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"Beware of little expenses; a small leak will sink a great ship." – Benjamin Franklin

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Tourism Takes a Hit: Melissa's Impact on JSE-Listed Companies

Jamaica's winter season typically experiences a surge in tourist arrivals as visitors seek refuge from colder climates. In 2025, however, that familiar pattern will likely be disrupted as Hurricane Melissa has turned these expectations into an increasingly distant reality. With arrivals expected to be lower than normal and several hotel reopenings delayed until mid-2026, the outlook for Jamaica's tourism sector has become markedly more complex. Against this background, tourism-dependent companies listed on the Jamaica Stock Exchange (JSE) are now bracing for what could be a challenging few quarters ahead. This week, we delve into one of Jamaica's major economic growth drivers, the tourism industry, assessing its post-Melissa outlook and the potential financial implications for select JSE-listed companies.

Tourism, which accounts for approximately 30% of GDP and employs more than one-third of Jamaicans (directly and indirectly), is a cornerstone of the Jamaican economy. However, the sector softened in 2024 as the combination of an unfavourable travel advisory from the US and the impact of Hurricane Melissa resulted in a 0.7% decline. However, in 2025, prior to Hurricane Melissa, early-year visitor trends and resilient travel demand had supported a rebound in the industry, and Jamaica appeared on track to hit JTB's target of 4.5Mn visitors by year-end 2025, which is higher than 4.15Mn in 2024 – putting it back on track to reach 5.0Mn total arrivals by 2026 and generate US\$5Bn in earnings, in line with the Jamaica Tourist Board's (JTB) five-year growth strategy¹. This outlook was being supported by a reduction in

crime, a favourable shift in the United States (U.S.) government's travel advisory, expanded airlifts, and targeted marketing strategies. However, Hurricane Melissa has materially altered this trajectory.

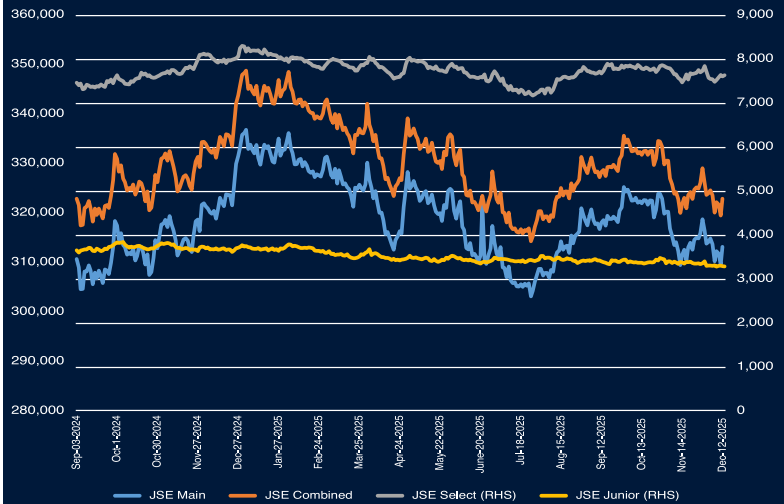
Melissa's impact exceeded that of Hurricane Beryl both in terms of the tourism communities affected and the extent of the damage. This means that tourism activity for 2025 will likely fall more sharply than in 2024. Hurricane Beryl, a category 3 hurricane, did not make landfall, yet stopover arrivals declined by 6.4% in the third quarter of 2024 (Q3 2024), and visitor spending fell 2.4% in the second half of 2024 (H2 2024). Hurricane Melissa, a category 5 hurricane, made landfall and dealt a major blow to Montego Bay, a major tourism hub, which accounted for roughly 80% of stopover arrivals in 2024. Furthermore, the storm caused significant damage in other key tourism communities, including those in St. Elizabeth, Westmoreland and St. Ann. It also forced the closure of at least 26 resorts, eliminating months of peak-season reservations and millions in tourism receipts. As such, arrivals are expected to be weak in the near-term. International terminal passenger traffic at Sangster International Airport (SIA) plunged by 73.4% in November², while approximately 30% of total hotel capacity remains disrupted³. Compounding these challenges, the U.S. Department of State revised Jamaica's travel advisory to Level 3 ("Reconsider Travel") from Level 2 ("Exercise increased caution") while the United Kingdom updated its foreign travel advice on the island to include the limited access to healthcare and the still existing debris and standing water that

1 The JTB is executing a five-year strategy designed to expand Jamaica's tourism sector by 2030. This will include room expansions and physical transformation, which will include an expanded national road system, among other things.

