

Weekly Bottom Line

March 20, 2026

Highlights

Canada

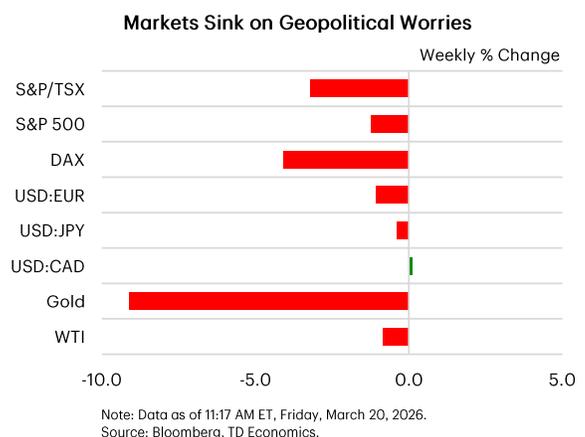
- The outlook is now clouded by the Iran conflict, overshadowing signs of easing inflation.
- Retail sales showed strong momentum early in the year, but higher energy prices are set to erode real spending in the coming months.
- Core inflation was near target with excess capacity in the economy, giving the BoC some buffer as the energy shock hits.

U.S.

- Energy markets remain volatile as physical damage and data opacity deepen uncertainty around the Middle East conflict.
- The Fed held rates steady, emphasizing caution as higher oil prices complicate the inflation outlook.
- Softer housing data underscore growing sensitivity to higher yields and tighter financial conditions.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6551	6632	6979	4983
S&P/TSX Comp.	31514	32542	34541	22507
DAX	22485	23447	25421	19671
FTSE 100	9948	10261	10911	7679
Nikkei	53373	53820	58850	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.38	4.28	4.60	3.94
Canada 10-yr Bond	3.55	3.51	3.60	2.88
Germany 10-yr Bund	3.03	2.98	3.03	2.44
UK 10-yr Gilt	5.01	4.82	5.01	4.23
Japan 10-yr Bond	2.28	2.26	2.36	1.12
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.74	0.70
Euro (USD per EUR)	1.15	1.14	1.20	1.08
Pound (USD per GBP)	1.33	1.32	1.38	1.27
Yen (JPY per USD)	159.1	159.7	159.9	140.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	97.9	98.7	98.7	55.3
Natural Gas (\$US/MMBtu)	3.21	3.27	30.72	2.65
Copper (\$US/met. tonne)	12046.4	12677.8	13524.2	8571.4
Gold (\$US/troy oz.)	4558.9	5019.5	5417.2	2983.3

*As of 11:17 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	3.50 - 3.75%
Bank of Canada (Overnight Rate)	2.25%
European Central Bank (Refi Rate)	2.15%
Bank of England (Repo Rate)	3.75%
Bank of Japan (Overnight Rate)	0.75%

Source: Bloomberg.

Canada – What Might Have Been

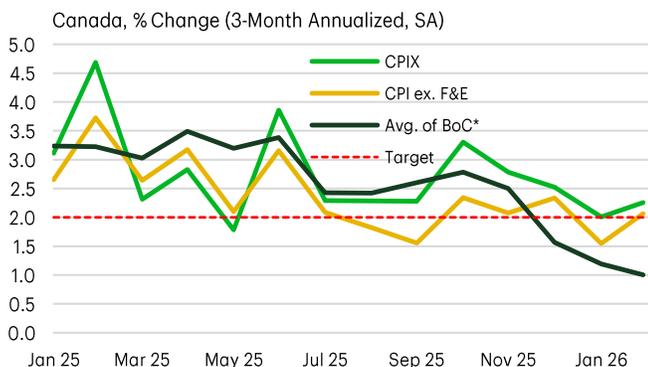
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This week's data releases and Bank of Canada (BoC) statement describe a world that could have been, with a domestic backdrop that showed signs of easing inflation. The war in Iran has upended that. With escalatory strikes on energy infrastructure this week, WTI oil prices are holding at \$94 (as of the time of writing). All the focus is now on how big and persistent the energy shock will be – with the prospect of stagflation looming.

It is unfortunate that households and businesses will face this new pinch, because this morning's retail sales data sent some positive signals. Real volumes posted a solid gain in January, taking the three-month gain to 7.7% (annualized) and February's preliminary estimate of the nominal figure showed another solid month could be expected. After a year of fits and starts, it looks like things were just starting to turn a corner. The expected surge in gasoline and energy prices in March will muddy the picture and likely eat into the real spending figures in the months ahead.

