THE TREASURY HUB
Markets Bulletin

Q1 2025 Review

1. Executive Summary

1.1 Introduction

Welcome to the first TREASURY HUB Markets Bulletin of 2025.

As you are aware, these bulletins cover quite a wide range of topics and are a comprehensive review of all the various interest rate, foreign exchange, commodity and stock markets. Table 1 across sets out the 2025 movement in a number of key metrics. What is notable is that the majority of the readings are now "in the red" although some readings (stock markets) are better on this side of the Atlantic compared to the US.

The focus of markets over 2024 was on inflation and its impact on the expected timing of interest rate cuts. While tariffs would most likely drive inflation up again, the primary concern of markets is increasingly on the prospect of a recession.

- 3-month Euribor continues to fall over the quarter as expected in line with the actual (and ongoing) cuts in the ECB Base Rate. The ECB Deposit Rate was cut from 4.00% to 3.00% in 2024 and has been cut a further three times in 2025 to date (most recently on April 23rd) to its current level of 2.25%
- The shape of EUR, UK and US yield curves has moved from "inverted" (i.e. rates decline after 1 year) to "normal" as the quarter has progressed indicating the bottom of the interest rate cycle will be reached in 2025 after which rates could move upwards in due course in a regular interest rate cyclical pattern

1.2 Markets in a Table: what's up and what's down?

Table 1. Key Metric Movements: 2025 to date

Heading	Metric	YTD move	From	To
Interest	3-m euribor	-0.56%	2.74%	2.17%
Interest	EUR 3-year	-0.17%	2.17%	2.00%
Interest	GBP 3-year	-0.51%	4.39%	3.88%
Interest	USD 3-year	-0.61%	4.31%	3.70%
FX	EUR/GBP	2.62%	0.8273	0.8496
FX	EUR/USD	9.35%	1.0353	1.1421
Equities	ISEQ	6.08%	9753	10346
Equities	FTSE 100	2.99%	8173	8417
Equities	Nasdaq	-8.02%	21120	19427
Commodities	Brent Crude	-12.10%	74.93	65.86
Commodities	Carbon	-10.47%	72	64.28
Commodities	Gold	27.23%	2626	3341
Inflation	EU Core	-0.10%	2.70%	2.60%
Gilts	IE 10-yr	0.19%	2.65%	2.85%
Gilts	GB 10-yr	-0.08%	4.58%	4.50%
Gilts	US 10-yr	-0.33%	4.57%	4.24%

Please note that the % moves are in green if the metric has moved upwards and in red if it has moved downwards. It is NOT a statement as to whether this is a positive or negative move as one could be a borrower or depositor, a seller or buyer of currency, etc. Also, the % move for interest rates is in absolute terms while for currency and equities it is expressed in relative terms. **PLEASE NOTE THAT INTEREST RATE TRENDS ARE FROM A DEPOSITOR PERSPECTIVE.**

- Oil prices have declined in line with increasing concerns about a recession (lower economic demand leads to lower manufacturing output) and sits around $65 per Bbl at the minute.
- Gold continues on its amazing run and is currently up over 27% in the year to date
- US stock markets (Dow and Nasdaq) are both lower but the ISEQ and FTSE are in positive territory so far this year
- Both GBP and USD weakened over Q1 2025 with USD already showing a year to date high/low range of 14%, the current level around EUR/USD1.1400 being 10 cent higher than at the start of the year.

1.2 Forward-looking Indices

Forward-looking indictors known as Purchasing Manager Indices or PMIs are useful to monitor the economic outlook for Ireland and the UK. Readings above 50 indicate expansion while below 50 denote contraction.

- ROI manufacturing has remained in or around the 50 mark since last May while the Construction reading in March was strongest since May 2022
- In the UK, all three of the readings are now below 50 indicating a contraction in activity and this would be consistent with a growing view that UK is headed for recession.

Table 2. Irish and UK PMI readings

	Ireland	UK
Manufacturing PMI	**51.6**	**44.0**
Services PMI	**55.3**	**48.9**
Construction PMI	**53.9**	**46.4**

1.3 Inflation

Table 3. Selected Inflation Rates

	CPI/Core Inflation
ROI	**2.20%**
EUROZONE	**2.40%**
UK	**3.40%**
US	**2.80%**

Note: Core figures exclude energy, mortgages and food.

Irish core rate has continued to ease and now sits at its lowest level since August 2021.

