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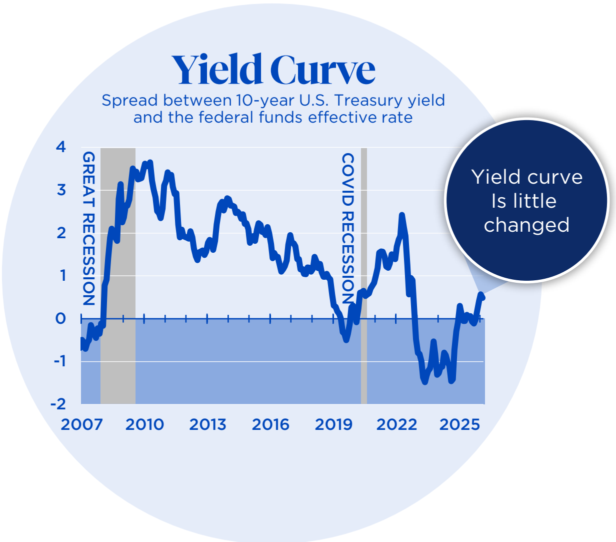
Economic & Financial Markets Monthly Review | March 2026

Spike in oil prices adds uncertainty to outlook

Economic Overview

Where is the economy now?

The widening conflict in the Middle East and its implications for the global oil market are added threats for faster inflation and slower economic growth in 2026. Hiring remains weak and higher gasoline prices could dent the expected boost to incomes from larger tax refunds. Volatility within financial markets has spiked while the Fed is on track to pause again in March to assess the impacts of the latest geopolitical tensions.



Underlying base remains on solid footing

Consumer spending and business investment are expected to remain solid despite the disruptions caused by geopolitics. If the jump in oil prices is short-lived (as is expected in our baseline), the impacts on growth and inflation should be moderate and temporary. But a longer conflict with wider-reaching impacts on energy and commodity prices could increase downside risks for the economy in 2026.

Inflations expectations boost yields

After declining over February, long-term Treasury yields climbed again in March on concerns about inflationary impacts from rising energy costs. Expectations of Fed easing this year have also been pushed back by bond investors, lifting the 2-year Treasury yield to modestly flatten the yield curve. While credit spreads have widened due to the Iran conflict, views on risks by financial markets remain contained.

Slower end to 2025 than expected

Annualized real GDP growth was only 0.7 percent in Q4 as the federal government shutdown and trade weighed more on the economy than expected.

Core GDP growth (excluding government, inventories, and net trade) remained solid, up 1.9 percent, led by still-buoyant consumer spending and AI investment and build out by businesses.

What does this mean for the economic outlook?

We maintain our view that the economy will continue to show constructive trends over 2026, supported by stimulus efforts and improved business investment. The downside risks have increased due to the Iran conflict, and we now project slower economic growth in Q2 as a result.

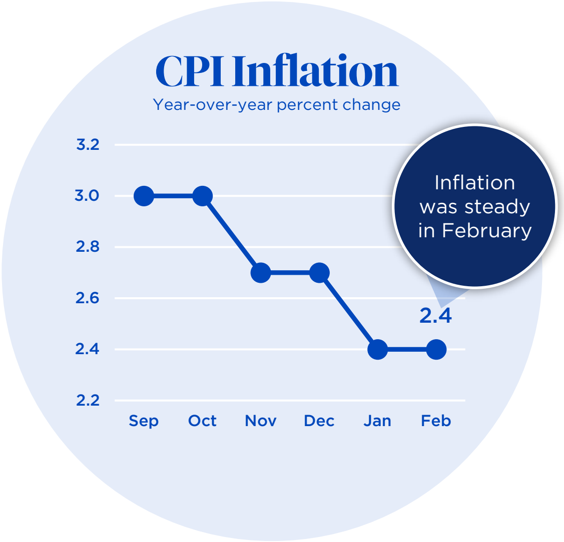
While the Fed is likely to delay further rate decreases until mid-year, we still see the possibility of rate cuts totaling 0.5 percent in the second half of 2026. The yield curve could be little changed in the near term but should steepen later in 2026 when the Fed resumes its easing cycle.

The government shutdown and trade losses from Q4 should be reversed in Q1, helping to boost growth to 2.5 percent. We expect larger tax refunds to help offset any negative drag on consumer activity from higher gasoline prices caused by the Iran conflict.

Economic Review

Sluggish hiring and rising inflation risks in early 2026

Recent data suggest that the labor market was softer than thought after surprising job losses in February. Inflation pressures were easing ahead of geopolitical disruptions, but rising energy costs now pose a near-term risk to the inflation outlook. At the same time, retail spending stumbled early in the year amid adverse weather, though underlying consumer demand remains resilient and should improve as conditions normalize.



Inflation was cool ahead of Iran conflict

February's CPI report showed inflation was subdued before geopolitical developments emerged in the Middle East. The headline and core measures were broadly in line with expectations and consistent with the pre-conflict view of continued cooler inflation trends early in 2026.