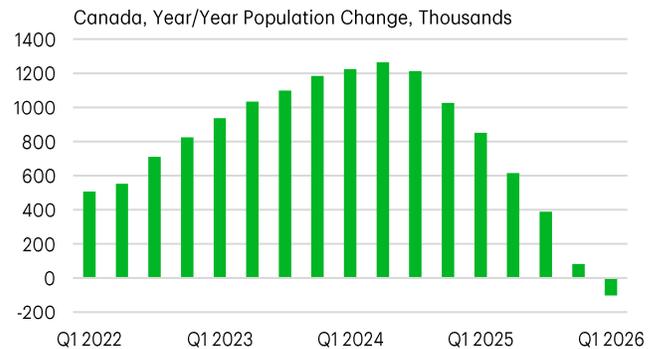
On the path of future inflation, this week's economic news came as a silver lining. First off, it looks like inflation is going to be starting this shock from a pretty good place. Measures of near-term core inflation all showed signs of softening price momentum. The main measures were all roughly in line with the 2% target rate on a three-month annualized basis (Chart 1). Moreover, this trend has been building for a while – the rate of annualized change over the past six months showed

Chart 1: Core Inflation Was Performing Well



Source: Statistics Canada, TD Economics. Last Obs: Feb. 2026

Chart 2: Canada's Population Shrinks to Close Out 2025



Source: Statistics Canada, TD Economics. Population as of 1st day of Quarter.

the average of the BoC's measures (1.7%), CPIX (2.5%) and CPI excluding food and energy (2.1%) all roughly in line with target. The positive progress suggests that officials were well on track to meet the 2% target before the most recent shock. These subdued near-term price changes despite the disruptions to supply chains from tariffs suggest that the economy is operating with some excess capacity.

Another major development happening in the background is the country's population turning modestly lower in 2025 (Chart 2). On the surface, declining population should help to relieve pressure on housing markets and weigh on rental growth, putting further downward pressure on shelter inflation. However, it is also leading to some tightening in labour supply, limiting spare capacity. On balance, we don't see labour demand improving much in the coming months, but tighter labour supply will help to offset some rise in the unemployment rate.

A solid starting point for inflation and domestic excess capacity give the BoC some wiggle room to deal with the evolving energy shock. As a result, [we see](#) core measures of inflation moving only modestly higher in the coming months, before moderating into 2027. Absent a more meaningful softening in the economy, this is likely to keep the BoC on hold indefinitely.

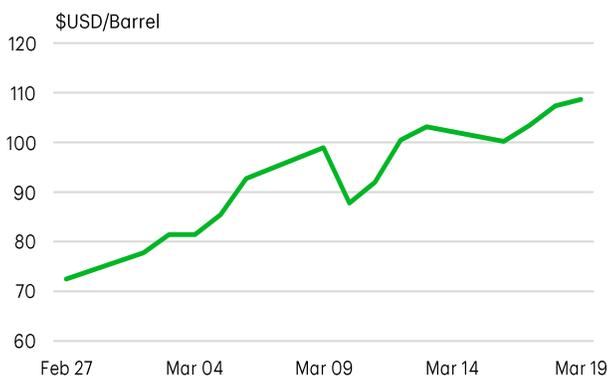
U.S. – The Fed Pauses, Inflation Persists

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Financial markets remained on edge this week as the conflict in the Middle East escalated, with uncertainty expanding into physical energy supply rather than just shipping disruptions. Reports of damage to key oil and LNG facilities in the Gulf, including infrastructure that could take months—if not longer—to repair, have injected a persistent risk premium into energy markets. Oil prices have swung sharply day-to-day and remain well above pre-conflict levels (Chart 1). This dynamic remains consistent with the base case in our [Quarterly Economic Forecast](#), but risks of even higher prices are growing. Higher gasoline prices hurt consumer spending and the prolonged uncertainty raises downside risks in energy-importing regions. We flagged these concerns this week in our [State Economic Forecast](#), especially for states with higher exposure to transportation, manufacturing, and energy-intensive industries.

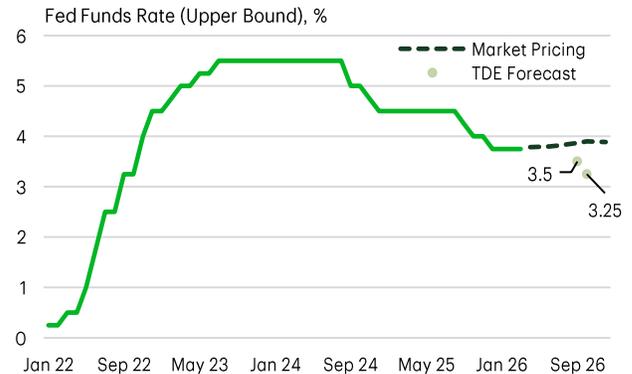
Against this backdrop, the Federal Reserve held its policy rate steady this week, as expected, but the statement was cautious. Chairman Powell acknowledged the heightened uncertainty stemming from the Middle East conflict, and revised projections showed higher inflation relative to December. The Fed continues to signal just one rate cut this year, reflecting concern that higher energy prices could slow the disinflation process at a time when core inflation is already proving sticky. Market reaction reinforced inflation concerns, with fed funds futures beginning to price a non-trivial risk that the next move in rates may not be lower (Chart

Chart 1: Oil Prices Have Whipsawed Up This Month



Source: TD Economics.

Chart 2: Fed Futures See Risk of Higher Rates Now



Source: Federal Reserve, TD Economics.

2). [Our commentary](#) noted that the Fed appears intent on preserving flexibility, particularly given the risk that a prolonged energy shock could push the economy toward an uncomfortable mix of slower growth and firmer inflation.

