

## Weekly Bottom Line

March 27, 2026

### Highlights

#### Canada

- Middle East tensions add downside risk to 2026 growth, and nobody knows how the war will evolve. Our working assumption is a short-lived conflict, which bumps inflation and trims GDP growth.
- Canada entered 2026 with soft growth, easing inflation, and a still weak labour market, affording room for the BoC to sound less hawkish than many of its peers
- Fiscal support should help the 2026 outlook, but overall economic growth will likely be subdued.

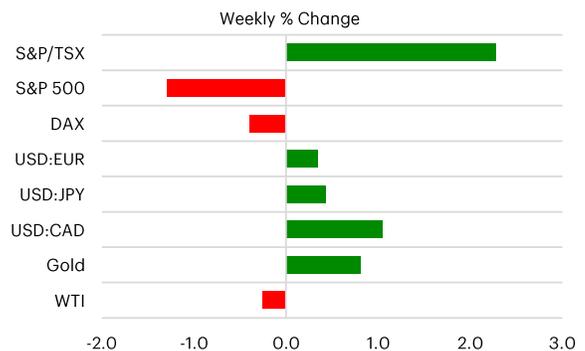
#### U.S.

- Middle East tensions continue to drive market volatility, with energy prices remaining highly sensitive to tentative signs of de-escalation.
- Markets have sharply repriced Fed expectations. Odds remain in favor of no Fed action this year, though odds of a hike have also picked up.

#### This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	6425	6506	6979	4983
S&P/TSX Comp.	32047	31317	34541	22507
DAX	22296	22380	25421	19671
FTSE 100	9960	9918	10911	7679
Nikkei	53373	53373	58850	31137
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.42	4.38	4.60	3.94
Canada 10-yr Bond	3.59	3.56	3.60	2.88
Germany 10-yr Bund	3.10	3.04	3.10	2.44
UK 10-yr Gilt	5.02	4.99	5.02	4.23
Japan 10-yr Bond	2.39	2.28	2.39	1.12
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.72	0.73	0.74	0.70
Euro (USD per EUR)	1.15	1.16	1.20	1.08
Pound (USD per GBP)	1.33	1.33	1.38	1.27
Yen (JPY per USD)	159.9	159.2	159.9	140.9
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	98.0	98.3	98.7	55.3
Natural Gas (\$US/MMBtu)	2.91	3.03	30.78	2.64
Copper (\$US/met. tonne)	12076.8	11834.7	13524.2	8571.4
Gold (\$US/troy oz.)	4531.4	4492.4	5417.2	2983.3

#### Markets Volatile Amid Middle East Conflict



Note: Data as of 11:14 AM ET, Friday, March 27, 2026.  
Source: Bloomberg, TD Economics.

#### 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 – Favourable Inflation Trends Heading Into the War

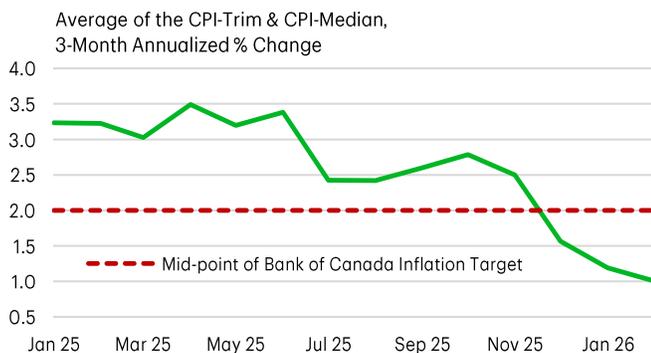
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Oil prices were choppy this week, calmed at first by President Trump’s comments that the U.S. and Iran had constructive conversations about ending the war. This news also boosted equities while sending bond yields a touch lower as inflation fears eased. However, this reprieve didn’t last, with Iran rejecting the U.S. ceasefire plan and instead outlining its own conditions for a truce. The truth is that nobody knows how this conflict will evolve. Our working assumption is a short-lived conflict, but we remain ready to adjust.