2 Grupo Aeroportuario Del Pacifico (GAP), Grupo Aeroportuario Del Pacifico Reports A Passenger Traffic Decrease In November 2025 Of 2.0% Compared To 2024, December 4, 2025. GAP's subsidiary owns a majority stake in MBJ Airports Limited, the operator of SIA.

3 Travelweek.ca, "The most resilient people on the planet": Jamaica open for tourism, say Bartlett, Jarrett, December 15, 2025.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	322,761.35	-0.23%	-7.22%
Main Market Index	313,035.52	-0.18%	-6.78%
Select Index	7,620.54	2.01%	-8.02%
Junior Market Index	3,268.67	-0.85%	-12.49%

WINNERS & LOSERS FOR THE WEEK ENDED DECEMBER 12, 2025

	\$ Change	% Change
LEARN	\$0.10	41.7%
MTL	\$3.36	29.0%
MPCCCL	(\$0.09)	-27.7%
CFF	(\$0.42)	-23.1%

MARKET OVERVIEW

As the year winds down, investors ease into a more measured trading pace and overall market liquidity declined. Market activity showed Market volume fell sharply to 110.62Mn units valued at J\$383.61Mn, representing declines of 44.3% in volume a 44.5% in value, respectively, relative to the prior week. Despite the weaker turnover, trading participation broadened. Activity was less concentrated, with the three most actively traded stocks accounting for 46.2% of total volume, down from 69.1% in the previous week. TransJamaican Highway Limited (TJH) led trading with 24.98Mn units (22.25%), followed by Kintyre Holdings Limited at 17.87Mn units (15.92%) and JMMB Group Limited (JMMBG) with 8.93Mn units (7.95%).

Overall, market performance softened, with the JSE Combined Index edging down 0.23% WoW. 63 of the 124 listed stocks that traded closed lower, compared with 45 advancers and 16 that remained unchanged. A.S. Bryden & Sons Holdings Ltd (ASBH: -18.4%) and Pan Jamaica Group (PJAM: -10.3%) were the most significant decliners, weighing on overall market activity. Six of the eight remaining JSE indices declined. The JSE Financial index posted the steepest loss (-0.97%), largely reflecting weakness in PJAM. In contrast, the JSE Select Index stood out as the top advancer, up 2.01% WoW. The increase was supported by gains in TJH (+7.2%), Carreras (CAR: +2.7%) and NCB Financial Group (NCBFG: +3.4%). Notably, NCBFG made its dividend payment on December 12, while Carreras and TJH are slated to distribute dividends this week, an encouraging signal for dividend-focused investors amid otherwise subdued trading conditions.

carry health risks. This is likely to further weaken demand from two of the country's most important source markets.

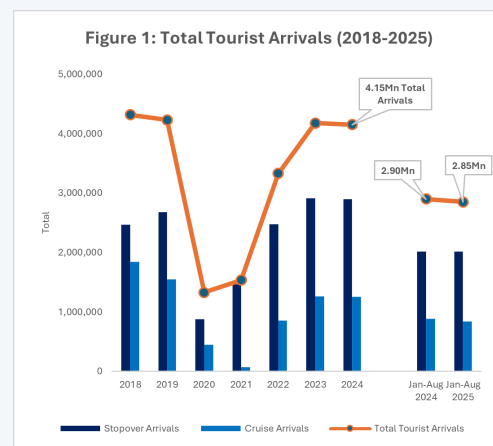
Against this background, despite strong year-to-date (YTD) earnings from some tourism-linked companies listed on the JSE, Melissa's fallout could place a strain on their earnings in the coming quarters. Express Catering Limited (ECL) recorded a 49.7% jump in net profits in its first quarter ended August 31, 2025. However, the sharp decline in arrivals poses downside risks to ECL's food and beverage operations at SIA. Similarly, Everything Fresh (EFRESH), which saw YTD earnings double to J\$106.7Mn, supported by a 28.7% revenue increase in its Jamaican operations, could also face headwinds. The company processes and distributes fresh produce, frozen goods, dairy products, etc., to hotels, restaurants, and catering companies, meaning Melissa's impact on Agriculture and Tourism could lead to supply and demand side challenges for the company. Furthermore, higher financing costs, stemming from a US\$550,000 loan secured in July 2025 to support the previously expected peak tourist season working capital needs, combined with a prolonged tourism slowdown, could pressure earnings in 2026. Caribbean Producers (Jamaica) Limited (CPJ) also faces increased downside risks to its earnings in the aftermath of Melissa. It plays a critical role in the foodservice and hospitality supply chain, and a sustained tourism downturn could materially constrain its performance. Already grappling with operational inefficiencies across inventory management, logistics, credit control, and wage costs, the company recorded a 25.8% decline in YTD earnings. Melissa caused additional damage to inventory and buildings, and the resulting repair and rebuilding costs, layered atop existing inefficiencies, could further erode profitability in Q4 2025 and into 2026. For Dolphin Cove (DCOVE), estimated restoration costs of roughly US\$300,000 are fully insured. Additionally, the company expects normal visitor traffic to resume by mid-December. Nonetheless, even before Hurricane Melissa, operational performance had been subdued, reflected in YoY revenue declines and only modest earnings growth YTD (+4.2%). While insurance coverage mitigates near-term financial risk, a slower-than-anticipated tourism recovery could still limit DCOVE's earnings in the near term.

