

Central bank alphabet soup

Thomas Garretson, CFA – San Diego

The FOMC, BoC, BoE, ECB, RBA, and BoJ all held policy meetings this week amid a highly uncertain geopolitical backdrop caused by the Middle East crisis. While policymakers acknowledged that uncertainty, and its potential economic impacts, markets are increasingly of the view that the global central bank response may need to be tighter policy rates.

The eye-watering movement in global central bank rate expectations and sovereign bond yield pricing this week comes on the heels of what has already been a significant repricing within bond markets since the war in the Middle East began in late February.

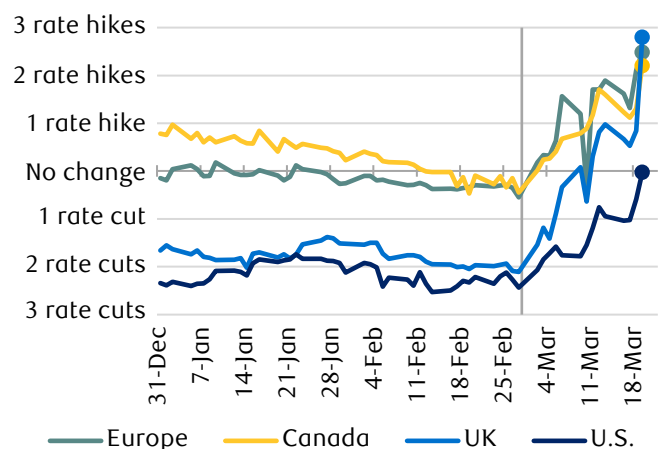
Sharply higher energy prices are, of course, the core driver of global markets at the moment. As a result, the primary focus of central bankers this week was on the interplay of the impact of higher energy prices on inflation and the potential for a negative impact on economic activity and labor markets.

As the chart at right shows, markets appear to believe that when push comes to shove, the potential upside risks to inflation will outweigh the downside risks to growth, particularly for regions that are net oil importers and for central banks with a singular mandate of price stability, as opposed to the U.S. Federal Reserve with its dual mandate of price stability and maximum employment.

The **Bank of England (BoE)** was the most explicitly hawkish this week, stating that policymakers “stand ready to act” on inflation, which has had a material impact on global bond markets this week. Markets are now pricing slightly more than two 25 basis point rate hikes by the end of the year—with similar expectations now

Market pricing flips from rate cuts to potential hikes

Market-based estimates of 2026 interest rate decisions



Vertical axis crosses at start of Iran conflict (2/28/26).

Source - RBC Wealth Management, Bloomberg

implied for the **Bank of Canada (BoC)** and the **European Central Bank (ECB)**. Whereas the **Fed's Federal Open Market Committee (FOMC)**, which sets policy rates, was previously projected to cut twice this year, markets now see it keeping rates unchanged.

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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Priced (in USD) as of 3/18/26 market close (unless otherwise stated). Produced: 3/19/26, 16:52 ET; Disseminated: 3/19/26, 16:55 ET

While not as significant on a global scale, it was notable that the **Reserve Bank of Australia (RBA)** raised rates for a second consecutive meeting, while the **Bank of Japan (BoJ)** held rates steady—though we expect it to proceed with its ongoing modest rate hike campaign next month.

What might central banks be facing?

RBC Capital Markets, LLC Global Head of Commodity Strategy Helima Croft recently laid out a couple of scenarios for oil prices. Should the conflict persist for three to four weeks, Brent oil prices could exceed the \$128/barrel peak level from 2022 in the aftermath of Russia's invasion of Ukraine. Should the war expand and extend for several more months, then oil prices could eclipse the 2008 record high of \$146/barrel.

With respect to inflation, RBC Economics projects that if oil prices average \$100/barrel this year it would add about 0.75 percent to headline inflation, with annual rates peaking this year at 3.00 percent and 3.50 percent for Canada and the U.S., respectively.

For central banks, the typical playbook is to look through energy price shocks, particularly short ones, as the feed-through to core inflation (excluding food and energy) is generally minimal. However, if sustained, higher energy prices will eventually impact costs throughout corporate supply chains, to say nothing of the potential risks of higher business and consumer inflation expectations—risks that may be amplified in this episode given the inflationary environment that has persisted for nearly five years now.