Even if the war proves short-lived, we still think it will shave a bit from 2026 real GDP growth (see [our updated forecast](#)) as households face higher inflation and businesses see a bump in their input costs. From an inflation perspective, a bit of good news is that it was relatively well-behaved heading into the war (Chart 1). Indeed, headline inflation was under the Bank of Canada’s (BoC) 2% target in February, while shorter-term core inflation metrics were also running cool (see [here](#)). Notably, the BoC is going through their (once every 5 year) review of their monetary policy framework. In a speech this week, Deputy Governor Rogers re-affirmed the BoC’s commitment to the 2% target, but noted it’s taking a hard look at how shelter inflation is measured.

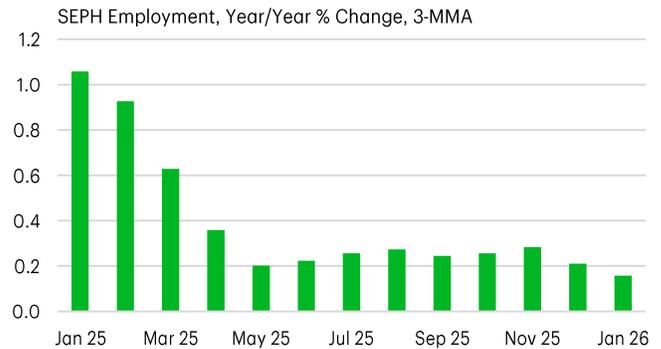
A good part of the reason that inflation metrics have eased is that economic growth has been soft. We’ll see how Canada’s economy performed to begin 2026 with next week’s release of the monthly GDP report for Janu-

**Chart 1: Canadian Inflation Easing Notably Heading into War**



Source: Statistics Canada, TD Economics

**Chart 2: Little Inflation Pressure to Come from Soft Canadian Job Market**



Source: Statistics Canada, TD Economics

ary. Statscan has guided that this number will be flat and if that is indeed the case, it means the economy began 2026 on a soft footing. This week’s Survey of Employment, Payrolls and Hours did show an encouraging 0.2% monthly gain in employment in January. Although on the downside, hiring was flat year-on-year (Chart 2) and wage growth was modest.

For 2026 overall, soft real GDP growth of 1.1% is probable for Canada. Tariffs, economic uncertainty and inflation pressures should slow growth. In contrast, government spending is likely to support the economy. In this vein, The Manitoba and Ontario governments released their budgets this week (see [here](#), and [here](#)). Both fiscal blueprints featured growth enhancing measures, including a PST cut on groceries in Manitoba. The Ontario government pledged enhanced capital cost depreciation allowances and an extended HST cut on new homes to all buyers. Ontario’s HST measure should boost housing at a time when it is needed (see [our updated housing forecast](#)). Capital spending remained an important focus - another growth supportive move.

Like us, the Bank of Canada expects government spending to make a meaningful contribution to growth this year, and recent budgets did little to alter that view. With the economy weak and inflation starting from a favourable place, Canadian policymakers have scope to remain less hawkish than their peers. For now, we expect the Bank to stay on hold, with the path ahead hinging on developments in the Middle East.

## U.S. – Middle East Conflict Keeps Volatility Elevated as Fed Signals Watchful Waiting

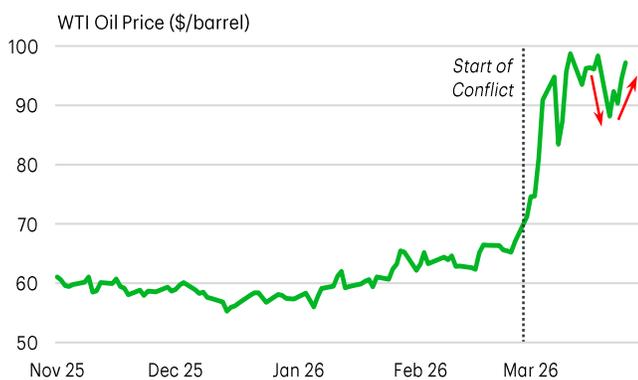
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Financial markets remained focused on geopolitical developments in the Middle East this week, with little economic data to digest. Signs that tensions might ease – most notably President Trump’s decision to postpone strikes on Iran’s power plants – provided temporary relief to oil prices early in the week. Planned strikes have now been delayed for a second time, to April 6th. Additionally, President Trump’s trip to China has reportedly been rescheduled for mid-May, fueling speculation that the administration may seek to de-escalate the conflict and pivot back toward major trade negotiations. Despite tentative signs of optimism, the broader geopolitical backdrop remains highly volatile. Peace proposals from Washington and Tehran remain far apart, hostilities continue, and additional U.S. forces are moving into the region. Energy markets have remained acutely sensitive to these developments (Chart 1).