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Notwithstanding the anticipated near-term headwinds, tourism's central role in Jamaica's economy makes a rapid recovery a policy priority to restore demand for Jamaica's tourism product and support the economic recovery.

Jamaica's economy makes a rapid recovery a policy priority to restore demand for Jamaica's tourism product and support the economic recovery. Encouragingly, Jamaica has welcomed approximately 300,000 visitors, including 50,000 cruise guests⁴, following Hurricane Melissa, underscoring sustained travel demand, according to Tourism Minister Edmund Bartlett. The JTB projects full sector recovery by March 2026. Jamaica's three main airports have reopened, along with all four cruise ports. Additionally, approximately 80% of the island's 26,000 hotel rooms are expected to be operational by the end of January, according to Donovan White, Director of Tourism at the JTB. This will be aided by financial support from the government of Jamaica, contributions from international cruise lines, along with a \$10Mn donation from the Jamaica Hotel & Tourist Association (JHTA). In Negril, more than 80% of hotels have already reopened, with the remainder scheduled to reopen by mid-2026. In Montego Bay, the recovery has also commenced, although roughly half of the resorts are expected to remain closed beyond the end of 2025. Still, the majority of resorts are projected to resume full operations by mid-2026, ahead of the 2027 peak season. Additional capacity is also being added in the Montego Bay area, with approximately 5,000 new rooms coming online, including UNICO, Hard Rock Resort & Casino, and Moon Palace the Grand. The JTB is also anticipated to continue its targeted global advertisement campaigns to support the recovery in demand for the sector. Moreover, the Ministry of Tourism, through its new Tourism Resilience Coordination Committee, has launched a recovery initiative called "Jamaica Tourism Cares" to help rebuild tourism communities and assist workers affected by Hurricane Melissa.

Overall, Hurricane Melissa represents a meaningful setback to Jamaica's tourism sector in the near term. This has reshaped what had been an optimistic outlook for 2025 and 2026 into a more cautious and uneven trajectory. While the sector's importance ensures that policy support and rebuilding efforts will remain a key priority, the scale of infrastructure disruption, weaker airlift, and reduced demand from key source markets suggest that a full normalisation post-Hurricane Melissa will likely take effect by late 2026. For tourism-linked JSE-listed companies, near-term earnings resilience will largely depend on operational efficiency and the ability to withstand a prolonged softness in arrivals. Although some companies may be cushioned by strong YTD performance or insurance coverage, others remain more exposed to the protracted weakness in demand expected and rising costs. As such, the post-Melissa environment is likely to heighten earnings volatility across the sector in the coming quarters. While near-term uncertainty persists, underlying demand fundamentals remain intact. The sector should therefore begin to recover in late 2026 as capacity is restored and operations normalise, supported by cooperation between government and private interests.



⁴ Travel Market Report, Isn't Destroyed: Tourism and Resorts Rise Strong after Hurricane Melissa, December 12, 2025.