Oil prices in the driver's seat, as Powell makes plans to stay in his

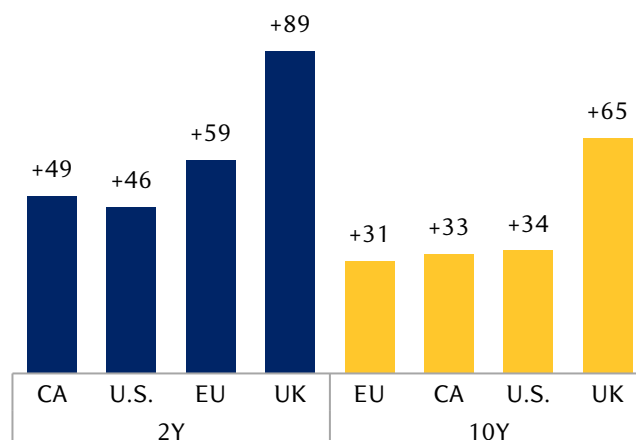
Of the major global central banks, the Fed is perhaps the most insulated from the current global backdrop, but it's not immune.

The FOMC's first update of the year to its economic and interest rate projections was somewhat confusing, in our view. Policymakers, on average, upgraded both the inflation and growth outlooks while leaving the unemployment outlook unchanged—but still projected one rate cut this year regardless.

However, we can probably cut the Fed some slack on the forecasting front, as Chair Jerome Powell noted in his press conference, if ever there was a quarter to skip the forecasts given all the uncertainty (something it did only once in 2020), this would probably have been the meeting to do so.

Change in sovereign bond yields since Feb. 27, 2026

Basis points



Source - RBC Wealth Management, Bloomberg; Europe represented by German Bunds

In terms of market-moving developments, it was perhaps Powell's declaration that he plans to stay on as Fed chair until the Department of Justice's investigation into his testimony regarding the Fed's headquarters renovation is "well and truly over," and would be willing to continue on should his replacement not be confirmed by the end of his term in May. He further stated that though he has not yet made a decision as to whether he will opt to serve out his term as Fed governor through 2028, he will make his decision based on the best interests of the institution.

The subsequent rise in Treasury yields perhaps implies that markets believe Powell is both more likely to stay on for at least somewhat longer, and to act as a significant counterbalance against political pressure to lower interest rates absent the requisite economic justification.

Our base case in our 2026 outlook was already that the Fed would keep rates on hold this year. We see no reason to change that view but see the bar for rate hikes as exceptionally high.

UNITED STATES

Alan Robinson – Seattle

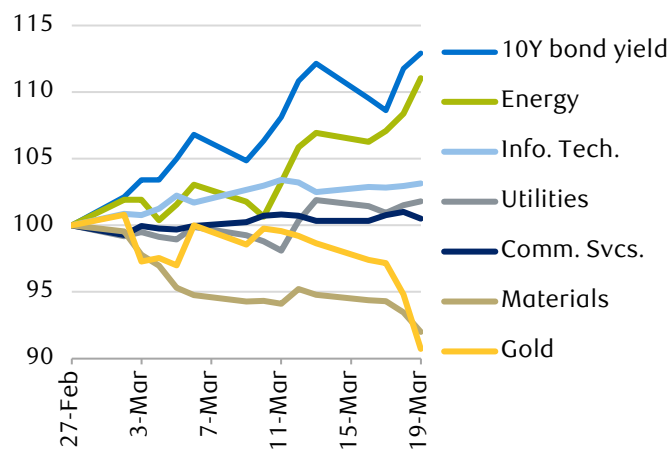
■ **U.S. stock indexes continued their declines, driven by risk-off sentiment due to the Iran war.** As of midday Thursday (3/19), the S&P 500 was on track for its fourth successive weekly decline, marking a 6% decline at one stage from its Jan. 27 all-time high. Technical analysts voiced concern at the index trading slightly below its widely watched 200-day moving average, as this indicator typically provides a support level.