Against this backdrop, markets continued to reprice risk this week in response to higher energy prices and a more cautious Federal Reserve. Equity markets struggled to find footing, while Treasury yields pushed higher as inflation risks moved back to the foreground. Incoming economic data offered a mixed picture. New home sales fell sharply in January, a reminder that interest-rate-sensitive sectors remain vulnerable to higher yields, though weather effects likely exaggerated the weakness. More broadly, the data flow reinforces that financial conditions are doing more of the near-term adjustment work as the economy absorbs another external shock.

Looking ahead to next week, attention will undoubtedly remain on developments in the Middle East. Beyond the headlines, investors will also be watching how Fed officials are responding to the evolving situation and also the University of Michigan Consumer Sentiment Survey, a widely followed gauge of household confidence and inflation expectations. With energy prices and volatility high, these data could offer early signs of whether the current shock is beginning to weigh more materially on sentiment—or inflation expectations—an outcome that would further complicate the policy backdrop.

Exhibits

Recent Key Economic Indicators: Mar 16 - 20, 2026						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
Mar 16	Empire Manufacturing	Mar	Index	-0.2	7.1	
Mar 16	Industrial Production	Feb	M/M % Chg.	0.2	0.7	
Mar 16	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.2	0.8	
Mar 16	Capacity Utilization	Feb	%	76.3	76.3	
Mar 16	NAHB Housing Market Index	Mar	Index	38.0	37.0	
Mar 18	PPI Final Demand	Feb	M/M % Chg.	0.7	0.5	
Mar 18	PPI Ex Food and Energy	Feb	M/M % Chg.	0.5	0.8	
Mar 18	Factory Orders	Jan	M/M % Chg.	0.1	-0.4	
Mar 18	Factory Orders Ex Trans	Jan	M/M % Chg.	0.4	0.6	
Mar 18	Durable Goods Orders	Jan	M/M % Chg.	0.0	0.0	
Mar 18	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.1	0.0	
Mar 18	FOMC Rate Decision (Upper Bound)	Mar 18	%	3.8	3.8	
Mar 19	Initial Jobless Claims	Mar 14	Thsd	205.0	213.0	
Mar 19	New Home Sales	Jan	Thsd	587.0	712.0	
Mar 19	Wholesale Trade Sales	Jan	M/M % Chg.	0.5	1.3	
Canada						
Mar 16	Housing Starts	Feb	Thsd	250.9	240.1	
Mar 16	Consumer Price Index NSA	Feb	M/M % Chg.	0.5	0.0	
Mar 16	Consumer Price Index	Feb	Y/Y % Chg.	1.8	2.3	
Mar 17	Existing Home Sales	Feb	M/M % Chg.	-1.3	-5.8	
Mar 18	Bank of Canada Rate Decision	Mar 18	%	2.3	2.3	
Mar 19	CFIB Business Barometer	Mar	Index	55.8	64.8	
Mar 20	Retail Sales	Jan	M/M % Chg.	1.1	-0.4	
Mar 20	Retail Sales Ex Auto	Jan	M/M % Chg.	0.8	0.0	
Mar 20	Industrial Product Price	Feb	M/M % Chg.	0.4	2.7	
International						
Mar 18	EZ Consumer Price Index	Feb	Y/Y % Chg.	1.9	1.9	
Mar 19	UK ILO Unemployment Rate	Jan	%	5.2	5.2	
Mar 19	UK Bank of England Bank Rate	Mar 19	%	3.8	3.8	
Mar 19	EZ ECB Main Refinancing Rate	Mar 19	%	2.2	2.2	

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 23 - 27, 2026						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 23	10:00	Construction Spending	Jan	M/M % Chg.	0.0	0.3
Mar 24	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	3.4	2.8
Mar 24	9:45	S&P Global US Manufacturing PMI	Mar	Index	-	51.60
Mar 24	9:45	S&P Global US Services PMI	Mar	Index	-	51.70
Mar 24	9:45	S&P Global US Composite PMI	Mar	Index	-	51.9
Mar 26	8:30	Initial Jobless Claims	Mar 21	Thsd	-	205k
Mar 26	19:00	<i>Fed's Jefferson Speaks on the US Economy</i>				
Mar 27	11:30	<i>Fed's Daly Speaks at Monetary Policy Conference</i>				
Mar 27	11:40	<i>Fed's Paulson Speaks on Macroeconomics and Monetary Policy</i>				
Canada						
Mar 26	8:30	Payroll Employment Change - SEPH	Jan	Thsd	-	-35.4k
Mar 26	11:00	<i>Speech: Carolyn Rogers, Senior Deputy Governor</i>				
International						
Mar 23	19:30	JN Natl Consumer Price Index	Feb	Y/Y % Chg.	1.5	1.5
Mar 25	3:00	UK Consumer Price Index	Feb	Y/Y % Chg.	3.0	3.0
Mar 27	3:00	UK Retail Sales Ex Auto Fuel	Feb	Y/Y % Chg.	3.1	5.5

*Eastern Standard Time. Source: Bloomberg, TD Economics.

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