

Weekly Bottom Line

May 22, 2026

Highlights

Canada

- Headline CPI rose to 2.8% on gasoline, but core measures remain well-behaved and inflation breadth remained at pre-pandemic norms.
- Next week's GDP release should confirm decent Q1 growth, but the focus will shift to early Q2 momentum amid signs of labour market cooling in April.
- While energy pass-through is expected to lift core inflation starting in late Q2, soft inflation in the here-and-now supports a patient near-term BoC stance.

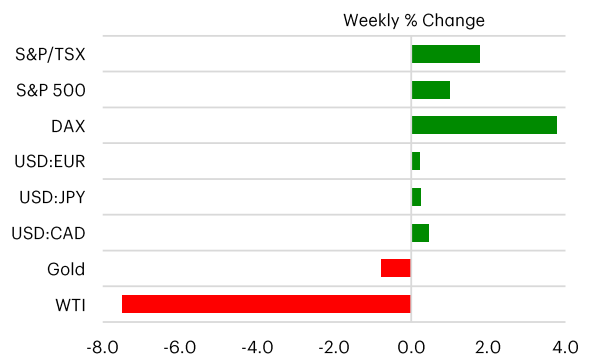
U.S.

- Markets remained focused on the Middle East conflict this week, with the 10-year Treasury yield briefly touching a sixteen-month high mid-week.
- Rising yields have also dragged mortgage rates higher, weighing on both home sales and residential construction.
- FOMC minutes from the April 28-29 meeting showed an increasingly hawkish committee, amid rising inflationary pressures.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7477	7409	7501	5803
S&P/TSX Comp.	34421	33833	34541	25854
DAX	24856	23951	25421	22301
FTSE 100	10461	10195	10911	8716
Nikkei	63339	61409	63339	36986
Fixed Income Yields				
U.S. 10-yr Treasury	4.57	4.59	4.67	3.94
Canada 10-yr Bond	3.53	3.69	3.70	3.04
Germany 10-yr Bund	3.04	3.17	3.19	2.48
UK 10-yr Gilt	4.89	5.17	5.17	4.23
Japan 10-yr Bond	2.76	2.72	2.79	1.39
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.73	0.74	0.71
Euro (USD per EUR)	1.16	1.16	1.20	1.13
Pound (USD per GBP)	1.34	1.33	1.38	1.30
Yen (JPY per USD)	159.1	158.7	160.4	142.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	97.68	105.42	113.0	55.3
Natural Gas (\$US/MMBtu)	3.14	2.89	30.72	2.54
Copper (\$US/met. tonne)	13455.9	13503.1	14109.5	9516.4
Gold (\$US/troy oz.)	4502.0	4540.1	5417.2	3274.3

*As of 10:35 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Advance, Oil Slides on U.S.-Iran Deal Hopes



Note: Data as of 10:43 AM ET, Friday, May 22, 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 – Soft Inflation Dynamics Give BoC Room to Stay Patient

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Canadian financial markets seemingly exhaled a bit this week, catalyzed (to borrow a phrase from PM Carney) by constructive developments for the inflation backdrop. One important trigger was messaging that a U.S.-Iran deal may be in its final stages. Accordingly, oil prices slid, with the benchmark WTI dropping about \$10/barrel, as of writing. The other major catalyst was an April inflation report that was soft at its core. The Canadian 5-year bond yield (which underpins the popular 5-year mortgage rate product) was off about 15 bps (at the time of writing) while equities were higher on the week.

Markets were braced for a “3-handle” on inflation last month. Instead, overall inflation clocked in at 2.8%. While this was an acceleration from March, as expected given the jump in gasoline prices, there was little evidence that the inflationary pressures from the war were materially feeding into prices more broadly yet. The Bank of Canada’s two preferred core inflation measures ticked higher when measured on a shorter-term basis. However, they were still below the BoC’s 2% target, on average (Chart 1). Interestingly, air transportation prices were down on year-on-year terms, which was surprising given the trajectory of fuel prices since the onset of the war. Meanwhile, inflation’s breadth across categories – a favoured metric by the BoC – reduced a bit and was at 2018/19 levels, when inflation was comfortably in the target range.

