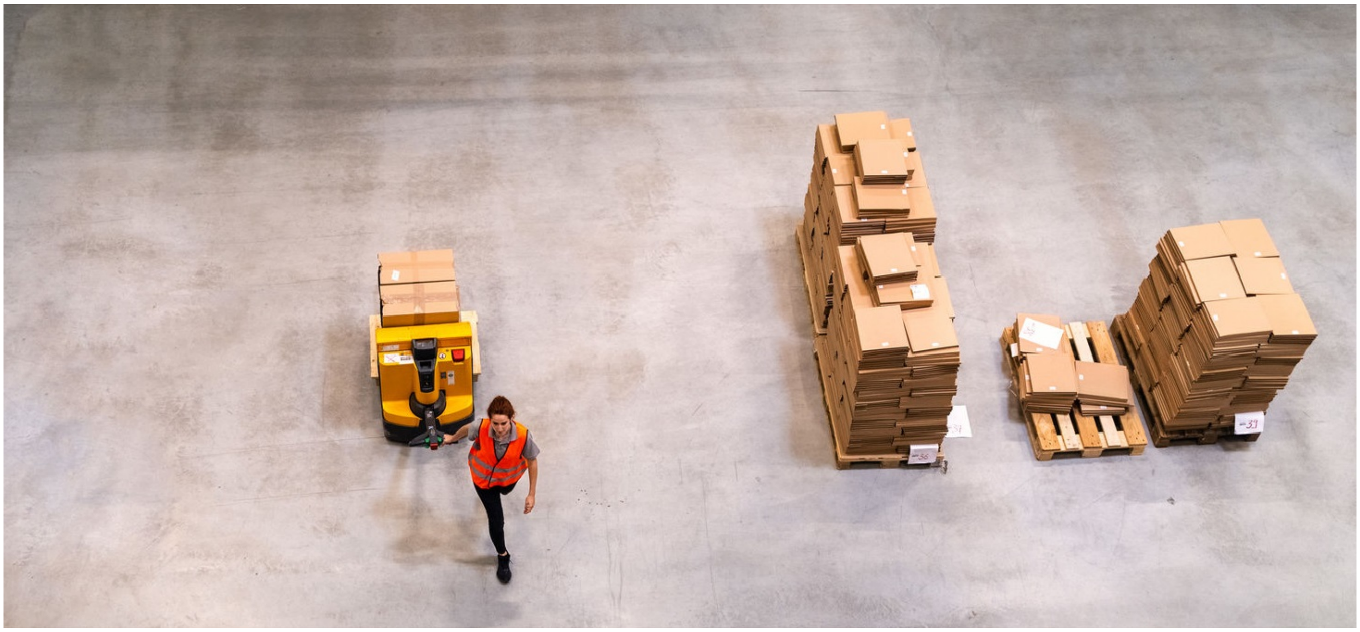

(UBS)

ECB cuts rates for the third time this year as growth concerns rise

21 October 2024, 8:33 pm CEST, written by UBS Editorial Team

The European Central Bank (ECB) lowered interest rates on Thursday for the third time this year, reducing its policy rate to 3.25% as inflationary pressures across the Eurozone rapidly fade. This latest cut marks the first back-to-back rate reduction in 13 years, signaling a shift in the ECB's focus from fighting inflation to safeguarding economic growth.

But while inflation is easing, concerns about slowing growth are mounting. The final inflation reading for September came in at 1.7% year over year, down from 2.2% in August and below the ECB's 2.3% forecast

for the third quarter. A series of soft inflation prints from key Eurozone member states has reinforced expectations of further weakness in the months ahead. Meanwhile, business surveys continue to show signs of a significant slowdown, and the labor market appears increasingly under pressure. With price pressures easing and the Eurozone economy stagnating, policymakers may accelerate the pace of rate cuts in the coming months. Following this latest reduction, we anticipate further cuts at every policy meeting through June 2025, totaling 125 basis points.

Takeaway: The ECB's ongoing rate cuts reflect the need to protect growth amid slowing inflation. As a result, investors should avoid holding excess cash or money-market holdings, and fixed-term deposits. We recommend positioning portfolios toward bond ladders, medium-duration investment grade bonds, and diversified fixed income strategies to sustain portfolio income.

For more, see the Weekly Global, **A "no landing" US economy should support equities**, 21 October, 2024.

Important information