



What Trump's U-turn means for our forecasts

Donald Trump's U-turn on Wednesday evening shows that he is, after all, impressed by the slump in the financial markets. We see our main scenario confirmed with regard to Trump and adjust our forecasts for the western economies and the financial markets only moderately. We now expect not only two, but three interest rate cuts for the Fed and the ECB.

| Dr. Jörg Krämer^{AC}

The announcement of massive reciprocal tariffs on Wednesday last week led many investors to believe that Donald Trump would accept a collapse of the stock markets in order to reduce the high US trade deficit and generate tariff revenues to finance tax cuts. Instead, we stuck to our main scenario that Trump is primarily interested in making deals and is not left cold by the massive increase in recession risks and the sharp drop in stock market prices. We therefore did not change our economic forecasts last week, but merely pointed out that risks had increased.

Trump's U-turn on Thursday confirms our main scenario

Trump's U-turn on Thursday evening confirms this main scenario. Under the new policy, a standard rate of 10% will apply to reciprocal tariffs (with the exception of China) for 90 days, rather than the higher country-specific rates that apply to the EU, for example (20%). Sectoral tariffs of 25% will continue to apply to automobiles, auto parts, aluminum and steel.

Both his actions and his statements suggest that the stock market slump played a role in his turnaround on tariffs: 'Well, I thought that people were jumping a little bit out of line; they were getting yippy,'. He also seems to be concerned about deals: In his view, a deal can be made with everyone, even with China. The fact that he also mentioned China is noteworthy in view of the fact that he had recently raised tariffs on Chinese goods to 145 percent.

No major changes to our US forecasts

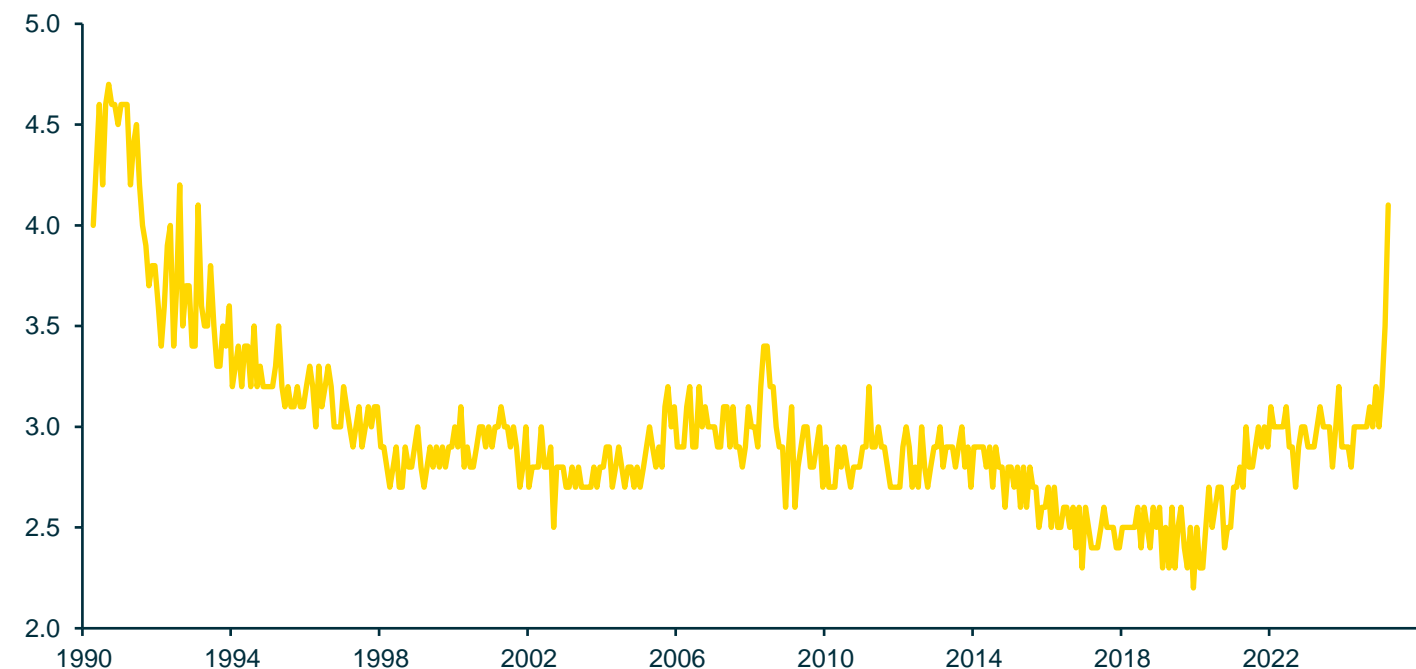
Because we see our main scenario as confirmed, namely that Trump wants to avoid a slump in the economy and the stock markets, we decided against a massive reduction in our US economic forecast at our monthly forecast meeting. We only lower the 2025 US growth forecast from 2.0 percent to 1.7 percent – due to the recent back and forth over tariff policy that increases uncertainty and weighs on US corporate investment. Nevertheless, the economy should remain sufficiently far from the recession threshold, precisely because Trump wants to avoid a recession and the US economy still has a lot of momentum. Gross domestic product has grown by at least 2.5 per cent in each of the last three years.