The conflict has exposed vulnerabilities in the global energy supply system, particularly across parts of Asia that rely heavily on Middle Eastern oil and shipping routes. Fuel rationing remains the exception rather than the rule thus far, so the immediate economic impact has come through higher energy prices. In the U.S., average gasoline prices are hovering near \$4 per gallon, while diesel prices have moved above that mark.

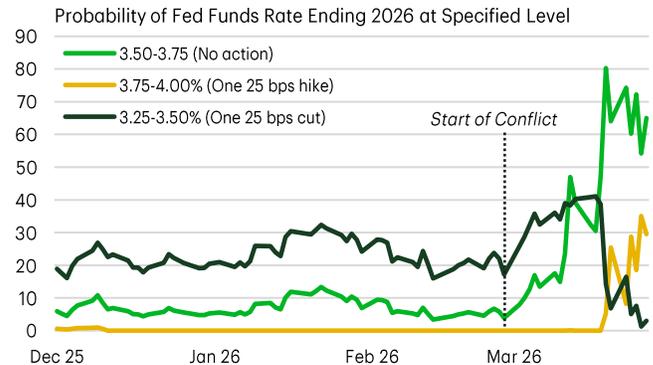
Elevated energy prices have complicated the monetary policy backdrop. The Fed has left open the possibility of rate cuts later this year, but policymakers have become increasingly cautious amid renewed inflation

Chart 1: Oil Prices Give Markets Whiplash This Week



Source: TD Economics.

Chart 2: Markets Pricing Small Odds of a Rate Hike



Source: CME Group, TD Economics. As of 10:30 AM, March 2027.

risks tied to higher fuel costs and trade disruptions. Market pricing has pushed out rate cuts, and raised the odds of a rate hike (Chart 2). Importantly, this repricing reflects growing uncertainty around the inflation outlook, rather than explicit guidance from the Fed.

Recent communication from Fed officials reinforces this “watchful waiting” stance. Vice Chair Philip Jefferson noted that labor market conditions remain “roughly in balance”, yet he highlighted upside risks to inflation from the recent surge in energy prices and potential tariff pass-through effects. These have stalled disinflation and are likely to keep inflation above target over the near term. He affirmed support for the current policy stance, stating that it is well positioned to respond to evolving risks. Governor Lisa Cook echoed this measured tone, underscoring the need to monitor tail risks that could tighten financial conditions abruptly.

Looking ahead, the path of the conflict is highly uncertain. Against this backdrop, the Fed is likely to remain cautious, with recent communications suggesting that the path toward eventual easing has not been closed, but it is increasingly contingent on a sustained easing in inflation pressures. Next week features a heavy slate of data, including the first readings for March. The ISMs will be closely watched to see if the conflict has affected sentiment yet, while the jobs numbers will shed light on how “balanced” the labor market remained. The consensus is that both measures will remain fairly steady, but the details will be closely parsed.