Eurozone core inflation trend is not dissimilar with the current reading being the lowest since January 2022. All of this is consistent with the ECB decisions to cut rates three times so far this year on the basis that inflation is under control….for now!

UK core inflation bottomed out at 3.2% in both September and December but has been higher than that in each month of Q1 2025.

Finally US core inflation is also at its lowest rate since March 2021but the Fed has been slow to cut rates as the prospect of high levels of tariffs translating into inflation is significant**.**

In summary, the overall trend in general is downwards which is facilitating lower interest rates in some jurisdictions but tariffs and their possible knock-on effect on inflation remains a key concern.

See Section 3 for further comment.

2. Foreign Exchange, Oil & Carbon

2.1 EUR/USD

- Graph 1 looks at the EUR/USD rate trend over the past 12 months
- We mentioned in the previous bulletin that the high/low range in 2024 was 9.68% which was the third narrowest over the past 11 years. This has changed substantially in 2025 with the year-to-date range currently standing at 14.11%. This would make it higher than the FULL YEAR range in 6 of the previous 8 years indicating the significant level of volatility mainly due to the impact of US government pronouncements on tariffs
- This resulted in the rate moving from EU/USD1.0353 at the start of the year to a current level of EUR/USD1.1421
- After the very fast weakening of USD, especially since the start of March, the rate has stabilized somewhat as the US administration announced a 90-day stay on tariff imposition
- This move has hurt exporters to the US and the rate could easily trend towards EUR/USD1.2000 if the tariff issue is not successfully addressed. US dollar “meltdown“ is not ruled out either.

Graph 1. EUR/USD: 12-month trend

2.2 EUR/GBP

- Similarly, the high/low range for 2024 was 5.63% which was comparable to the previous year. The 2025 year-to-date range is 6.06% again indicating higher levels of volatility
- However, compared to EUR/USD, the retreat of GBP off these highs has been stronger easing from a peak of EUR/GBP0.8738 back to current levels around EUR/GBP0.8500.

- As the graph below indicates, the exchange rate has been in a downward trend i.e. strengthening GBP since Q3 2024 and plateauing over Q1 2025 but the tariffs issue and threat of recession saw the rate climb by 4p over a period of 8 days at the start of April – an unusually large move in a short space of time
- As already mentioned, it has come back by 1.5p since thereby easing some of the pressure on UK exporters
- However, the sharp movements highlight the importance of hedging. Remember that forward points are against exporters - a spot rate of EUR/GBP0.8500 translates into a forward rate in December of EUR/GBP0.8620 or thereabouts.

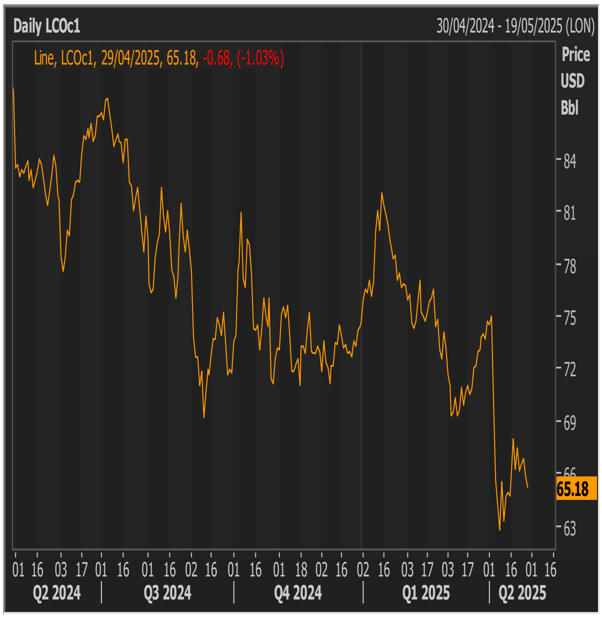
Graph 2. EUR/GBP: 12-month trend

2.3 OIL & CARBON

Brent Crude had been in a broad downward trend now since April last year, albeit with some retracements from time to time. The overall reason for relative weakness in price in recent times is the concern about slowing economic growth leading to lower demand for oil. This also translates, along with weaker dollar, into cheaper fuel which reduces inflation.

The price of Carbon was relatively stable between €65 and €70 until December where we saw a spike of €20 but it has given up all such gains since.