■ **Oil prices remained elevated during the week due to supply disruptions in the Strait of Hormuz.** The initial stages of the conflict focused on military targets, but this expanded during the week to include attacks by both sides on energy infrastructure. This escalation had limited immediate impact on the supply of energy since most energy processing facilities were already shuttered, but it does extend the timeline for the resumption of supplies when hostilities cease. Helima Croft, RBC Capital Markets, LLC's global head of commodity strategy, noted that "President Trump's policy solutions to date have shown little effectiveness in abating the energy shock," and Croft "continues to see risks...(of) higher energy prices" as "an increasing number of military experts insist that ground forces will be required to secure the Strait of Hormuz."

■ **The conflict has had disparate impacts on U.S. asset sectors** (see chart). Energy is the clear leader within equities, but three other sectors have outperformed the S&P 500: Information Technology, Utilities, and Communication Services. This should be no surprise as they are connected to the AI infrastructure theme. Tech-related shares now offer more reasonable valuations,

Notable differences since the start of the Iran conflict

Performance of selected U.S. equity sectors and assets relative to the S&P 500



Source - RBC Wealth Management, FactSet daily closing prices; 3/19/26 prices as of 12:00 pm EST

and their relative resilience during this energy-price shock affords an opportunity for investors to selectively add to positions, in our opinion. The Materials sector has underperformed as energy and oil are both key cost inputs to this sector. Gold has also underperformed. This may be counterintuitive as the precious metal is usually a refuge in times of geopolitical tension, but higher bond yields and a stronger dollar have taken the shine off the metal. These divergences are important to note as they may reverse should hostilities end.

CANADA

David Iacono, CFA & Shizhe Zhong – Toronto

■ **The Bank of Canada (BoC) maintained its benchmark interest rate at 2.25% this week, keeping it at the lower end of its neutral range.** This marks the third consecutive hold since October and allows the BoC to assess how the ongoing Middle East crisis is affecting Canada's economic growth and inflation before taking further action. According to the BoC, it is treating the immediate inflation impact from higher oil prices as a temporary supply shock and has signalled it will not allow these pressures to translate into persistent inflation. The central bank will closely monitor core inflation trends to determine whether price pressures are spreading beyond energy. Despite a 0.6% GDP decline in Q4 2025, preliminary 2026 data suggests the economy is expanding, though at a slower pace than the BoC projected in January. It assesses the slowdown as primarily driven by inventory drawdowns. RBC Capital Markets expects the BoC to remain on hold through most of 2026, with a possible rate hike late in the year.

■ **Canada's headline inflation moderated to 1.8% y/y in February, down from 2.3% in January and below the 1.9% consensus forecast.** The BoC's preferred core inflation measures—CPI-trim and CPI-median—both eased to 2.3%, moving closer to the central bank's 2.0% target. The improvement was broad-based. Key drivers included a five-year low in shelter inflation (1.5%), a four-year low in rental costs (up 3.9%), and declining mortgage interest expenses (up 0.7%). Food inflation decelerated substantially to 5.4% from 7.3%. Gasoline remained deflationary in February at -14.2% y/y, though a monthly increase of 3.6% reflected rising crude oil prices before U.S./Israeli strikes on Iran. The easing CPI reading signals that demand-driven inflationary pressures were moderating before the Middle East crisis began. However, as RBC Economics noted, Canadian consumers still face supply-driven challenges, especially in grocery categories such as beef and coffee where production disruptions caused by unfavourable weather conditions require time to normalize. The subsequent jump in energy prices in March also complicated the inflationary outlook.

UK & EUROPE

Rufaro Chiriseri, CFA – London

■ **The Bank of England (BoE) kept the Bank Rate on hold at 3.75% with a unanimous 9-0 vote—the first in nearly five years.** The energy shock due to the Middle East crisis has derailed the BoE's February inflation projections. The meeting minutes state that "CPI inflation will be higher in the near term as a result of the new shock to the economy." Headline inflation for Q2 is now forecast to average 3.0% (up from 2.1%). Pay growth for 2026 has been revised higher to 3.6% (from 3.4%). The BoE members' commentary reveals that the doves would have backed a cut in the absence of the energy shock. On the other hand, the hawks have opened the door to hikes. The central bank has made it clear that decisions from here will hinge on the duration of the conflict and the damage it causes to energy infrastructure.