There are a few caveats to keep in mind with April inflation. One is that it takes time for a spike in energy costs

Chart 1: Soft Core Inflation Affords BoC Room on Rates

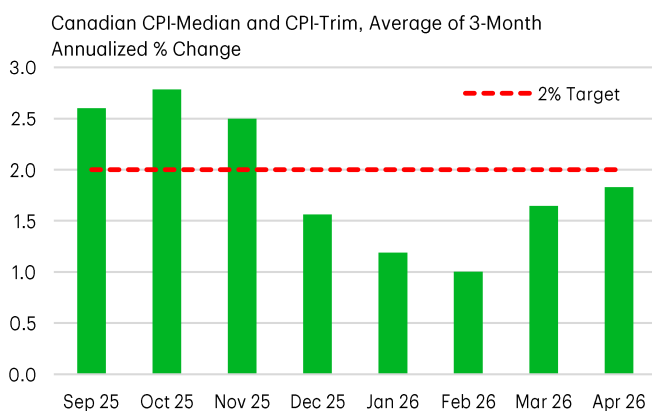
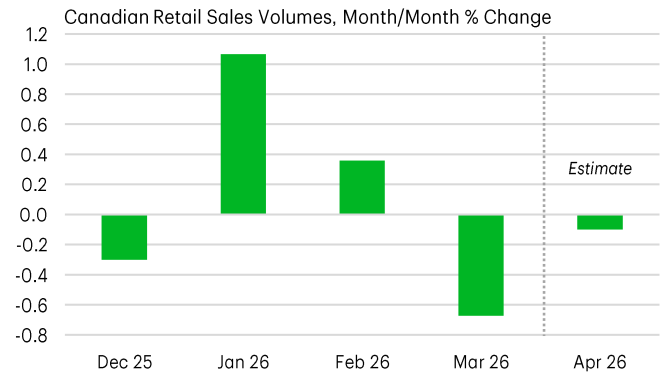


Chart 2: Canadian Consumer Spending Losing Some Momentum



to feed through into core inflation. We reckon that we should be seeing some pass-through starting in June, which is also when hotel rates will be pressured higher by the World Cup games played in Toronto and Vancouver (see [report](#)).

The second is that soft underlying inflation could be signalling a weak economy that’s limiting the ability of firms to pass through cost increases. Indeed, this week featured a steep 0.7% monthly decline for March retail sales volumes (Chart 2). Looking ahead, next week will bring the first quarter real GDP report and a preliminary monthly reading for April. We think the economy expanded by about 1.5% annualized in Q1, in line with the BoC’s forecast. Potentially more interesting will be the early read on second quarter activity. This will be known with certainty next week, but earlier estimates suggest that monthly GDP was flat in March. The labour market also cooled last month, while preliminary retail spending data points to a subdued performance after stripping away price gains. If economic activity was indeed modest to begin Q2, this could challenge the BoC’s call for a 1.5% annualized gain in real GDP.

All told, this week’s events added notable weight to the narrative that the Bank of Canada can be patient on rates, with no move expected at their next meeting on June 10th. For our part, we see the Bank of Canada staying on hold for the remainder of the year, conditional on a relatively speedy resolution to the tensions in the Middle East (see our latest outlook [here](#)).

U.S. – Markets Position for Higher-For-Longer Oil Prices

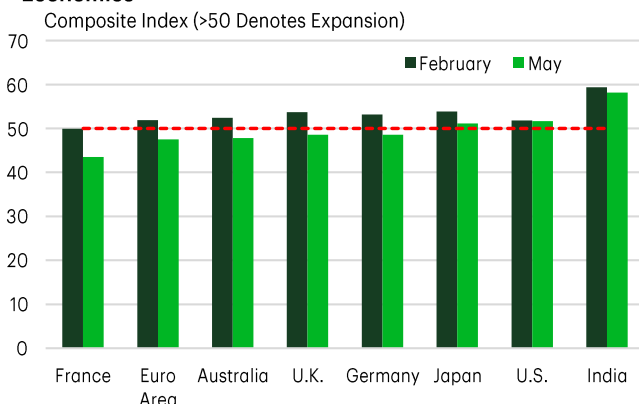
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The economic calendar was light this week, so financial markets—which remain highly sensitive to developments in the Middle East—took centre stage. The bond market selloff continued this week, with Treasury yields and oil prices moving higher. The 10-year Treasury yield pushed toward 4.7%, the highest since January 2025, while oil prices—as measured by the WTI benchmark—briefly touched \$109. Both have since retraced on renewed hopes of a U.S.-Iran deal. However, markets seem to be converging around a “higher-for-longer” outlook for both oil prices and interest rates.