Graph 3. Brent Crude: 12-month trend



Graph 4. Carbon: 12-month trend

3. Interest and Economic Review

3.1 EUR Short-term Rates

While interest rates dominated market events and commentary for both 2023 and 2024 there is broad agreement in Ireland and the UK that 2025 will see interest rates fall and bottom out by the end of the year and, as such, the newsworthiness may diminish somewhat as a result. We continue to monitor the 3-month Euribor rate for the purposes of this bulletin (as it is the most relevant one for variable rate debt).

Key Observations

- 3-month Euribor tracks the ECB Base Deposit Rate very tightly. The former changes every day while changes in the latter only arise on ECB meeting dates. As a result, Euribor tends to anticipate the ECB move a few weeks in advance
- The graph below shows 3-month Euribor is now down to 2.17% which is expected in the context of the ECB Deposit Rate being cut to 2.00% at the meeting in June
- The market view of where the ECB Base Deposit Rate will bottom out varies between 1.50% and 1.75%
- Therefore, despite three rate cuts of 0.25% each in 2025 to date, there is forecast to be another 2 to 3 more cuts in 2025 with 5 meetings left this year
- With inflation softening and GDP falling, there is a strong case currently for 3 cuts.

Graph 5. 3-month Euribor: 12-month trend

3.2 EUR Medium-term Rates

- We always look at 3-year swap rates as they are a better indicator of the future direction of interest rates
- The 3-year fixed rate (before margin) fell from 3.21% in June to a low of 2% at the start of December as the market anticipated (and received) falling shorter-term rates.
- Since the year-end, the graph below shows that the rate has had two periods of increases as the markets grappled with whether or not inflation was falling fast enough and/or the ECB Base Rate was likely to bottom out at 2.25% or lower
- The trend is clearly downwards since the start of March predominantly due to market concerns surrounding the potential scale of the tariffs being considered by the US as it would inevitably lead to economic slowdown which would likely lead to interest rate cuts
- Of course, central banks tend to increase interest rates to ward off inflation and tariffs could also have that effect
- But, on balance, it would appear that Eurozone markets are more concerned about a recession than emerging inflation, hence the recent fall in 3-year swap rates.

Graph 6. EUR 3-year swaps: 12-month trend

3.3 EUR Summary

- The trend in Graph 5 is predictable and downward in nature representing the current phase of ECB Base Rate cuts
- These are likely to continue into Quarter 3 2025 at which point the Base Rate is expected to stabilize, possibly at 1.50% which is 2.50% off the peak rate
- The Eurozone yield curve i.e. the line that joins together all market rates from 3 months to 30 years is now a normal curve meaning that the bottom of the cycle is in sight and rates will have to move upwards in due course.

3.4 UK and US Interest Rates

- **Graph 7 below shows the US 3-year swap rate while Graph 8 is the UK 3-year rate, both for the past 12 months**
- **Similar to EUR fixed rates, these are a better indicator of the likely path/trend of medium-term rates**
- **And while both have been trending downwards, it has not been in a linear fashion like short-term rates with sizeable upward moves and subsequent retracements in the past 3-4 months. US rates have one key additional risk which is discussed in more detail below.**

Graph 7. USD 3-year swap rates: 12-month trend

Graph 8. GBP 3-year swaps: 12-month trend

- In the US, the 3-year rate has eased back after a post-election result climb as markets initially took the result in a positive manner
- However, the reaction to tariff announcements and then the row back for 90 days has introduced a high level of uncertainty which for longer-dated US government bonds (or gilts as they are also referred to) has resulted in a risk premium being charged driving the interest rate (yield) higher
- This is also potentially high stakes stuff in the US as the government there has run a deficit i.e. it spends more than it takes in for over 20 years driving the government debt up to over $36 trillion at the end of 2024. As it runs deficits, it cannot repay debt as it matures meaning that it must borrow new debt to repay old debt
- All of this begs the question as to how sustainable this practice is, and the markets have finally started to look at it more closely - readers of this bulletin will be aware that we have highlighted this issue on a few occasions over the past 2-3 years
- It has also become the US Achilles heel in its tariffs negotiations as a lot of the buyers of US gilts are foreign governments and companies, Japan and China being two of the largest creditors. Any decision by foreign creditors to row back on purchasing US gilts could have serious ramifications for US public finances. Threatening to sack Jerome Powell didn't help matters either.
- It could also lead to a substantially weaker USD
- Added to all of the above, there is a lot of US government debt maturing in 2025 and 2026 which was borrowed when interest rates were very low and will now be refinanced at much higher rates driving up the cost of servicing such debt
- All in all, it is a challenging outlook for the US with a recession almost inevitable at this point in time, and a small risk of a very material adverse financial market reaction to all that is happening which could be on a par with the 2008 financial crisis
- In the UK, recession also looks likely as the government there grapples with high debt and an economy that has had anemic economic growth over the past 5 years and poor productivity for years also
- But trade links with Europe are likely to be rekindled and the medium-term prognosis could be more positive than it has been for a while.

