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TITLE: **Rate Cuts Are Off the Table — Now Oil Is Driving Markets**

TRANSCRIPT:

**Host:**

Eric, just a few weeks ago markets were expecting rate cuts this year. Now that narrative seems to have disappeared. What changed?

**Eric:**

What changed is that markets have stopped treating this as a geopolitical shock and started recognising it as a macro shock.

At the start of March, investors were pricing multiple rate cuts. Today, that's largely gone — and in some cases, people are even questioning whether the next move could be a hike.

The reason is simple. Inflation wasn't fully under control to begin with, and now you've added an energy shock on top. This week's US producer price data reinforced that — it came in stronger than expected, which tells you inflation pressures are still there before energy has even fully fed through.

So the idea of central banks riding to the rescue with rate cuts has quickly lost credibility.

**Host:**

And central banks themselves seem to be reinforcing that message?

**Eric:**

Very clearly.

The Fed held, but didn't sound particularly dovish. The ECB framed the conflict as inflationary. The Bank of England was more hawkish than expected. Even the Bank of Japan is now talking more about upside price risks.

So across the board, the tone has shifted.

The key point is that energy is back in control of the macro narrative. And when that happens, central banks lose flexibility. That's why markets are now thinking less about easing and more about how long rates stay high.

**Host:**

Markets haven't panicked, but something has definitely changed in the tone.

**Eric:**

That's exactly right — this isn't panic, it's deterioration.

Equities are drifting lower, but the more important signal is coming from rates. Short-end yields are rising, the curve is flattening again, and that's classic late-cycle behaviour.

It's the market saying: policy stays tight, but growth is becoming less secure.

That's a difficult combination because it puts pressure on valuations without offering much support from central banks.

**Host:**

Asia looked a bit calmer this morning. Is that a sign things are stabilising?

**Eric:**

I wouldn't read it that way.

Equities look calmer, but the stress has moved into currencies. The Indian rupee is at record lows, and other Asian importers are under pressure.

That's important because FX tends to reveal where the real strain is building.

When oil rises and currencies weaken together, especially in energy-importing economies, it creates a much more painful adjustment. Inflation rises, growth weakens, and policymakers have fewer options.

So the surface looks calm, but underneath the system is tightening.

**Host:**

You've also been saying this is no longer just an oil story — there's a second layer emerging.

**Eric:**

Yes, and I think this is where markets are still underestimating the risk.

Oil is the first-order effect. But gas and fertiliser are the transmission channels into the real economy.

Gas prices have already jumped sharply, and fertiliser markets are tightening. That matters because fertiliser feeds directly into food production.

So what starts as an energy shock can quickly become a food inflation story. And historically, that's when inflation becomes more persistent and harder to control.

**Host:**

What about the big growth themes — particularly AI? Does this change that story?

**Eric:**

It doesn't break the story, but it does complicate it.

AI is extremely energy-intensive. Data centres, chips, infrastructure — all of it depends on power.

If energy costs stay elevated, the cost of building and running that infrastructure rises. We're already seeing that in parts of the semiconductor space, where demand is strong but capital intensity is rising alongside it.

So the risk is not that AI disappears — it's that valuations start to adjust as investors realise the growth comes with higher costs.

**Host:**

So stepping back — what should investors take away from this week?

**Eric:**

The key takeaway is that the market has lost its policy safety net.

Investors had assumed that if growth weakened, central banks would step in with rate cuts. Now that assumption looks much less reliable because inflation — driven by energy — is back.

And that changes the framework.

This is no longer just about interest rates. It's about energy security, supply chains, and the possibility that inflation stays structurally higher than expected.

That's a more complex environment — and one where markets tend to be less forgiving.

**Host:**

So in simple terms?

**Eric:**

We've moved from a world expecting rate cuts... to one being driven by energy and inflation again.

And for now, oil is setting the direction of markets.

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