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# Markets in a Minute

## Key highlights

- **Energy infrastructure attacks escalate Middle East tensions:** Strikes on Qatar's LNG facilities and Iran's South Pars gas field have severely disrupted the Strait of Hormuz tanker traffic.
- **Central banks shift to hawkish stance in unison:** The Federal Reserve, Bank of England, and the European Central Bank have all revised inflation forecasts upward and effectively ruled out near-term rate cuts.
- **UK gilt yields approach 5% amid fiscal concerns:** The 10-year gilt has reached post-financial crisis levels as markets price in persistent inflation and fiscal sustainability risks.



Watch the latest Markets in a Minute video with Guy Foster, Chief Strategist, and Janet Mui, Head of Market Analysis.

## The Iran war: Duration, energy prices and market implications

The current overarching theme is the evolving Iran war and its impact on global energy markets. Market participants have materially pushed out their expectations for the duration of the crisis. RBC Capital Markets commodity strategist Helima Croft, following meetings in Washington, extended her estimated timeline for the conflict and associated energy disruption. Even if the White House seeks an early exit due to rising economic costs, an emerging consensus suggests Iran would likely continue fighting for some time to deter future Israeli and U.S. strikes.

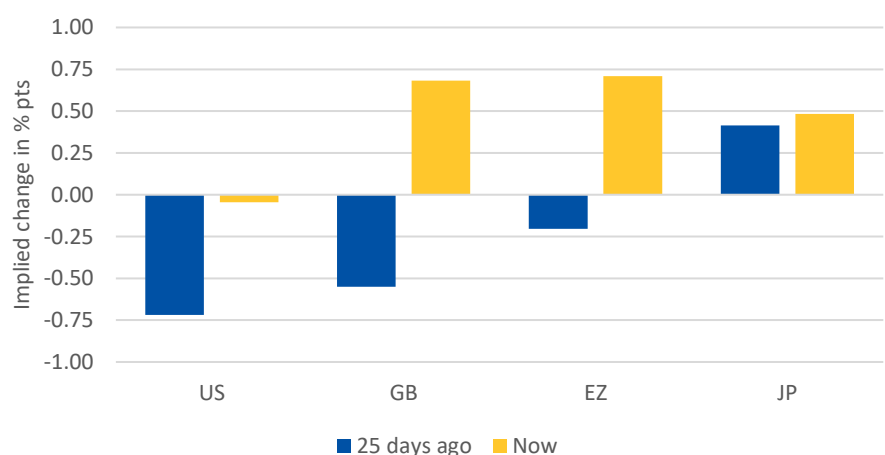
Energy prices have fluctuated in rhythm with the ebb and flow of attacks on energy assets. Israel struck Iran's South Pars gas field – the world's largest natural gas reserve – prompting Iran to intensify attacks on Qatari LNG facilities. Qatar Energy confirmed missile strikes on several facilities early last Thursday morning, with sizeable fires reported (since contained) and extensive further damage. Attacks on energy assets seemed to reduce after intervention from President Trump.

The Strait of Hormuz remains a focal point. Reports suggest Iran may have begun laying mines, though this is unconfirmed. Notably, Iran appears willing to negotiate safe passage with individual countries – India, Turkey, France, and Italy have all reportedly opened discussions – suggesting the Strait hasn't been aggressively blocked at this stage. Tanker traffic, however, remains severely disrupted.

## How central banks are responding

As war continues, the big development was hearing from all the major central banks about how it's affecting their thinking.

### Expected changes in interest rates this year



Source: Bloomberg

## Figure of the week

100%

The increase in Asian LNG prices since the Iran war began.

### The Federal Reserve (Fed)

The Fed held rates steady for the second consecutive meeting, as widely expected. The real substance came from updated projections and Chair Powell's press conference, which together amounted to a hawkish hold.

Core personal consumption expenditure (PCE) inflation forecasts for 2026 and 2027 were both revised upward, reflecting sticky inflation and energy price pressures, with the target now not expected to be reached until 2028.

Long-run gross domestic product (GDP) growth was upgraded to 2% – the highest on record – and the long-run neutral rate rose to 3.1%, the highest since 2016, both signalling optimism around AI-driven productivity gains.

The median Federal Open Market Committee (FOMC) member still projects one rate cut this year, but Powell stressed this hinges on inflation progress that looks increasingly uncertain. Notably, he declined to call the current energy shock transitory, given the succession of supply shocks in recent years – a theme echoed across central banks globally.

The productivity upgrade aligns with the views of Kevin Warsh, Trump's nominee for the next Fed chair, who argues AI will act as a disinflationary force. However, several FOMC members have cautioned that such gains could raise the neutral rate rather than facilitate cuts. With core PCE at 3.1% and above target for nearly five years, the bar for easing remains high.

### The Bank of England (BoE)

The BoE held rates in a unanimously hawkish decision – a surprise, as markets had expected two dissenting votes in favour of a cut. Even the typically dovish Swati Dhingra acknowledged that a prolonged supply shock could warrant tighter policy.

Mechanical estimates suggest even a modest 10% rise in gas and petrol prices would add roughly half a percentage point to the consumer price index including owner occupiers' housing costs (CPIH), with larger increases producing proportionally greater effects. These are the direct effects on prices, but if they should push inflation to the psychologically important 4% threshold, history suggests more aggressive household inflation expectations would follow.

The labour market offers some comfort, with the vacancy-to-unemployment ratio below the BoE's equilibrium estimate and surveys pointing to relatively loose conditions. Ironically, the early signs of stabilisation in unemployment earlier this year and the strongest payrolled employee growth since October 2024, could end up tipping the BoE's hand towards tighter policy.

### The UK ten-year gilt yield returned to 2008 levels



Source: Bloomberg

The 10-year gilt yield has approached 5% – levels not seen since the financial crisis. The move in gilts has been larger than in most major eurozone sovereign markets, reflecting both inflation concerns and heightened anxiety around UK fiscal sustainability. There's a clear relationship between the rise in a country's 10-year yield and its debt-to-GDP ratio. The UK's persistent inflation problem – worse than the eurozone's – and expectations that the government may respond to the crisis with more deficit-spending (both potentially inflationary policies), are compounding the sell-off.

### The European Central Bank (ECB)

As expected, the ECB held rates steady for a sixth consecutive meeting.

President Lagarde highlighted the Iran conflict as creating upside risks to inflation and downside risks to growth and notably avoided repeating that the ECB is in a "good place," instead describing it as "well positioned" to navigate uncertainty.

Staff economists significantly raised their 2026 inflation forecast to 2.6%, although they still expect a return to target by 2027–28. The ECB also published alternative scenarios given the uncertain outlook, with the worst case projecting a euro-area recession accompanied by a sharp spike in inflation.

### The Bank of Japan (BoJ)

The BoJ held its key rate at 0.75% in an 8:1 decision, with the sole dissenter in favour of a hike to 1%.

The bank cited the Middle East situation and rising oil prices as a new risk, though Governor Ueda said he needed more time to assess the impact. He noted that spring wage talks are expected to yield solid results, with attention now on whether higher wages spread to smaller businesses.

Unlike other major regions, there has been little change in Japanese interest rate expectations.

#### Coming up

- **G7 meeting:** Foreign ministers from the G7 countries meet to discuss the Iran war on Thursday.
- **Economic outlook:** The OECD will publish its economic outlook.
- **Central banks speak:** As central banks have emerged from their quiet periods, speakers will have an opportunity to finesse the generally hawkish messaging which they delivered to the market last week.



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