Higher treasury yields are already passing through to the real economy via higher mortgage rates. After trending down toward 6% before the U.S.-Iran war, 30-year mortgage rates have climbed back to 6.5% this week, marking the fourth year they’ve remained above 6%. This deterioration in affordability will translate into another subdued spring homebuying season and will weigh on residential construction. [Single-family housing starts](#) edged lower in April and remain below year-ago levels. Multifamily starts are faring better, as high mortgage rates are propping up the rental market.

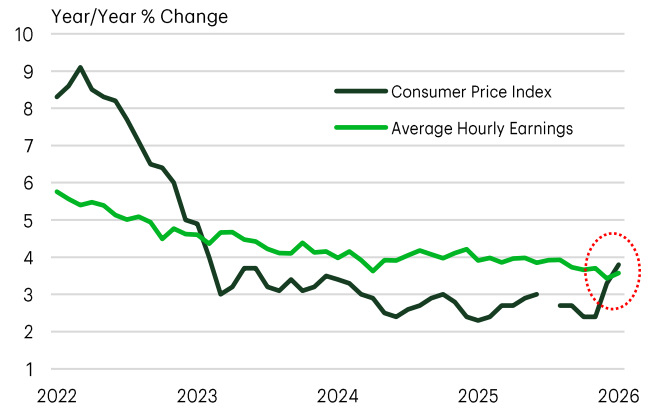
Economic activity in the U.S. has shown surprising resilience in the face of the oil supply shock. However, as the conflict drags into a third month, [May’s Purchasing Managers Indexes](#) for other key global economies point to a broad-based loss of momentum due to high energy costs (Chart 1). Purchasing manager confidence in many European economies reached multi-

Chart 1: PMIs In May Slipped to New Lows In Some Major Economies



Source: S&P Global, TD Economics.

Chart 2: U.S. Inflation Outpaced Wage Gains in April



Source: Bureau of Labor Statistics, TD Economics.

year lows, while input cost pressures have reignited, reaching multi-year highs. This mix of weakening output and resurgent costs raises concerns of a potential stagflationary shock, particularly if oil prices remain near \$100 per barrel through the rest of this year.

As discussed in our [Quarterly Q&A report](#), the U.S. economy is more insulated from higher oil prices due to several factors. American households also have some cushion in the form of higher tax refunds, lower taxes, and rising stock prices. Still, U.S. consumer spending growth is expected to downshift this year, holding below 2% through most of 2026. With inflation again outpacing wage gains (Chart 2), the latest price shock, combined with higher mortgage rates, will continue to test consumers’ resilience. The upcoming release of April income and spending data will provide a temperature check on households’ financial well-being.

With a policy rate that is still modestly restrictive, a stable labour market, and rising inflationary risks, the Fed is likely to remain on the sidelines this year. This was evident in the release of [FOMC minutes](#) from the April 28-29 meeting, which showed a growing hawkish bias among the committee. In a speech earlier this week, FOMC member Barkin suggested that there is a growing risk that if left unchecked, persistently elevated price pressures could unanchor inflation expectations. Should this occur, it would prevent the Fed from “looking through” the supply shock, and could ultimately force its hand to raise rates.

