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March 2026: Geopolitical escalation, trade uncertainty, and rising inflation risks drive market volatility

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Global markets in March were shaped by a combination of escalating geopolitical tensions, renewed trade uncertainty, and rising inflation pressures, resulting in heightened volatility and a deterioration in the global macro backdrop. Early in the month, trade policy re-emerged as a key source of uncertainty after the US Supreme Court struck down the administration's tariff framework, prompting the introduction of a temporary 10% global import levy, with plans to increase it further. The move created legal ambiguity, delayed trade agreements — particularly with Europe — and triggered corporate refund claims, adding to market uncertainty and reinforcing concerns around global trade fragmentation.

Geopolitical developments became the dominant driver of market sentiment as tensions in the Middle East intensified. The US-Iran conflict escalated significantly, with failed ceasefire negotiations, continued military operations, and rising threats to critical energy infrastructure across the Gulf. While intermittent diplomatic signals provided brief periods of relief, the absence of a credible path toward de-escalation kept risk sentiment fragile. The conflict increasingly fed into global inflation dynamics, particularly through higher energy prices, and contributed to a broader repricing of macro risks.

Central banks responded by adopting a more cautious and hawkish tone, as the balance of risks shifted. The Federal Reserve held rates steady but signaled heightened uncertainty, with firmer inflation expectations and reduced scope for near-term easing. Similarly, the European Central Bank, Bank of England, and Bank of Canada maintained policy rates while highlighting upside inflation risks linked to geopolitical developments. The shift in central-bank communication reflected growing concern that external shocks, particularly energy-driven and could delay the disinflation process and push rate cuts further out.

Economic data across regions were mixed but increasingly pointing to a slowdown in momentum. In the United States, activity remained relatively resilient early in the month, supported by stable consumer demand and moderate expansion indicators. However, signs of cooling became more evident toward month-end, with weaker activity data, declining consumer sentiment, and rising short-term inflation expectations. Labor-market conditions remained broadly stable but showed signs of softening at the margin.

Across Europe, growth conditions deteriorated more clearly. Industrial production weakened, investor sentiment declined sharply, and consumer confidence fell, particularly in Germany and the UK. UK growth remained subdued, while eurozone activity continued to reflect structural weakness. In Asia, conditions were comparatively more stable but still uneven. China showed relative resilience supported by policy stimulus and stable activity data, although private-sector demand remained soft and trade tensions with the US re-emerged.

Overall, March marked a shift toward a more challenging macro environment, characterized by rising geopolitical risks, persistent trade uncertainty, and renewed inflation pressures. With global growth momentum softening and central banks turning more cautious, markets entered a phase of increased sensitivity to external shocks and policy developments, reinforcing a more uncertain outlook.

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