Weekly round up (Week 18)

As conflict-related energy shocks ripple through economies, the world's major central banks remain on standby: ready to act but cautious, they are keeping rates unchanged while awaiting clearer signals. Credit markets, on the other hand, have begun to move, showing resilience and closely following their usual seasonal trends.

The United States and Israel launched joint military strikes against Iran on February 28, 2026, meaning that the 60-day threshold set by the War Powers Resolution of 1973 has now been exceeded. Although this does not automatically end military operations, the president is now legally required to either obtain congressional authorization or end the engagement of U.S. armed forces in these hostilities. The administration has also far exceeded the eight-week deadline it had repeatedly cited as a target.

At this stage, the standoff is intensifying, with U.S. and Iranian leaders each appearing to wait for the other to yield first, while political and financial costs rise in the United States and economic repercussions spread globally. In this volatile environment, it has been an exciting week for investors, as ten central banks we track held monetary policy meetings, including the "big four": the Bank of England (BoE), the Bank of Japan (BoJ), the European Central Bank (ECB), and the Federal Reserve (Fed).

In Asia, the BoJ left its policy rate unchanged at 0.75% for a third consecutive meeting, with the decision passing by a 6-3 vote—the first split vote since Kazuo Ueda took office. For fiscal year 2026, the BoJ sharply revised down its GDP growth forecast to 0.5% from 1.0%, while raising its core inflation (CPI) projection to 2.8%. These revisions reflect rising oil prices and their impact on corporate margins and household incomes. Governor Ueda stated that confidence in the central bank's forecasts had "diminished considerably," leaving the door open for an extended pause, while warning that energy-related cost pressures could still push core inflation beyond the 2% target.

In Europe, the UK's Monetary Policy Committee (MPC) left the base rate unchanged at 3.75% at its April meeting. The vote resulted in an 8-to-1 decision. The Committee's collective stance remained unchanged, with the Committee stating that it "stands ready to act as necessary to ensure that CPI inflation remains on track to reach the 2% target over the medium term."

The MPC presented three scenarios. In Scenario 1, energy prices follow forward curves and there are no second-round effects; inflation peaks at 3.6% in the fourth quarter of 2026 (compared to 3.3% in March), before returning toward the target. Scenario 2 assumes moderate second-round effects; inflation peaks at 3.7% in 2026 and then returns to 2% over a two- to three-year horizon. Scenario 3 assumes persistently high energy prices; inflation peaks at 6.2% in the first quarter of 2027 and remains above target throughout the forecast period. Governor Andrew Bailey appears to favor a middle ground between the first two scenarios, indicating that the committee places "the most weight on Scenario B, albeit with slightly reduced second-round effects."

The ECB followed suit, leaving its deposit rate unchanged at 2%, a level at which it has remained since June 2025, indicating that June would be the appropriate time to assess the conflict's impact on the eurozone, which coincides with the quarterly update of its economic projections. "*We made an informed decision based on information that is still insufficient,*" said President Lagarde, acknowledging that the Governing Council had debated not only keeping rates steady but also, "*at length and in depth,*" a possible rate hike, concluding that policymakers had not yet found convincing evidence in the data to justify tightening monetary policy.

The surge in oil and natural gas prices has certainly not, for the time being, triggered second-round effects on prices, according to Ms. Lagarde, although she conceded that the eurozone economy is "certainly moving away" from the ECB's baseline scenario. The ECB must also contend with slowing growth. Data released shortly before the rate announcement showed that eurozone GDP grew by 0.1% in the first quarter, a weaker-than-expected figure that fueled fears of stagflation, although Ms. Lagarde was quick to dismiss them, stating: "*We do not apply the term stagflation—that buzzword—to the current situation*."

In the United States, the Fed's monetary policy committee, the FOMC, left its benchmark rate unchanged at 3.50% to 3.75%, in line with expectations. This decision, however, was marked by an unusually high number of four dissenting votes—the highest number since 1992—highlighting growing divisions within the committee. Governor Stephen Miran again voiced his dissent in favor of a rate cut, while three presidents of regional Fed banks voted to keep rates steady but opposed maintaining the easing bias in the statement. The debate centered on a single word: "*additional*."

The current statement refers to "the magnitude and timing of further adjustments to the target range for the federal funds rate," and by retaining this wording, the committee implicitly suggests that the next decision is more likely to be a cut than a hike. The three dissenting chairmen wanted this term removed, which would have steered the Fed toward a more symmetrical stance, in which the next decision could just as easily be a hike as a cut. At the press conference following the meeting, Chair Powell acknowledged that the center of the committee "was moving toward a more neutral stance," but stated that the majority did not believe this meeting was the right time to make that shift, given the uncertainties surrounding the Iran conflict.

Overall, of the ten central banks that met this week, nine left their policies unchanged. The exception is Brazil, which cut its rates by 25 basis points—a perfectly understandable decision given the need to ease an extremely restrictive monetary policy, with ex ante real rates still hovering near 10%. Despite this, the guidance accompanying this decision struck a cautious tone.

And this caution was the common thread running through all of this week's monetary policy meetings. The uncertainty surrounding the conflict with Iran—its duration, its evolution, and its ultimate impact on growth and inflation via rising energy prices—has not yet generated sufficient underlying data to allow policymakers to draw firm conclusions.

In our view, Alan Greenspan sums up the situation perfectly: "*Uncertainty is not merely an important feature of monetary policy; it is the dominant feature—risk management often consists of guarding against adverse scenarios*." Sometimes, waiting and preserving flexibility is the safest strategy. This week, ten central banks affirmed precisely that.

Policy makers now have a six-week break before their next meetings scheduled for June; a window they seem convinced is sufficient to assess the overall economic impact of the conflict. In the meantime, they have deliberately set aside any specific guidance on rates, standing in the starting blocks, data in hand, ready to act. The question is whether European investors have already taken the lead—or—whether the central banks themselves have completely missed the starting signal, as investors now anticipate a significant tightening cycle for both the BoE and the ECB .

This stands in stark contrast to policy expectations in the United States, where rates are expected to remain unchanged—a transatlantic divergence that echoes an unsettling historical precedent. This last occurred in 2011, in the aftermath of the global financial crisis, when the ECB raised rates twice while the Fed kept them at zero—a decision now widely viewed as a mistake, as the ECB tightened policy in a fragile economic environment.

As for April's performance, it followed the historically favorable seasonal pattern almost to the letter. Government bond yields rose across the board, with most yield curves flattening; Japan was the exception, where the curve steepened, while UK gilts posted a notable underperformance, again in line with seasonal trends. In credit markets, total returns were positive, with high-yield bonds outperforming and emerging market bonds leading the way, which is entirely consistent with historical patterns. Meanwhile, the dollar weakened, commodity prices rose, and equity markets rebounded strongly, with the Bloomberg World Large & Mid Cap Index ending the month up more than 8%, all broadly in line with seasonal norms.

Let's hope that the negative seasonal effects traditionally associated with May do not materialize. What seems certain, however, is that in the absence of monetary policy decisions before June, geopolitics and signals from the U.S. administration are likely to dominate the markets in the coming weeks.