■ **The market pricing pendulum has swung aggressively from expecting around 40 basis points (bps) of rate cuts before Feb. 25 to around 65 bps of hiking by the end of 2026.** Gilts sold off sharply on intraday oil price surges near year-to-date peaks. Two-year yields jumped 34 bps to 4.44% before settling at 4.40%, with the curve flattening as shorter-dated yields rose faster than longer-dated yields.

■ **The European Central Bank (ECB) also took a hawkish hold and kept rates at 2%.** ECB President Christine Lagarde stated that the central bank is "well positioned" and "closely monitoring" the energy shock—language that has historically indicated readiness to act. The ECB also laid out scenarios where the base case is a temporary energy shock, which would not warrant a monetary policy change, in our view. However, two other more adverse scenarios would worsen the high inflation and low growth potential outcomes, and we think those scenarios would require a more aggressive policy shift.

■ **ECB staff projections (March compared to December) reveal material revisions. Headline inflation was revised upward to 2.6% y/y in 2026 (from 1.9%), while GDP growth was projected at 0.9% (from 1.2%)—a stagflationary repricing that reflects the Middle East conflict's potential economic knock-on effects.**

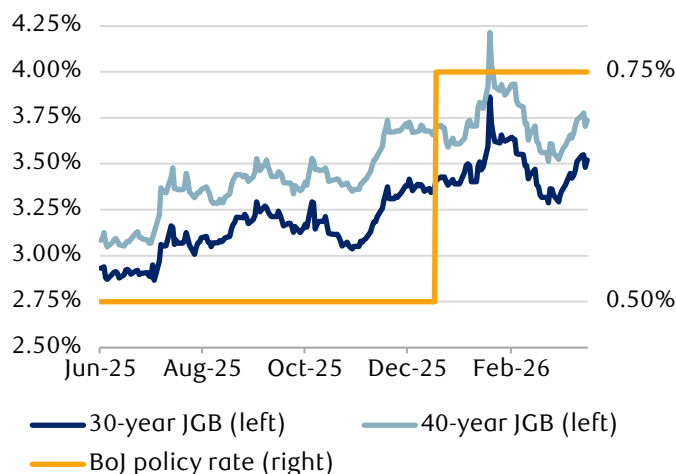
ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

■ **The Bank of Japan (BoJ) kept its policy rate unchanged at 0.75% on Thursday (March 19),** citing elevated uncertainty surrounding the Middle East crisis and its potential spillover to the domestic economy. However, despite the hold, the BoJ retained a clear tightening bias, signaling further rate hikes are likely should inflation evolve in line with its projections. That hawkish tilt introduced volatility in Japanese assets, with

Bank of Japan holds policy rate while long-end yields hover near all-time highs

BoJ policy rate vs. Japanese government bond (JGB) yields



Source - RBC Wealth Management, Bloomberg; data through 3/19/26

the TOPIX falling 2.91% on Thursday, although further destruction of Middle East energy infrastructure likely contributed to the equity market's decline. Following the BoJ news, the yen briefly weakened further to 159.50, closer to the 160 psychological level that could trigger government intervention, before reversing course later. Long-dated Japanese government bond (JGB) yields also rose, with the 30-year and 40-year yields reaching 3.52% and 3.74%, respectively. The persistence of JGBs at higher yields suggests to us that investors continue to price in sustained inflation pressures not just due to potential spillover effects from the ongoing Middle East crisis, but also due to Prime Minister Sanae Takaichi's expansionary fiscal policies. We think the resulting disconnect between policy signaling and long-end yields could pose more problems for the BoJ going forward and hence reinforce a continued structural steepening bias in the yield curve for JGBs.

■ **In China, this past week's economic data pointed to a strong start to 2026,** with improvements seen across retail sales, industrial production, exports, and fixed asset investment. The broad-based strength indicates to us a pickup in growth momentum, supported in part by earlier policy-easing measures. Market sentiment also turned more constructive, with both Chinese equities and the yuan stabilizing over the week. Policy signals from the recent National People's Congress of China continue to emphasize a supportive but measured fiscal stance, balancing growth objectives with a more cautious approach toward debt accumulation. However, in contrast, property and labor market conditions continue to lag, with ongoing weakness in those sectors likely to keep the recovery gradual and uneven instead of seeing a broad-based, demand-driven upturn, in our assessment.