Foreign Exchange Market

The Jamaican dollar (JMD) appreciated last week. At the close of trading activity last Friday, it took J\$0.15 less to purchase one United States dollar (US\$1) than at the close of trading on December 5. There was no Bank of Jamaica (BOJ) intervention via its BFXITT tool last week. However, BOJ is expected to continue augmenting hard currency supplies, especially in light of the projected increase in demand that is expected as Jamaica enters its post-Melissa rebuilding phase and the Christmas season.

Selling	Close: 12/05/2025	Close: 12/12/2025	Change
J\$/US\$1	\$161.07	\$160.92	(\$0.15)
J\$/CDN\$1	\$116.21	\$117.18	\$0.97
J\$/GBP£1	\$214.77	\$215.70	\$0.93

Global Bond Prices

Last week, global bond investors reacted to news of a third Federal Reserve (Fed) rate cut and the prospect of fewer cuts in 2026. Fulfilling market expectations, the central bank's Federal Open Market Committee (FOMC) at its final meeting of the year lowered its key overnight borrowing rate by a quarter percentage point, putting it in a range between 3.5%-3.75%, but signalled a tougher road ahead for further reductions. The move marks the sixth rate cut since September 2024 and the Fed's key borrowing lever has now fallen a cumulative 1.75 percentage points from its peak after officials rushed to rein in post-pandemic inflation. The decision, however, carried caution flags about where policy is headed from hereon. It also featured dissenting votes from three members, which hasn't happened since September 2019. The post-meeting rate statement repurposed language from the FOMC meeting a year ago, "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook and the balance of risks." When the language was used in December 2024, it signalled that the committee likely was done cutting for the time being. The FOMC then did not approve any reductions until the September 2025 meeting. With a third consecutive cut now made, the focus turns to where the FOMC heads from here. The closely watched "dot plot" of individual officials' expectations on rates indicated just one cut in 2026 and another in 2027 before the federal funds rate hits a longer-run target around 3%. Those projections were unchanged from the September update, but the plot reflected divisions within the committee about where rates should head. Meanwhile, according to the CME Fed Watch tool as at December 15, 2025, there is a 73.4% probability that the Fed will hold rates at its January 26, 2026, meeting compared to 48.6% a month ago. While the Fed continues to signal patience and a slower glide path for easing, other major central banks are charting a different course. After four quarter interest rate cuts in 2025, the Bank of Canada has ended the year with a hold largely expected and signalled that rates are going to stay at 2.25% for some time to come.

Given expectations for fewer rate cuts by the Fed, U.S. Treasury yields increased from 4.14% on December 5th to 4.19% on December 12th as bond prices moved lower. Conversely, yields on Latin American bonds were mixed across different tenors. JAMAN bonds and DOM REP increased on the short end and decreased on the long end of their respective curves.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
BAHAMA (6.00%) 2028	BB-/Stable	102.50	5.07%	BUY
BAHAMA (6.63%) 2033	BB-/Stable	102.00	6.28%	BUY
BAHAMA (6.95%) 2029	BB-/Stable	105.75	5.30%	BUY
BAHAMA (8.25%) 2036	BB-/Stable	111.50	6.71%	BUY
BAHAMA (8.95%) 2032	BB-/Stable	114.50	6.30%	BUY
BAHAMA (9.00%) 2029	BB-/Stable	110.75	5.57%	BUY
BARBAD (8.00%) 2035	B+/Stable	107.75	6.88%	BUY
BCRED (6.00%) 2032	BBB-/Positive	104.50	5.13%	BUY
BEEFBZ (4.88%) 2031	BB/Stable	85.65	7.22%	BUY
BERMUD (4.75%) 2029	A2/Stable	103.75	3.48%	BUY
BLOCK (6.00%) 2033 (NEW) ⁵	BBB-/Positive	105.75	5.08%	BUY
DOMREP (5.5%) 2029	BB/STABLE	103.75	4.22%	BUY
DOMREP (5.88%) 2035 (NEW ISSUE) ⁶	BB/STABLE	103.10	5.57%	BUY
DOMREP (6.95%) 2037	BB/STABLE	109.00	5.84%	BUY
DOMREP (8.63%) 2027	BB/STABLE	106.25	3.78%	BUY
GM (5.4%) 2029	Baa2/Stable	106.00	3.70%	BUY
JAMAN (6.75%) 2028	BB/Stable	106.00	4.05%	BUY
LTMCI (7.625%) 2031	BB/Stable	107.00	6.00%	BUY