Hiring softened in February

February's jobs report surprised to the downside, with employment losses which were weaker than expected even after accounting for weather and a nurses' strike. This signals a broader cooling in labor market momentum, particularly within the private sector, following January's strong gains.

Retail spending stumbles in early 2026

Retail sales got off to a soft start in January, with cold winter weather weighing on in-store shopping and big-ticket purchases. However, while headline sales were weak, underlying spending held up better, supported by strength in online purchases as consumers stayed closer to home.

What does this mean for the economic outlook?

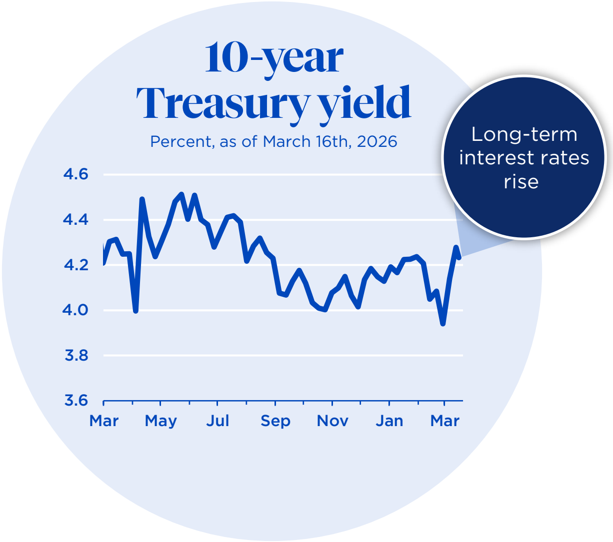
While the February data reinforce that inflation pressures were easing heading into the conflict, surging energy prices and supply disruptions now pose a clear upside risk to inflation in coming months, even if the shock ultimately proves short-lived.

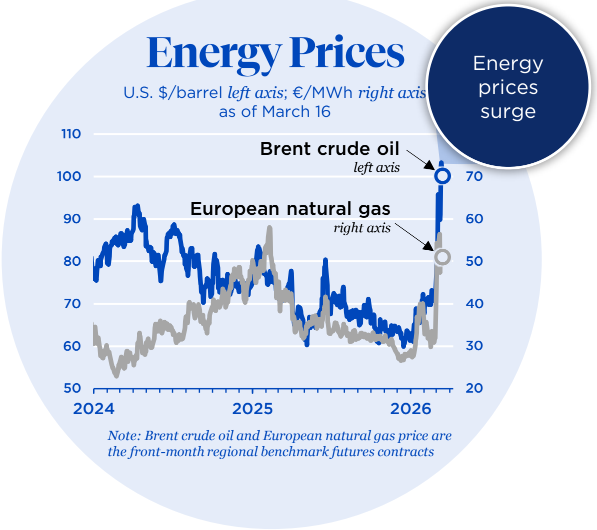
The three-month moving average in private job gains fell to a modest 18,000 in February, suggesting the labor market was losing steam ahead of the Iranian conflict and raising the risk that extended disruptions could stress hiring activity going forward.

The sluggish start appears temporary rather than a change in trend, with improving weather, larger tax refunds, and expected firmer job growth likely to support a rebound in consumer spending as the year progresses.

Iranian conflict adds to financial market worries

The Iranian conflict is a meaningful source of downside risk for markets and adds to AI-induced volatility and private credit and tariff challenges. Investors have turned more cautious as risks have risen. We are maintaining a constructive economic and corporate view for now, so we expect equities to rise and a steeper Treasury curve. However, the situation is highly fluid and monitoring the conflict's duration and scope will be key to assessing its market implications.





Equities lose steam

The outbreak of the Iranian conflict is spurring a modest pullback in benchmark equity indices and greater volatility. This comes amid meaningful churn in the market as concerns over AI disruption, private credit and tariffs weigh on investors' views. Even so, it's notable the S&P 500 Index remains not far below its historic highs.

Inflation concerns boost long-term rates

Long-term Treasury yields have been volatile lately and have climbed since the conflict began amid heightened expectations of firmer inflation. Short-end yields have risen as investors now anticipate a longer Fed pause. On balance, the Treasury yield curve has flattened modestly.

Energy prices jump

Oil and natural gas prices have swung wildly since the start of the conflict. At the time of writing, Brent crude oil is trading 40 percent above its pre-conflict level. European and Asian natural gas prices have surged more than U.S. prices since they rely heavily on energy from the Middle East. Financial conditions are now much less accommodative.

What does this mean for the economic outlook?

Downside risks to the outlook have increased as companies will likely face challenges from higher input costs, supply chain disruptions and weaker sentiment. At the same time, we shouldn't forget that fiscal stimulus, a positive corporate outlook and other tailwinds should mitigate headwinds from the conflict.