## Exhibits

Recent Key Economic Indicators: Mar 23 - 27, 2026					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Mar 23	Construction Spending	Jan	M/M % Chg.	-0.3	0.8
Mar 24	Unit Labor Costs	4Q	Q/Q % Chg.	4.4	2.8
Mar 24	S&P Global US Manufacturing PMI	Mar	Index	52.4	51.6
Mar 24	S&P Global US Services PMI	Mar	Index	51.1	51.7
Mar 24	S&P Global US Composite PMI	Mar	Index	51.4	51.9
Mar 26	Initial Jobless Claims	Mar 21	Thsd	210.0	205.0
<b>Canada</b>					
Mar 26	Payroll Employment Change - SEPH	Jan	Thsd	45.7	-10.6
<b>International</b>					
Mar 23	JN Natl Consumer Price Index	Feb	Y/Y % Chg.	1.3	1.5
Mar 25	UK Consumer Price Index	Feb	Y/Y % Chg.	3.0	3.0
Mar 27	UK Retail Sales Ex Auto Fuel	Feb	Y/Y % Chg.	3.4	5.9

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

Upcoming Economic Releases and Events: Mar 30 - Apr 3, 2026						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Mar 30	10:30	<i>Fed's Powell in Moderated Discussion</i>				
Mar 30	16:00	<i>Fed's Williams Speaks on the Economy</i>				
Mar 31	10:00	Conf. Board Consumer Confidence	Mar	Index	88.0	91.2
Mar 31	12:00	<i>Fed's Goolsbee Gives Opening Remarks at Econ Mobility Project</i>				
Mar 31	15:00	<i>Fed's Barr Discusses Stablecoin Regulation</i>				
Mar 31	17:10	<i>Fed's Bowman Speaks on Small Business</i>				
Apr 01	8:15	ADP Employment Change	Mar	Thsd	40.0	63.0
Apr 01	8:30	Retail Sales Advance	Feb	M/M % Chg.	0.4	-0.2
Apr 01	8:30	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.3	0.3
Apr 01	9:05	<i>Fed's Musalem Speaks on Economy and Monetary Policy</i>				
Apr 01	9:10	<i>Fed's Barr Speaks on AI and Consumer Issues</i>				
Apr 01	9:45	S&P Global US Manufacturing PMI	Mar	Index	-	52.4
Apr 01	10:00	ISM Manufacturing	Mar	Index	52.3	52.4
Apr 01	10:00	Business Inventories	Jan	M/M % Chg.	-	0.1
Apr 01	0:00	Wards Total Vehicle Sales	Mar	Mlns	15.8	15.8
Apr 02	8:30	Trade Balance	Feb	Blns	-59.2	-54.5
Apr 02	8:30	Initial Jobless Claims	Mar 28	Thsd	-	210.0
Apr 03	8:30	Change in Nonfarm Payrolls	Mar	Thsd	50.0	-92.0
Apr 03	8:30	Average Hourly Earnings	Mar	M/M % Chg.	0.3	0.4
Apr 03	8:30	Unemployment Rate	Mar	%	4.4	4.4
Apr 03	9:45	S&P Global US Services PMI	Mar	Index	-	51.1
Apr 03	9:45	S&P Global US Composite PMI	Mar	Index	-	51.4
<b>Canada</b>						
Mar 31	8:30	Gross Domestic Product	Jan	M/M % Chg.	0.1	0.2
Apr 01	9:30	S&P Global Canada Manufacturing PMI	Mar	Index	-	51.0
Apr 02	8:30	Int'l Merchandise Trade	Feb	Blns	-1.8	-3.7
<b>International</b>						
Mar 30	19:30	JN Tokyo Consumer Price Index	Mar	Y/Y % Chg.	1.6	1.5
Mar 30	19:30	JN Jobless Rate	Feb	%	2.7	2.7
Mar 30	19:50	JN Retail Sales	Feb	Y/Y % Chg.	0.9	1.8
Mar 30	21:30	CH Manufacturing PMI	Mar	Index	50.2	49.0
Mar 31	2:00	UK Gross Domestic Product	4Q	Q/Q % Chg.	1.0	1.0
Mar 31	5:00	EZ Consumer Price Index Estimate	Mar	Y/Y % Chg.	2.6	1.9
Mar 31	5:00	EZ Consumer Price Index	Mar	Y/Y % Chg.	2.6	1.9
Apr 01	5:00	EZ Unemployment Rate	Feb	%	6.1	6.1

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

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