Exhibits

Recent Key Economic Indicators: May 18 - 22						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
May 18	NAHB Housing Market Index	May	Index	37.0	34.0	
May 21	Initial Jobless Claims	May 16	Thsd	209.0	212.0	
May 21	Housing Starts	Apr	Thsd	1465.0	1507.0	
May 21	Building Permits	Apr	Thsd	1442.0	1363.0	
May 21	S&P Global US Manufacturing PMI	May	Index	55.3	54.5	
May 21	S&P Global US Services PMI	May	Index	50.9	51.0	
May 21	S&P Global US Composite PMI	May	Index	51.7	51.7	
Canada						
May 19	Consumer Price Index NSA	Apr	M/M % Chg.	0.4	0.9	
May 19	Consumer Price Index	Apr	Y/Y % Chg.	2.8	2.4	
May 21	CFIB Business Barometer	May	Index	46.3	58.0	
May 22	Retail Sales	Mar	M/M % Chg.	0.9	0.7	
May 22	Retail Sales Ex Auto	Mar	M/M % Chg.	1.4	0.6	
May 22	Industrial Product Price	Apr	M/M % Chg.	2.0	2.8	
International						
May 18	JN Gross Domestic Product Annualized SA	1Q	Q/Q % Chg.	2.1	0.8	
May 19	UK ILO Unemployment Rate	Mar	%	5.0	4.9	
May 20	UK Consumer Price Index	Apr	Y/Y % Chg.	2.8	3.3	
May 20	EZ Consumer Price Index	Apr	Y/Y % Chg.	3.0	3.0	
May 21	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	1.4	1.5	
May 22	UK Retail Sales Ex Auto Fuel	Apr	Y/Y % Chg.	1.1	1.5	

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 25 - 29, 2026

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 26	9:00	S&P Cotality CS 20-City NSA	Mar	Y/Y % Chg.	1.0	0.9
May 26	9:00	S&P Cotality CS US HPI NSA	Mar	Y/Y % Chg.	-	0.7
May 26	10:00	Conf. Board Consumer Confidence	May	Index	91.5	92.8
May 26	20:20	<i>Fed's Kashkari Speaks at Bank of Japan Conference</i>				
May 27	4:00	<i>Fed's Logan Speaks in Panel Discussion</i>				
May 27	15:55	<i>Fed's Cook Speaks on AI, the Economy and Financial System</i>				
May 27	20:00	<i>Fed's Jefferson Speaks on Panel</i>				
May 27	22:25	<i>Fed's Goolsbee Participates in Panel</i>				
May 28	0:00	Building Permits	Apr	Thsd	-	1442.0
May 28	8:30	Cap Goods Orders Nondef Ex Air	Apr	M/M % Chg.	0.4	3.4
May 28	8:30	PCE Price Index	Apr	Y/Y % Chg.	3.9	3.5
May 28	8:30	Core PCE Price Index	Apr	Y/Y % Chg.	3.3	3.2
May 28	8:30	Durable Goods Orders	Apr	M/M % Chg.	3.0	0.8
May 28	8:30	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	2.1	2.0
May 28	8:30	Personal Consumption	Q1	Q/Q % Chg.	1.7	1.6
May 28	8:30	Initial Jobless Claims	May 23	Thsd	213.0	209.0
May 28	8:30	Personal Income	Apr	M/M % Chg.	0.4	0.6
May 28	8:30	Real Personal Spending	Apr	M/M % Chg.	0.1	0.2
May 28	8:55	<i>Fed's Williams Speaks at Reykjavik Economic Conference</i>				
May 28	10:15	<i>Fed's Musalem Speaks in Reykjavik</i>				
May 28	15:00	<i>Fed's Barkin Speaks in Moderrated Discussion</i>				
May 29	0:00	<i>Fed's Mary Daly Speaks at Reagan National Economic Forum</i>				
May 29	8:30	Advance Goods Trade Balance	Apr	Blns	-87.00	-87.40
May 29	6:50	<i>Kansas City Fed's Schmid Speaks in Reykjavik</i>				
May 29	9:10	<i>Fed Supervision Vice Chair Bowman Speaks in Reykjavik</i>				
May 29	9:15	<i>Fed's Paulson Speaks on Economic Outlook</i>				
Canada						
May 26	8:30	<i>BoC External Deputy Governor Vincent Speaks Before CIRANO</i>				
May 28	8:30	Payroll Employment Change (SEPH)	Mar	Thsd	-	-60.2
May 28	10:00	<i>BoC Releases Financial Stability Report and Financial System Survey</i>				
May 29	8:30	Gross Domestic Product	Mar	M/M % Chg.	0.1	0.2
May 29	8:30	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	1.5	-0.6
International						
May 28	19:30	JN Jobless Rate	Apr	%	2.7	2.7
May 28	19:30	JN Tokyo Consumer Price Index	May	Y/Y % Chg.	1.6	1.5
May 28	19:50	JN Retail Sales	Apr	Y/Y % Chg.	1.3	1.4
May 29	8:00	BZ Gross Domestic Product	Q1	Y/Y % Chg.	-	1.8

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

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