MARKET Scorecard

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD -0.1% return means the Canadian dollar has fallen 0.1% vs. the U.S. dollar year to date. USD/JPY 159.90 means 1 U.S. dollar will buy 159.90 yen. USD/JPY 2.0% return means the U.S. dollar has risen 2.0% vs. the yen year to date.

Source - Bloomberg; data as of 3/18/26

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,624.70	-3.7%	-3.2%	18.0%	28.6%
Dow Industrials (DJIA)	46,225.15	-5.6%	-3.8%	11.2%	19.2%
Nasdaq	22,152.42	-2.3%	-4.7%	26.6%	37.6%
Russell 2000	2,478.64	-5.8%	-0.1%	20.9%	22.4%
S&P/TSX Comp	32,312.67	-5.9%	1.9%	30.8%	48.0%
FTSE All-Share	5,516.59	-5.7%	3.1%	17.4%	30.8%
STOXX Europe 600	597.93	-5.7%	1.0%	7.9%	18.7%
EURO STOXX 50	5,736.85	-6.5%	-0.9%	4.6%	15.1%
Hang Seng	26,025.42	-2.3%	1.5%	5.2%	55.5%
Shanghai Comp	4,062.98	-2.4%	2.4%	18.5%	31.7%
Nikkei 225	55,239.40	-6.1%	9.7%	46.0%	39.0%
India Sensex	76,704.13	-5.6%	-10.0%	1.9%	5.4%
Singapore Straits Times	5,002.17	0.1%	7.7%	28.4%	57.7%
Brazil Ibovespa	179,639.91	-4.8%	11.5%	36.6%	41.5%
Mexican Bolsa IPC	65,729.90	-7.9%	2.2%	24.6%	16.9%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.265%	32.8	9.8	-1.8	-5.9
Canada 10-Yr	3.453%	32.6	2.0	43.0	-14.4
UK 10-Yr	4.738%	50.5	25.9	9.5	64.9
Germany 10-Yr	2.940%	29.7	8.5	13.0	48.1
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.45%	-1.3%	0.4%	5.3%	11.1%
U.S. Investment-Grade Corp	5.05%	-1.7%	-0.2%	5.4%	11.4%
U.S. High-Yield Corp	7.19%	-0.8%	-0.1%	7.3%	16.5%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,817.34	-8.7%	11.5%	58.7%	123.0%
Silver (spot \$/oz)	75.44	-19.6%	5.3%	121.8%	201.3%
Copper (\$/metric ton)	12,661.53	-4.8%	1.7%	28.5%	40.9%
Oil (WTI spot \$/bbl)	99.71	48.8%	73.7%	49.0%	20.5%
Oil (Brent spot \$/bbl)	111.00	53.1%	82.4%	57.3%	27.7%
Natural Gas (\$/mmBtu)	3.19	11.5%	-13.5%	-21.3%	87.2%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	100.2900	2.7%	2.0%	-2.9%	-3.2%
CAD/USD	0.7281	-0.7%	-0.1%	4.1%	-1.5%
USD/CAD	1.3735	0.7%	0.1%	-3.9%	1.5%
EUR/USD	1.1451	-3.1%	-2.5%	4.6%	5.3%
GBP/USD	1.3254	-1.7%	-1.6%	1.9%	4.1%
AUD/USD	0.7019	-1.4%	5.2%	10.3%	7.0%
USD/JPY	159.9000	2.5%	2.0%	7.1%	7.2%
EUR/JPY	183.1200	-0.7%	-0.5%	12.1%	12.9%
EUR/GBP	0.8640	-1.4%	-0.9%	2.6%	1.1%
EUR/CHF	0.9087	0.0%	-2.4%	-5.3%	-5.9%
USD/SGD	1.2842	1.5%	-0.1%	-3.5%	-4.1%
USD/CNY	6.8878	0.4%	-1.4%	-4.7%	-4.3%
USD/MXN	17.8647	3.7%	-0.8%	-10.3%	6.1%
USD/BRL	5.2592	2.6%	-3.9%	-7.3%	4.7%

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