⁵ Issuer- Block Inc Industry-Technology, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.00%, Coupon Payment- Semi-annually, Maturity- August 15, 2033, Risk Profile - Moderate

⁶ Issuer- Government of the Dominican Republic, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 5.88%, Coupon Payment- Semi-annually, Maturity- October 28, 2035, Risk Profile - Moderate

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
LTMCI (7.88%) 2030	BB/Stable	107.50	5.88%	BUY
MARGRO (6.404%) 2029	BBB-/Positive	105.75	4.76%	BUY
NCBFG (11.0%) 2030	B+/Negative	104.05	9.88%	-
NFLX (4.88%) 2030	A/Stable	104.75	3.72%	BUY
NFLX (5.88%) 2028	A/Stable	107.50	3.15%	BUY
NRG (3.88%) 2032	BB+/Stable	96.00	4.63%	BUY
NRG (6%) 2033	BB+/Stable	104.75	5.19%	BUY
NRG (6.25%) 2034	BB+/Stable	105.50	5.46%	BUY
POSWDL (7.88%) 2040	BB/Stable	102.75	7.55%	BUY
PRIOBZ (6.75%) 2030 (NEW ISSUE)⁷	BB/RWP	100.50	6.62%	BUY
PYPL (2.85%) 2029	A-/Stable	98.00	3.42%	BUY
TRAJAM (5.75%) 2036	BB/Positive	95.75	6.29%	BUY
BANORT (5.75%) 2031	Baa2/Negative	101.75	5.39%	SELL
FRICON (7.7%) 2028	B/Stable	51.75	38.62%	SELL
INVATLAN (7.5%) 2026	CCC/RWN	92.92	25.86%	SELL
NFE (6.5%) 2026	CCC-/RWN	20.25	395.30%	SELL
WBD (4.125%) 2029	BB+/Negative	96.00	5.43%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.98	5.39%
	2039	120.41	5.77%
	2045	120.54	6.07%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCM) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.75	8.18%

Money Market

Last week, liquidity in the JMD money market increased, as measured by the aggregated current balances held by Deposit-Taking Institutions (DTIs). As at December 12, 2025, the total aggregate current balance amounted to J\$58.55Bn, increasing 8.7% compared to the previous week.

Demand for money market instruments was solid, despite the slight undersubscription in the Bank of Jamaica's (BOJ's) weekly 30-day Certificate of Deposit (CD) Auctions. Total bids amounted to J\$49.81Bn relative to the J\$50.00Bn issue size, implying a bid-to-offer ratio of 0.99x. While this was below the previous week's 1.31x ratio, the offer size for that auction was much smaller at J\$31.50Bn relative to the J\$40.87Bn subscription amount. As such, in absolute terms, demand increased week-over-week, even as the bid-to-offer ratio moderated. Meanwhile, the average yield inched up to 5.94% from 5.89% the previous week. The next auction date is set for December 17, 2025.

Additionally, the BOJ conducted a 14-day Repurchase Operation with deposit-taking institutions in the amount of J\$1.50Bn. The total value of bids received was \$1.50Bn, implying a 1.0x bid-offer ratio. The weighted average yield was 6.29%, marginally higher than the 6.26% in the previous auction. The next auction for 14-day repurchases is scheduled for Monday, 15 December 2025.

⁷ Issuer- PRIIO Luxembourg S.a.r.l. Industry- Energy, Type- Senior Unsecured, Callable-Yes, Coupon Rate- 6.75%, Coupon Payment- Semi-annually, Maturity- October 15, 2030, Risk Profile - Moderate

Dates to watch this week

■ International ■ Local

DECEMBER 2025				
MON	TUE	WED	THUR	FRI
15	16	17	18	19
Consumer Price Index (STATIN) KW X-Dividend Date (\$0.44 per share)	CPFV Dividend Payment Date (BDS\$0.005 per share) PJAM Dividend Payment Date (\$0.175 per share) EPLY Dividend Payment Date (\$0.102 per share)	GK Dividend Payment Date (\$0.75 per share)	CAR Dividend Payment Date (\$0.35 per share) FESCO Dividend Payment Date (\$0.028 per share)	MASSY Dividend Payment Date (TT\$0.0354 per share) SEP X-Dividend Date (\$0.605 per share)
CAD CPI and Core CPI (Nov MoM, YoY)	GBP Unemployment Rate (Oct) USD Unemployment Rate (Nov)	GBP CPI and Core CPI (Nov MoM, YoY)	BoE Interest Rate Decision USD CPI and Core CPI (Nov MoM, YoY)	USD PCE and Core PCE (Nov MoM, YoY)