We expect the 10-year Treasury yield to stabilize and see limited downside assuming the conflict does not escalate. We continue to anticipate a June Fed rate cut and 50 basis points of total easing in 2026, though the timing may be pushed back. Treasury yields will be sensitive to the news flow from the conflict.

Negative ripple effects from less loose financial markets threaten to exacerbate impacts from higher energy prices, supply chain disruptions, and deteriorating sentiment. Notably, the U.S. oil market is more exposed than its natural gas market since the latter is less globally connected. U.S. domestic natural gas prices have risen less than 10 percent.

Outlook

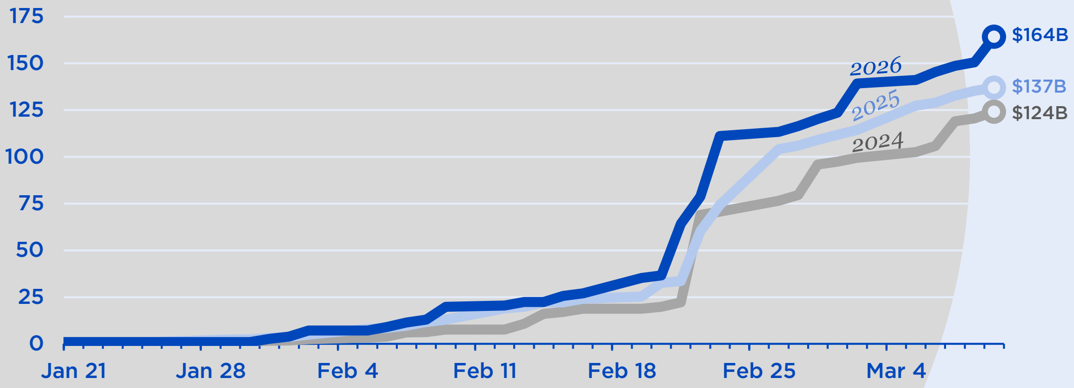
Tax refunds should support consumer spending

With hiring still sluggish in many industries and savings tapped for many households in the wake of several years of faster inflation, the traditional drivers of consumer spending are soft in early 2026. Consumer survey results are also weaker, indicating hesitant buying behavior among many lower- to middle-income households. Buoyant wage growth in many sectors has helped to offset these downbeat trends while consumers continue to show a high propensity to spend, which supported a solid pace of spending over 2025.

U.S. consumers should get an additional income boost in 2026 from a jump in federal tax refunds following last year's OBBBA. Individual tax refunds are estimated to total $350 billion this year, about $50 billion higher than 2025. Since most tax filings are completed by the end of March, the added income is expected to lift consumer spending into Q2, although higher gasoline prices may offset some of the boost. We also expect hiring to accelerate by mid-year, which should help the consumer sector to build momentum over the second half of 2026. While downside risks remain, larger tax refunds earlier in 2026 could bridge the gap until stronger fundamentals take hold.

Federal refunds: individual income taxes

Billions $, YTD



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Forecast

Data as of March 2026

	2025 ACTUAL	2026 ESTIMATE	2027 FORECAST	2028 FORECAST	2029 FORECAST
REAL GDP [1]	2.2%	2.0%	2.3%	2.3%	2.3%
UNEMPLOYMENT RATE [3]	4.5%	4.2%	4.2%	4.2%	4.2%
INFLATION [1] (CPI)	2.8%	**3.0%**	**2.0%**	2.0%	2.0%
TOTAL HOME SALES	4.74	4.91	5.49	5.77	5.86
S&P/COTALITY HOME PRICE INDEX	1.3%	2.5%	3.1%	3.0%	3.0%
LIGHT VEHICLE SALES	16.2	15.7	16.5	16.5	16.5
FEDERAL FUNDS RATE [2]	3.50%	3.00%	3.00%	3.00%	3.00%
5-YEAR TREASURY NOTE [2]	3.73%	3.60%	3.55%	3.55%	3.55%
10-YEAR TREASURY NOTE [2]	4.18%	**4.10%**	**4.00%**	4.00%	4.00%
30-YEAR FIXED-RATE MORTGAGE [2]	6.18%	5.85%	5.35%	5.25%	5.25%
MONEY MARKET FUNDS	4.03%	3.22%	3.03%	3.03%	3.03%

Iran conflict adds upside risk for prices

While impacts are expected to be temporary, the jump in oil and other commodity prices in response to the conflict with Iran will boost inflation in coming months. We still expect cooler inflation trends over the second half of 2026, but a faster inflation trend could prevail until mid-year.

Steady outlook for long-term rates

With the Fed on pause for now and inflation concerns still lingering, the 10-year Treasury rate should remain elevated. Modest Fed easing in the second half of 2026 could result in lower yields, but the downside should be limited — allowing the yield curve to steepen further.

[1] *Percent change Q4-to-Q4*
[2] *Year end*
[3] *Q4 average*

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Sources

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