We had previously expected the Federal Reserve to cut key rates twice by 25 basis points each in the winter half-year 2025/26. Here, too, we are making only a moderate change and expect three interest rate cuts at quarterly intervals from September. The upper limit of the US key interest rate corridor would then be 3.75% in March 2026. The fact that we do not expect a recession and that US consumers expect massively higher inflation in the future due to tariffs (**Chart 1**) argues against aggressive interest rate cuts. To prevent this from becoming a self-fulfilling prophecy, the Fed can only reduce its key interest rate to a level at which its monetary policy still has an inflation-reducing effect.



Chart 1 - Are US inflation expectations becoming disconnected?

University of Michigan's consumer sentiment survey, inflation expectations for the next 5 - 10 years in %



Source: S&P Global, Commerzbank Research

Euro area: lower inflation in 2026...

When we lowered our 2025 growth forecasts for the euro area and Germany five weeks ago due to the tariffs, we had assumed that the tariffs would be partially reduced again through renegotiation. This is what happened yesterday. In addition, companies in the eurozone are benefiting from the fact that their Chinese competitors are losing price competitiveness in the US market due to the much higher tariffs. In this respect, we continue to expect the euro economy to grow by 0.7% this year (Germany: 0.0%). We have lowered the forecast for 2026 by only 0.1 percentage points to 1.2% (Germany: 1.4%).

As for inflation in the euro area, we confirm our inflation forecast for 2025 of 2.1% (Germany: 2.5%). However, we are lowering it for 2026 by 0.3 percentage points to 2.1% (Germany: 2.2%). This is mainly because Trump is taking tougher action against the geopolitical rival China than against most other countries. In this respect, China is likely to try to sell some of the goods that it can no longer sell in the US in the euro area. The increased supply should gradually push down euro area inflation from late 2025 onwards, although we expect inflation to remain above the ECB target of 2% in the long term due to demographics, decarbonization and deglobalization.

... which argues for an additional ECB interest rate cut

At times, it looked as if our forecast of a cut in the ECB deposit rate to 2.0% by the summer was too aggressive. We maintained it because we expected core inflation to fall further due to the weaker economy and because we believe that the ECB Governing Council is dominated by monetary doves anyway.

Because inflationary pressure is continuing to fall due to increased supply from China and core inflation could temporarily fall below 2% around the turn of the year, we now expect not just two, but three further ECB key interest rate cuts of 25 basis points each. In September, the deposit rate would then be 1.75%.

China will be harder hit than the euro area

Trump is likely to negotiate with China in the end and reverse some of the massive tariff increases to 145%. But Trump, like most US politicians, presumably wants to use tariffs to slow China's economic, political and military rise. In this respect, the US tariffs on Chinese goods are likely to remain significantly higher than those for the euro area in the end. We are lowering our growth forecasts for China - from 4.3% to 3.8% for 2025 and from 4.0% to 3.6% for 2026.



What does this mean for the financial markets?

As far as German government bonds are concerned, they benefit from lower growth, lower inflation and, most recently, a stronger euro. All of this gives the ECB more scope for rate cuts. In addition, German government bonds benefit from inflows when confidence in US politics declines. We have slightly lowered our forecast for the 10-year Bund yield to 2.60% at the end of the year (previously 3.10%). Our forecast for 10-year US Treasuries is 4.40% (previously 4.60%).

The dollar's status has suffered from the volatile policies of Donald Trump. Moreover, the US administration has more of an interest in a weak currency in the medium term to help it reduce the trade deficit. To this end, Trump could increase the pressure on the Fed to loosen monetary policy again. We are therefore raising our EUR-USD forecast for the end of 2026 from 1.10 to 1.15.

In an initial reaction to Trump's tariff break, the S&P 500 rose 9.5% in a spectacular relief rally on Thursday. This was the largest single-day gain since the 2008 financial crisis. However, we advise equity investors not to react too euphorically to Trump's turnaround. Due to the persistently high political uncertainty in the US, the introduction of a 10% base tariff on US imports and the trade dispute between the US and China, many companies are likely to be cautious in their outlook for the coming earnings season, and analysts' earnings expectations are likely to fall. Therefore, the consolidation on the stock markets should continue for the time being in the second quarter, with high price volatility.



