

Opinion | 18 September 2026

THINK Ahead: No, central banks aren't about to cause a recession

Rate hikes are undoubtedly contentious right now. Some think it's an error. But a recession starter? **James Smith** explains why he just isn't that convinced



We've recently updated our forecasts for both the Fed and the ECB, and now expect rate hikes from both before year-end

No, central banks aren't about to cause a recession

Central banks are one of those things investors just love to hate. Equity bubbles? Blame central banks for keeping rates too low. Equity corrections? Blame them for hiking too soon. That sort of thing.

This month has been no different. Both the [European Central Bank](#) and the [Federal Reserve](#) have hiked rates. Both have hinted that there's more to come.

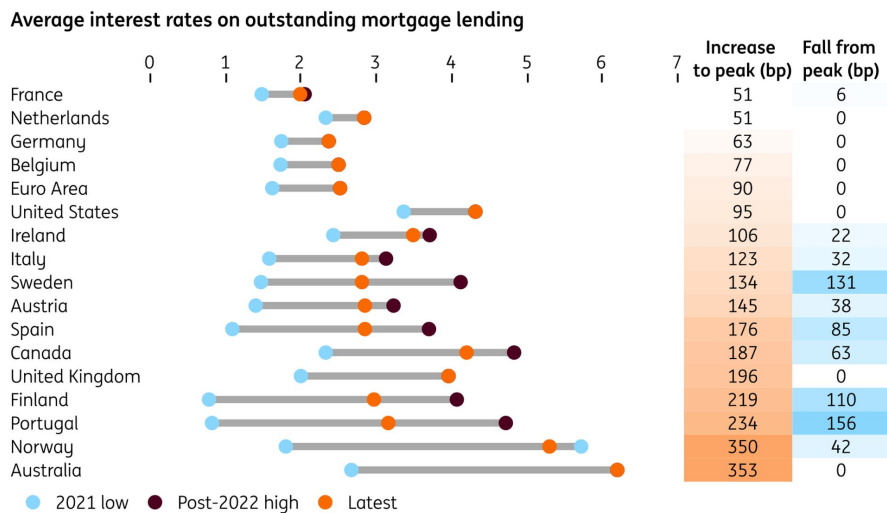
Everyone's got something to say about this. For some, it's long overdue. Others say central banks are laying the groundwork for the next recession.

Personally, I find that far-fetched. And that's from someone who's spent much of this month scratching his head at the hawkish shift we've seen from policymakers.

For one thing, interest rates don't work like they used to. Only 4% of US mortgages are on floating rates. Pre-financial crisis, it was more like 30%. Most are fixed for decades.

That explains why the average rate on existing mortgages is "only" 4.3%, less than a percentage point above its Covid lows, even as the 30-year rate for new mortgages has stayed north of 6% ever since 2022. It's an almost identical story in the eurozone, albeit at lower rates, and admittedly it varies a lot between member states.

How the average rate on existing mortgages has changed



Source: Macrobond, ING

Higher mortgage rates can kill off appetite for new lending. US mortgage applications collapsed in 2022 and haven't recovered since. But more importantly, existing homeowners haven't felt anything like the full force of higher rates.

That helps explain why all the mega rate hikes four years ago didn't trigger a recession. And let's face it, that was a major shakedown of the financial system.

But the real reason we didn't get recessions back then was because the economy was still riding the coattails of Covid. Households were still sitting on piles of "excess savings". Jobs markets were exceptionally hot. Pandemic-era fiscal stimulus was still working its way through the system. And in Europe's case, governments effectively absorbed most of the energy shock through higher borrowing.

If energy prices keep rising, businesses and consumers will increasingly have to wear the bill themselves. That would undoubtedly hit growth. In an extreme scenario, it could even trigger a recession.

But that's exactly the point. If higher energy prices cause a downturn, then higher energy prices cause a downturn. A couple more rate hikes from central banks won't fundamentally change that story one way or the other.

What if the bigger threat isn't the hikes we're seeing today – but the ones we had four years ago? My point earlier was that fixed-rate borrowing slows down the transmission of monetary policy. But the longer rates stay high – and let's face it, it's been a while now – the more corporate debt that has to get refinanced.

The current sell-off in longer-term bonds, of which the Fed is only one driver, certainly isn't helping matters. And there's mounting focus on the impact this is having in the more leveraged corners of the credit world. Did someone say private credit?

Here's the thing, though. If you look at what's propelling the US economy, it's the gargantuan amount of AI investment. James Knightley reckons it is contributing a [third of economic growth in 2026](#).

And the remarkable thing is that this is being done even as market interest rates have risen. The hyperscalers are coming to the bond market in insane size – and seemingly without much regard to the cost.