3.5 UK and US Summary

- **UK and US recession looks like a high probability for 2025 and a severe financial market correction in the US is a smaller possibility (Black Swan event).**

4. Wealth Management

4.1 Gold

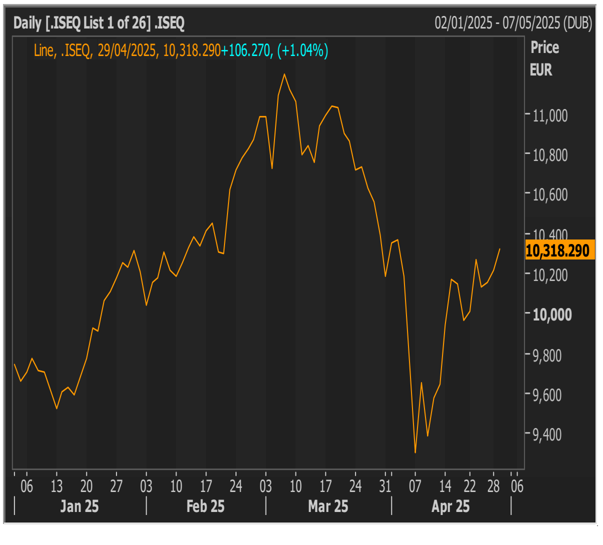
Graph 9. Gold prices: 12-month trend

Gold is the asset class that keeps on giving. We initially started to cover it a few years ago as a possible hedge against a recession. The 2024 rise in price was partly attributed to a reallocation of Chinese investors out of US stocks and shares and also some buying by Central Banks but 2025 to date has seen no halt in the value of Gold with an all time high of USD3,500 reached last week. And with a very uncertain political outlook, there doesn't appear to be a reason for now for the price to retreat.

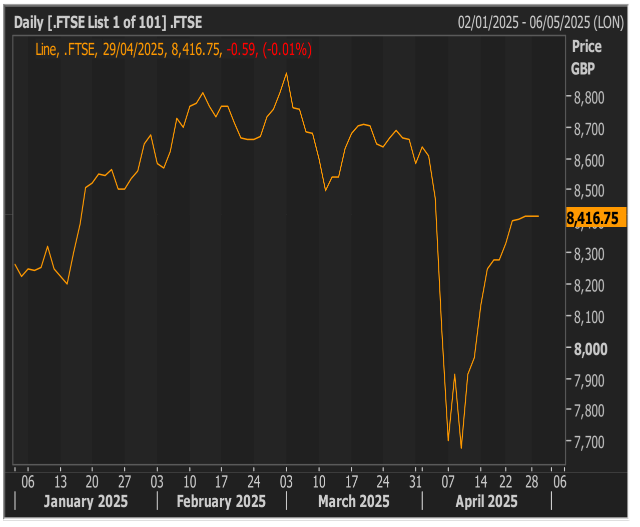
4.3 Equity Markets

Equity markets have had a mixed start to 2025 with the UK and Europe doing ok but the US markets (Nasdaq and Dow) down. Valuations in US are still high relatively speaking.

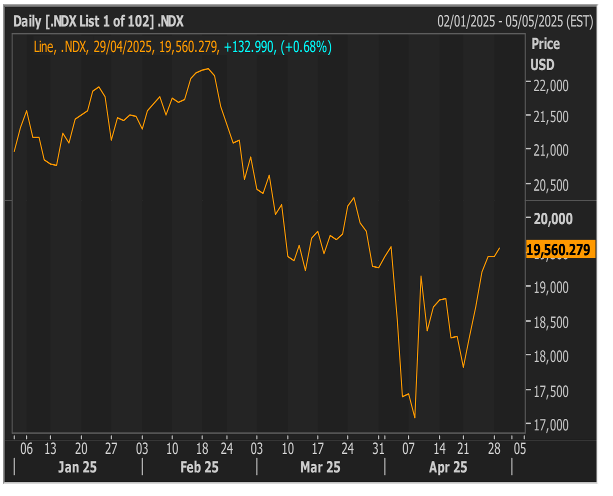
Graph 10. ISEQ: YTD trend



Graph 11. FTSE: YTD trend



Graph 12. NASDAQ: YTD trend



US stock market PE ratios (ratio of the average share price to the earnings per share) have fallen from peaks seen in Q4 2025 but still remain above the historical average level.

