(UBS)

Will the Fed take a hawkish turn, too?

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The trajectory of central bank rates will partly hinge on developments in the Middle East, since the conflict has been the main driver of the recent acceleration of inflation.

The European Central Bank last week became the first major central bank to raise rates in response to the energy shock arising from the US-Iran conflict. In justifying the 25-basis-point hike, the Governing Council said the war in the Middle East was "generating inflation pressure," and it now expects prices to rise by 3% this year, significantly above its 2% target. This came alongside further evidence that higher fuel prices have been pushing up inflation in the US, with headline inflation rising to a three-year high of 4.2%. This raises the question whether other leading central banks will take a hawkish turn—especially given the weekend's positive developments in the Middle East.

This will be the key question for investors with a raft of central banks holding policy meetings this week, including the Federal Reserve, Reserve Bank of Australia, the Bank of England, the Riksbank, Norway's Norges Bank, and the Bank of Japan. The central focus will be on the Fed. This will be Kevin Warsh's first meeting as chair, having replaced Jerome Powell. Markets will be on the alert for any changes in tone or style, given the new chair's previous comments that productivity gains from AI should permit lower rates.

Our view, is that leading central banks will avoid making a hasty pivot back toward more dovish language in response to the US-Iran deal. Instead, they are likely to remain cautious as events unfold and as incoming data over the coming months reveals whether the energy shock is triggering second round inflation shocks. Despite the new Fed chair's previously stated more dovish views, we expect a more hawkish tone to the Fed's meeting, both in the central bank's

statement and in the dot plot, which charts the rate projections of top officials. In our view this will signal a further delay to rate cuts, and we now only expect the Fed to ease again in March and June 2027, instead of starting to ease in December as we previously expected. However, our view remains that markets are pricing too much tightening from central banks. This includes the ECB, where we expect only one further rate hike this year, with policymakers likely to be constrained by slower growth. As a result, we see value in short- to medium-duration high-quality bonds. These should benefit as tightening concerns ease later in the year, while being less vulnerable than longer-duration bonds to rising government debt burdens.

Original report – **Weekly Global : What to watch in the week ahead, 15 June 2026.**

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