ECB preview: Interest rate cut

The ECB will almost certainly cut interest rates again next week – and will probably describe its current monetary policy as “neutral”. Due to the dampening effects of US tariffs on growth and inflation, we now expect interest rates to be cut not only in June but also in September.

Dr. Marco Wagner^{AC}

The ECB cuts interest rates again

The ECB will almost certainly cut interest rates again next week. With the seventh rate cut in a row, the deposit rate would stand at 2.25%. Although no new ECB projections are officially published, the downside risks for economic growth and inflation have increased significantly due to US President Trump's tariff capers. According to a [speech](#) by ECB President Lagarde in Brussels in mid-March, the ECB's analyses indicate that the tariffs will depress growth in the euro economy by around ¼ percentage point this year. We have also revised our forecasts downwards (see cover story). In addition, the tariff conflict is likely to have a dampening effect on inflation in the eurozone, as Asian exports are more likely to be diverted to Europe. In this context, we have adjusted our ECB forecasts and now expect a further interest rate cut of 25 basis points in September in addition to the previously forecast June cut.

The doves on the rise



























The foreseeable consequences of the US tariff policy on growth and inflation for the eurozone should give the doves in the ECB Governing Council the wind beneath their wings. According to our revised Hawkometer – which we use to classify the members of the Governing Council according to their genuine monetary policy stance – the doves are clearly in the majority in the ECB's tower. This is also due to the fact that there are fewer hawks on the Governing Council. Dutchman Knot and Bundesbank President Nagel, for example, have given us sufficient reason to no longer place them in the camp of monetary policy hawks, but to classify them as “neutral” Council members. According to our count, there are now only four hawks to 14 doves.



Commerzbank-Hawkometer



Doves, hawks and „neutral“ ECB Council members, Commerzbank perception

	Hawk	Leaning hawk	neutral	Leaning dove	Dove			
Exec. Board			<div> Schnabel (DE) Executive Board</div> <div> Elderson (NL) Executive Board</div>	<div> Lagarde (FR) Präsidentin</div> <div> De Guindos (ES) Vize-Präsident</div>	<div> Cipollone (IT) Executive Board</div> <div> Lane (IR) Executive Board</div>			
National Central Bank Governors	<div> Holzmann Austria</div>	<div> Müller Estonia</div>	<div> Knot Netherlands</div>	<div> Nagel Germany</div>	<div> Villeroy d.G. France</div>	<div> Makhlof Ireland</div>	<div> Panetta Italy</div>	<div> Stournaras Greece</div>
	<div> Kazāks Latvia</div>	<div> Wunsch Belgium</div>	<div> Šimkus Lithuania</div>	<div> Escrivá Spain</div>	<div> Vasle Slovenia</div>	<div> Demarco *) Malta</div>	<div> Rehn Finland</div>	<div> Centeno Portugal</div>
			<div> Vujčić Croatia</div>	<div> Reinesch Luxembourg</div>	<div> Kažimír Slovakia</div>			
						<div> Patsalides Cyprus</div>		

*) Since 30 July 2024, Deputy Governor Demarco has been standing in for the Governor of the Central Bank of Malta, Scituna, who requested a leave of absence due to legal proceedings.

*) Since 30 July 2024, Deputy Governor Demarco has been standing in for the Governor of the Central Bank of Malta, Scicluna, who requested a leave of absence due to legal proceedings.

No clear indication of the next steps

Despite our change in forecast that we now expect a further rate cut, the ECB is likely to be cautious in its communication and leave all doors open. In our view, therefore, no kind of forward guidance is to be expected. This is all the more true as the economic outlook



is fraught with all kinds of risks in both directions in view of the immense uncertainty. Much will depend on how the EU reacts to the US tariff policy and whether this results in a negotiated solution.

Apart from this, the ECB is likely to change its communication regarding the assessment of current monetary policy. We assume that monetary policy will no longer be described as "becoming meaningfully less restrictive". Rather, it is now likely to have reached the "neutral range" according to many members of the Council.