The threat of recession also hovers over the US and associated stock market valuations. We think that if disappointing data spills over from the "soft" data (such as Leading Indicators) to "hard" data (such as Unemployment) then there could be worse to follow.

5. 2024 Irish Bank results

Each year we undertake a brief review of the financial results of the three major Irish banks to assess their performance.
PLEASE NOTE THAT OPINIONS BELOW ARE JUST OPINIONS AND WHILE WE HAVE STRIVEN TO ENSURE THAT THE DATA EXTRACTED FROM THE FINANCIAL RESULTS OF THE BANKS IS CORRECT, WE TAKE NO RESPONSIBILITY FOR EITHER THE OPINIONS BELOW OR DATA UPON WHICH THEY ARE BASED.

5.1 Summary Data

We have been tracking the results since 2021 and, accordingly, the table below shows key summary data for the past four years.

Table 4. Selected Banking Data

	BOI 2021	BOI 2022	BOI 2023	BOI 2024	AIB 2021	AIB 2022	AIB 2023	AIB 2024	PTSB 2021	PTSB 2022	PTSB 2023	PTSB 2024
Net Interest Margin	1.86%	1.96%	3.01%	2.91%	1.58%	1.74%	3.11%	3.16%	1.51%	1.54%	2.32%	2.20%
Cost/Income	58%	54%	42%	46%	64%	57%	39%	40%	82%	84%	66%	74%
Customer Loans (€bn)	76.0	72.0	80.0	82.5	56.5	59.6	67.0	71.2	14.2	19.5	20.9	21.8
Customer Deposits (€bn)	93.0	99.0	100.0	103.0	92.9	102.4	104.8	109.9	20.0	21.7	23.0	24.1
Loan to Deposit	82%	73%	80%	80%	61%	58%	63%	64%	75%	90%	93%	90%
LCR	181%	221%	196%	202%	203%	192%	199%	201%	274%	178%	220%	255%
NSFR	144%	163%	157%	155%	160%	164%	159%	162%	170%	154%	155%	166%
CET 1	16%	15.4%	14.3%	14.6%	16.6%	16.3%	15.8%	15.1%	15.1%	15.2%	14.0%	14.7%
SME Lending ROI €bn	7.1	7.0	8.7	7.2	18.7	19.4	20.0	22.2	0.225	1.00	1.00+	1.10
S&P Credit Rating		**A-**	**A**	**A**		**A-**	**A**	**A**		**BBB**	**BBB+**	**-**

5.2 Data Interpretation

Key points from the results are:

- In general, the banks are in very good financial health, especially the two large banks
- The balance sheets are also the opposite of what they were in 2008 – deposits exceed loans by material amounts implying that their liquidity is strong (LCR (Liquidity Coverage Ratio) also assesses liquidity and is around or above 200% for all of them). Loan books are growing but slowly
- Net Interest Margin fell for 2 of the 3 banks and this is probably due to the decline in interest rates
- Cost:Income rose for all of them but is still materially down on their 2021 levels in part reflecting reduction in headcount
- All three banks have good return on capital figures (ref CET 1 numbers) although it has been declining over the past few years for the two main banks
- In summary, with the two main banks still accounting for the lion's share of the market, the lack of competition is helping them to maintain healthy net interest margins and profitability as a result. Balance Sheets are strong and the credit ratings of the two main banks could be raised again if these trends continue as the outlook for both of them is positive. Lack of competition also helps as there are less competitive pressures
- But as overall borrowing trends in the market by companies remains low it is difficult to see why a large bank would enter the market against that background (mortgage lending will increase when housebuilding does but that doesn’t look likely in the near-term)
- The last point on corporate borrowing is crucial. Using data from the Central Bank, the level of borrowing by Irish companies was €34.4bn at the end of 2024. The comparable figure in 2008 was €164.6bn while the 2003 figure was €54.6bn. In other words, current debt levels are 63% of 2003 levels which, on the face of it, looks very low when one considers the growth in the economy since then
- But lower loans are complemented by high levels of personal and corporate deposits and this, in turn, is reflected in the banks’ Balance Sheets
- All in all, looks good from investor perspective but less so from competitive angle that might benefit customers.