Recommendations

Ticker	Closing Price (December 15, 2025)	P/E	Avg. Sector P/E	Current Recommendation
GK	\$73.39	9.3x	9.4x	BUY
CCC	\$111.9	16.2x	14.1x	BUY

Regional News

Guyana's full-year output on track to average 700,000-725,000 b/d

Guyana's crude oil production for the full year is on track to average between 700,000 and 725,000 barrels per day (b/d), after the Yellowtail project lifted output to 900,000 b/d in the latter half of the year. Government data reviewed by OilNOW show that average production for the first 10 months of the year stood at about 680,000 b/d. Yellowtail, which began producing in August, took several months to ramp up to its nameplate capacity of 250,000 b/d. Production in November and December, based on export data, has been stable since ramp-up, indicating that full-year production is on track to average 700,000 to 725,000 b/d. Output from the Liza 1 project declined steadily over the year, as it trends downward to its nameplate capacity of 120,000 b/d. Liza 1 had previously been producing as high as 160,000 b/d last year, following debottlenecking work aimed at optimizing output. In contrast, production at Liza 2 and Payara increased in the second half of the year after ExxonMobil carried out similar optimization work. The company had said those projects, which had been producing around 250,000 b/d each, could be pushed closer to 265,000 b/d, a target reflected in higher output later in the year. The combined effect of debottlenecking at existing projects and the early start-up of Yellowtail lifted national production earlier than expected, increasing the number of crude cargoes projected to be exported from Guyana this year. However, higher volumes have not translated into a significant increase in projected state revenues. While Guyana's crude entitlement rose by two cargoes, government projections published earlier in the year and later updated in the mid-year report show a marginal change in expected oil revenues. The offset reflects weaker oil prices. Going into the new year, production increases are expected from planned debottlenecking of the Yellowtail project and the start-up of the Uaru project in late 2026.

Source ~ Oilnow

The Bahamas' National Debt Rises \$300Mn

The Bahamas' national debt soared by almost \$300Mn to hit \$12.385Bn at the end of September 2025, a signal that the Government likely incurred a significant deficit during the first quarter of its current fiscal year. The Central Bank of the Bahamas, in its quarterly review of the 2025 calendar third quarter, revealed that the direct debt accumulated by the central government increased by \$300.3Mn or 2.6% during the period. On an annualised basis, it grew by \$413.2Mn compared to end-September 2024. The direct charge on the Government increased for the quarter ended September 2025 by \$300.3Mn and on an annual basis, by \$413.2Mn (3.5%) to \$12.07Bn. A breakdown by currency revealed that Bahamian dollar debt represented 54.3% of the total, while foreign currency liabilities

accounted for the remaining 45.7%, according to the Central Bank. The Government's contingent liabilities declined by \$3.9Mn (1.2%) over the review quarter and by \$19.4Mn (5.8%) year-on-year to \$315.9Mn. Consequently, the national debt, inclusive of contingent liabilities, increased by \$296.5Mn (2.5%) over the three-month period and by \$393.8Mn (3.3%) on an annual basis to \$12.385Bn as at the end of September 2025. As a ratio to gross domestic product (GDP), the direct charge decreased by an estimated 1.5 percentage points on a yearly basis to 73.4% at the end of September. Further, the national debt-to-GDP ratio fell to an estimated 75.3% from 77% in the third quarter of 2024. Overall, after peaking in 2021, The Bahamas' debt burden is set to slowly decline over the coming decade, on the back of improvements in its fiscal position. Total debt as a fraction of GDP is slated to decline from 81.5% in 2023 to 54.4% in 2032. The Bahamian government's fiscal position is estimated to improve over the next 10 years as a result of fiscal consolidation and increased value-added tax collections. The fiscal deficit is expected to narrow from 1.6% of GDP in FY2023/24 to 1.4% in FY2033/34. Government revenues are anticipated to rise from 22.0% of GDP in FY2023/24 to 22.9% in FY2033/34. This will mainly reflect improving economic conditions and incomes, bolstering tax take. Expenditure growth will also remain moderate over the 10-year forecast period, as increasingly efficient state-owned enterprises (SOEs) require less government support.