Research contacts (E-Mail: firstname.surname@commerzbank.com)

Chief Economist

Dr Jörg Krämer
+49 69 136 23650

Economic Research

Dr Jörg Krämer (Head)
+49 69 136 23650

Dr Ralph Solveen (Deputy Head; Germany)
+49 69 9353 45622

Dr Christoph Balz (USA, Fed)
+49 69 9353 45592

Dr Vincent Stamer (Euro area, World trade)
+49 69 9353 45800

Dr Marco Wagner (ECB, Germany, Italy)
+49 69 9353 45623

Bernd Weidensteiner (USA, Fed)
+49 69 9353 45625

Tung On Tommy Wu (China)
+65 6311 0166

Interest Rate & Credit Research

Christoph Rieger (Head)
+49 69 9353 45600

Michael Leister (Head Rates)
+49 69 9353 45610

Rainer Guntermann
+49 69 9353 45629

Hauke Siemßen
+49 69 9353 45619

Ted Packmohr
(Head Covered Bonds and Financials)
+49 69 9353 45635

Marco Stoeckle
(Head Corporate Credit)
+49 69 9353 45620

FX & Commodities Research

Ulrich Leuchtmann (Head)
+49 69 9353 45700

Antje Praefcke (FX)
+49 69 9353 45615

Tatha Ghose (FX)
+44 20 7475 8399

Charlie Lay (FX)
+65 63 110111

Michael Pfister (FX)
+49 69 9353 45614

Volkmar Baur (FX)
+49 69 9353 26854

Thu-Lan Nguyen (FX, Commodities)
+49 69 9353 45617

Carsten Fritsch (Commodities)
+49 69 9353 45647

Barbara Lambrecht (Commodities)
+49 69 9353 45611

Tung On Tommy Wu (China)
+65 6311 0166

Other publications (examples)

Economic Research:	Economic Briefing (up-to-date comment on main indicators and events)
	Economic Insight (detailed analysis of selected topics)
	Economic and Market Monitor (chart book presenting our monthly global view)
Commodity Research:	Commodity Update (comment and news on commodities markets, two times per week)
	Commodity Spotlight (detailed analysis and forecasts of commodities markets)
Interest Rate & Credit Research:	Ahead of the Curve (flagship publication with analysis and trading strategy for global bond markets)
	European Sunrise (daily comment and trading strategy for euro area bond markets)
	Rates Radar (ad-hoc topics and trading ideas for bond markets)
	Covered Bonds Weekly (weekly analysis of the covered bonds markets)
FX Strategy:	Daily Currency Briefing (daily comment and forecasts for FX markets)
	FX Hot Spots (ad hoc analysis of FX market topics)

To receive these publications, please ask your Commerzbank contact.



Analysts

Dr. Jörg Krämer^{AC}
Chief Economist
+49 69 136 23650
joerg.kraemer@commerzbank.com

Bernd Weidensteiner^{AC}
Senior Economist
+49 69 9353 45625
bernd.weidensteiner@commerzbank.com

This report was completed 11/4/2025 07:29 CEST and disseminated 11/4/2025 07:29 CEST.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

Analyst Certification (AC): The author(s), denoted by AC at the beginning of this report, individually certifies that the views expressed in this report accurately reflect their personal views about the subject securities and issuers; and no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: <https://commerzbank.bluematrix.com/sellside/Disclosures.action>*

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies,



to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

United Kingdom: This document is not for distribution to retail customers and has been issued or approved for issue in the United Kingdom by Commerzbank AG, London Branch, which is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

United States: This research report was prepared by Commerzbank AG, a company authorized to engage in securities activities in Germany and the European Economic Area (EEA). Commerzbank AG is not a U.S. registered broker-dealer and is therefore not subject to U.S. rules regarding the preparation of research and associated rules pertaining to research analysts. This document is not for distribution to retail customers. Any distribution of this research report to U.S. investors is intended for “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6(a)(2) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report seeking to effect transactions to buy or sell securities, or related financial instruments based upon the information provided in this research report, may only do so through a Financial Industry Regulatory Authority (FINRA) registered broker-dealer. Commerz Markets LLC (CMLLC) is a U.S. registered broker-dealer and wholly owned subsidiary of Commerzbank AG. Commerzbank AG is a registered derivatives swap dealer with the Commodity Futures Trading Commission (CFTC), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. U.S. Person(s) and related Dodd-Frank relevant investors seeking to effect transactions in non-security based swaps based upon the information provided in this research report, may only do so through a CFTC registered swap dealer.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerzbank AG and/or Commerz Markets LLC deals pursuant to the international dealer exemption. The information contained herein is not permitted to reference securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, as Commerzbank AG and Commerz Markets LLC operates under the international dealer exemption pursuant to National Instrument 31-103. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Switzerland: This document is generally not for distribution to retail clients. Neither this research report nor the information contained herein should be regarded as personal recommendations for transactions in financial instruments within the meaning of the Financial Services Act.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor, an accredited investor or an expert investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a “financial advisory service” within the meaning of the Financial Advisers Act, Chapter 110 of Singapore (“FAA”) and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained discussed herein.



Japan: This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA) of Japan. This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Article 2(31) of the FIEA and Article 23 of the Cabinet Ordinance Regarding Definition of Article 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation. Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

© Commerzbank AG 2025. All rights reserved. Version 25.02

Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000