Market View
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March Madness: Markets Edition

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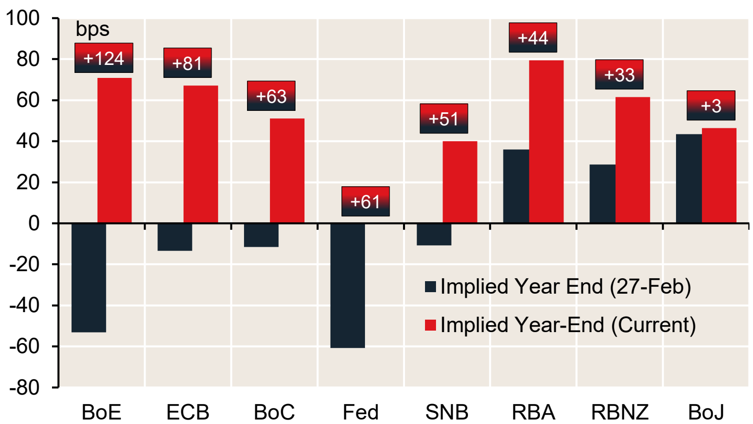
Three weeks ago, there was a diverse range of outlooks for developed market central banks. For some, rate stability was expected (e.g., ECB, BoC) while others were primed for modest tightening (e.g., RBA) or easing (e.g., Fed). This landscape has been turned on its head and now, traders have built in a tightening bias in most jurisdictions.

This ongoing repricing comes almost exactly four years after the global economy's last big supply shock, when Russia invaded Ukraine in February 2022. Back then, the impact on rate expectations was notably less pronounced—even though central banks had significantly more room to tighten (with most policy rates still near zero) and inflation was starting from a higher level. It's true that the jump in oil prices wasn't as sharp in 2022 (rising "only" $10/bbl in the first three weeks of the conflict), but the *level* of oil prices in March 2022 is roughly comparable to today.

There's clearly less tolerance for inflation now after seeing how problematic (i.e., *not* transitory) it proved a few years ago. Still, some central banks appear willing to look through this initial wave of energy price increases. That's easier for central banks like the BoC, where price stability was intact prior to the war and the underlying economy was struggling. Other central banks, like the BoE and Fed, may have shorter leashes given the starting point for inflation.

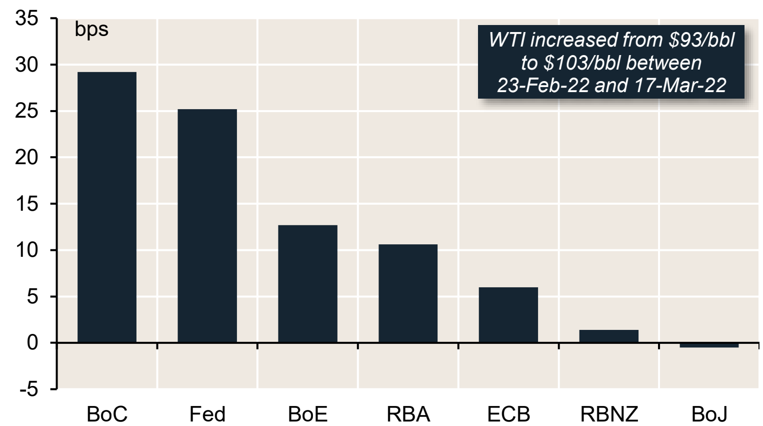
For *all* central banks, the ability and time afforded to look through the supply shock depends on the evolution of inflation expectations (beyond the near term). These have understandably risen over recent weeks but for the most part, are reasonably well anchored. Keeping them so will be paramount, or else tighter policy will be required, regardless of what domestic economic conditions suggest is appropriate.

Chart 1: Policy rate pricing sharply recast around the globe
Expected change to policy target at year-end: Pre-Iran war vs current



Source: NBC, BBG (WIRP) | Note: RBA accounts for 25 bps hike on 17-Mar-2026

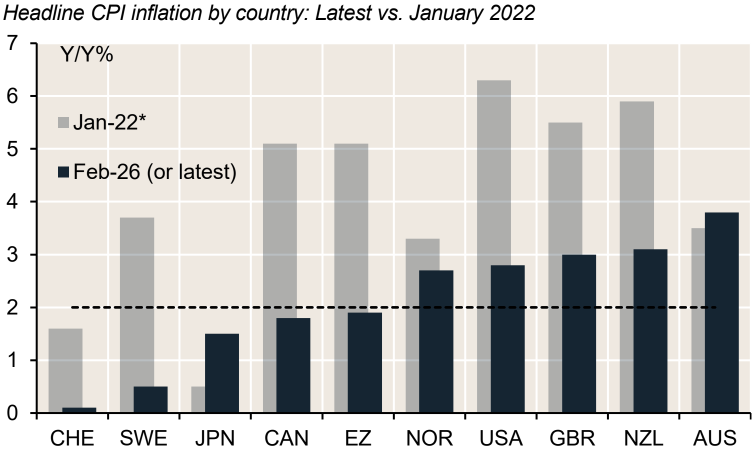
Chart 2: 4Y ago, *expected* policy rate reactions were smaller
Change in Dec-22 policy rate expectation: 3W after Russian invasion of Ukraine



Source: NBC, BBG (WIRP) | Note: Refers to chg. from 23-Feb-22 to 17-Mar-22

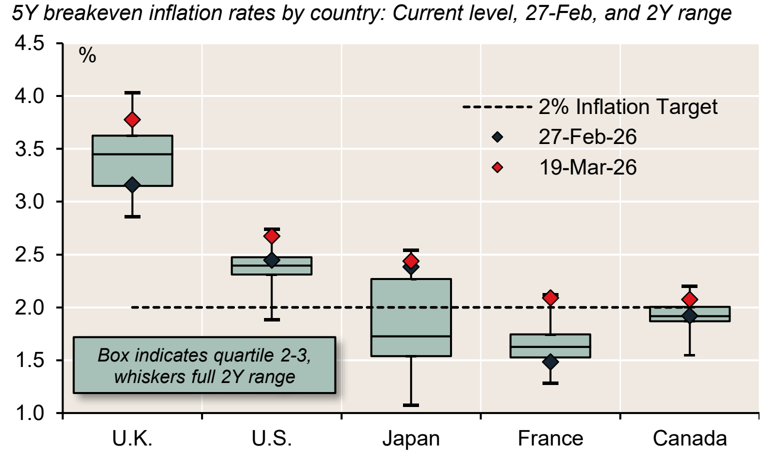
No policy rate 'U-turn' has been as extreme as the one in the U.K. In February, markets were anticipating 50 bps of *cuts* from the BoE in 2026—now, nearly 75 bps of *hikes* are priced. Fed expectations moved similarly, as the near three expected cuts for 2026 have been completely wiped out. Today's central bank repricing is more extreme than 2022's but so has been the move in oil.

Chart 3: Some better positioned than others for supply shock
Headline CPI inflation by country: Latest vs. January 2022



*Source: NBC, BBG | Note: *NZL/AUS refer to Q4:2021 inflation. US refers to PCE inflation.*

Chart 4: Inflation expectations are creeping up
5Y breakeven inflation rates by country: Current level, 27-Feb, and 2Y range



Source: NBC, BBG

Some central banks are better positioned for this shock. The BoC can be more patient given economic slack and pre-war price stability. There's less leeway for the Fed and BoE, where inflation was running above target. The RBA was *already* hiking and continued to do so amidst new inflation risks. Globally, inflation expectations are rising but central bankers must ensure these stay anchored.

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