Chatting to our credit guru Tim Rahill, he says it shows these big tech firms need to do 'whatever it takes' to keep the AI story on the road. And a few rate hikes aren't going to stop them. This is arguably why the Fed has become so motivated to hike rates in the first place.

Of course, there's plenty of talk about an AI bubble. But if that's the case, is it really going to be the Fed that bursts it?

In the end, it comes down to scale. Our view is that central banks won't end up hiking rates all that far. Our [updated central bank calls](#), released today, see one more rate rise from the ECB and Fed in December.

A lot depends on energy prices, of course. But as [I wrote a couple of weeks back](#), we'd still question Fed Chair Kevin Warsh's hawkish stance on US inflation. And in Europe, these hikes are still really being built for [insurance purposes](#), with little sign of second-round effects on inflation so far.

The thing about insurance, of course, is that it's not difficult to cancel when you no longer need it. We're still pencilling in cuts by late next year. By historical standards then, assuming markets are overstating the scale of the rate hikes to come, we're not looking at massive tightening cycles here.

So here's my point: hiking rates today might, in hindsight, not look like the smartest move – the jury's out on that one. But hiking into a possible downturn is not the same thing as causing that downturn.

And in the grand scheme of, well, *gestures furiously at everything else that's happening right now*, two or three hikes really isn't going to change the world.

James Smith

THINK Ahead in developed markets

United States (James Knightley)

- **Aug New Home Sales/Durable Goods Orders** (Thu/Fri): It is a quiet week for data in the US, with housing numbers under pressure thanks to elevated mortgage rates, while durable goods orders will be pinned down due to a weak set of order numbers from Boeing in August. The fact that there are only two FOMC members who believe the central bank won't hike again this year suggests a broad hawkish repositioning has already occurred within the FOMC. The focus will therefore be on individual Fed speakers as markets gauge the timing of the next potential interest rate hike. There are two more meetings this year. The first is 28 October, but we only have one round of jobs and inflation data between now and then; the proximity to the mid-term elections on 3 November could also prove a complicating factor. Unless the September jobs numbers and inflation data are very hot – which would leave little choice on a hike – we suspect the Fed would prefer to wait until 9 December.

Key events in developed markets

Country	Time	Data/event	ING	
Monday 21 September				
US	1130	Fed Goolsbee Speech	-	-
Tuesday 22 September				
Eurozone	1500	Sep Consumer Confidence Flash	-	-15.5
Wednesday 23 September				
US	1445	Sep S&P Global Manufacturing PMI Flash	-	53.9
	1445	Sep S&P Global Services PMI Flash	-	56.5
	1445	Sep S&P Global Composite PMI Flash	-	56
Eurozone	0900	Sep HCOB Manufacturing PMI Flash	51.8	52.7
	0900	Sep HCOB Services PMI Flash	51	51.6
	0900	Sep HCOB Composite PMI Flash	51	52
Germany	0830	Sep HCOB Manufacturing PMI Flash	53	54.3
	0830	Sep HCOB Service PMI Flash	49	49.7
	0830	Sep HCOB Composite PMI Flash	50.5	51.8
France	0815	Sep HCOB Composite PMI Flash	-	48.5
UK	0930	Sep S&P Global Composite PMI Flash	52.1	52.5
	0930	Sep S&P Global Manufacturing PMI Flash	51.5	51.7
	0930	Sep S&P Global Services PMI Flash	52.0	52.5
Thursday 24 September				
US	1330	Initial Jobless Claims (000s)	205	196
	1330	Q2 Current Account (USD bn)	-250	-226.8
	1500	Aug New Home Sales (mn)	0.6	0.6
Germany	0900	Sep Ifo Business Climate	87.0	88.8
	0900	Sep Ifo Current Conditions	87.5	88.5
	0900	Sep Ifo Expectations	87.0	89.1
Canada	1330	Jul Retail Sales Final (MoM%)	-	0.6
Norway	0900	Rate Decision	4.50	4.25
Sweden	0830	Rate Decision	1.75	1.75
Switzerland	0830	Rate Decision	0.00	0.00
Friday 25 September				
US	1330	Aug Durable Goods Orders (MoM%)	-1.2	1.1
	1500	Sep Michigan Sentiment Final	47.8	47.8
Eurozone	0900	Aug M3 Money Supply (YoY%)	-	3.4
Germany	0700	Oct GfK Consumer Sentiment	-27	-26.6
Spain	0800	Q2 GDP Final (QoQ%/YoY%)	-/-	0.7/2.7

Source: Refinitiv, ING

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THINK Economic and financial analysis

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