Source ~ The Tribune and BMI, A Fitch Solutions Company

International News

Global Central Bank Easing Cycle is Over

The global interest rate landscape is suddenly looking a lot less benign than it did only a few weeks ago, suggesting 2026 could be much more volatile than investors had bargained for. Comments this week from Reserve Bank of Australia Governor Michele Bullock and European Central Bank Board Member Isabel Schnabel, signaling that their next move could be rate hikes, have brought into sharp focus the hawkish drift across major central banks that has emerged recently. Bullock's remarks caught markets off guard, while Schnabel's were less surprising. But together, they underscore a much more challenging monetary policy environment next year - borrowing costs are likely to rise. The common thread is inflation, which remains stubbornly above target in many developed economies, while growth is still mostly solid. The Federal Reserve on Wednesday cut rates as expected and signaled one more next year. Chair Jerome Powell said policy is roughly in "neutral" territory and added that the central bank's next move is unlikely to be a hike. A glance at market rate expectations for G10 central banks shows that only three - the Fed, Bank of England, and Norges Bank - are expected to cut rates next year, with the Fed easing by 75 basis points and

the other two by 50. The Bank of Canada and RBA are now expected to raise rates by around 35 and 50 bps next year, respectively. Only a few weeks ago rate cuts in both countries were considered more likely than hikes. Many major central banks are in a highly unusual position, having just conducted the fastest rate-cutting cycle outside a recession in decades. In the case of the Fed, it's since the mid-1980s, while the ECB has never eased policy this aggressively absent a contraction, according to Deutsche Bank analysts. History shows that, unsurprisingly, rapid easing without a recession often leads to a strong re-acceleration of economic activity, especially if the rate cuts are coupled with fiscal largesse, paving the way for a quicker-than-expected return to rate hikes. This may be what we see next year.

Source ~ Reuters

US Inflation May Slow, But the Affordability Debate is Likely to Keep Raging

Even if overall inflation slows next year as the U.S. Federal Reserve anticipates, President Donald Trump will still face political headwinds over the cost of living with home mortgage rates expected to remain comparatively high, tariff-related price increases on goods seen persisting through the first part of the year, and cost pressures building around items like beef and electricity that can have an outsized influence on consumer perceptions. Fed economic projections issued on Wednesday held good news for the administration, with policymakers expecting inflation to cool over the coming year, while economic growth accelerates. Across the broad array of services that account for most economic activity, "disinflation appears to be continuing," Fed Chair Jerome Powell said, while goods inflation should "come down in the back half" of 2026 as firms finish dividing tariff costs among consumers, their suppliers and their own operating margins. But in a midterm election year, Trump and Republicans face a problem all politicians share. Consumers, voters focus far less on the macroeconomic generalities analysed by economists. Instead, they focus more on what their local grocery charges for milk, how much the utility bill has risen, and what insurers charge to renew their homeowner's policy. Trump, whose administration has become concerned about low poll numbers, particularly on the economy, with affordability a central issue, can rightfully note that overall inflation has been pretty modest on his watch so far. The Consumer Price Index from its inauguration through September is up about 1.6%, equivalent to a roughly 2.4% annual pace and not far off the central bank's 2% target, though that is measured slightly differently. Food at home, the rough equivalent of grocery prices, is up even less at 1.4%. Some prominent CPI line items have, in fact, spiked sharply in recent months, a fact that may turn hamburger into the same sort of political cudgel for Democrats that egg prices were for Trump last year. Powell singled out the housing market as one part of the economy that continues to struggle, with likely little respite coming from the

Fed's recent rate cuts. While its benchmark interest rate does influence long-term mortgage rates, government debt and other securities, Powell said the housing problem is one of chronic undersupply. Mortgage rates have moderated since nearing 8% a little over two years ago, but they've remained around 6.2% since September, after investors began pricing in what became quarter-point Fed rate cuts in September, October and December. With the Fed on hold for now and other factors holding up longer-term interest rates, they may not move much further.

Source ~ Reuters

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