
Economy Week Ahead

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“Economics is not an exact science. It's a combination
of an art and elements of science.”

Paul Samuelson

Market sentiment was hit last week by a combination of the ongoing risks of AI disruption, more private credit concerns, and rising geopolitical risks with Iran. USTs benefited from the flight to safety, with 10-year yields falling to 3.94%, the lowest since April's tariff tantrum. However, the dollar did not benefit and was weaker across the board. This week brings key US data that should help shape market expectations on the US economy and Fed policy. We remain dollar-negative and equity-positive.

Geopolitics

After weeks of threats and attempted negotiations, the US led an attack on Iran this past weekend. Israel was the only US ally to take part in the attack. The last time the US and Israel attacked Iran back in June, markets reacted as one would expect. Brent oil prices spiked above \$80 per barrel, the 10-year UST yield fell nearly 20 bp, equity markets dipped, and the dollar firmed.

These moves largely reversed in the following days, as the June strike turned out to be a very limited one. We expect a similar knee-jerk reaction when markets open this week. As we've seen time and time again, these knee-jerk reactions to geopolitical events typically fade quickly, as we saw last June.

How quickly the knee-jerk reaction fades this time is still unknown, as Iran's response so far has been on a much larger scale. Iran has launched missile and drone attacks on Israel as well as on US military bases in neighboring Bahrain, Qatar, and UAE. Iran said all US bases in the region would be targeted. OPEC announced an output increase to help keep oil prices down, but the Strait of Hormuz has effectively been shut down after several ships were struck by Iran.

President Trump warned that "Heavy and pinpoint bombing, however, will continue uninterrupted throughout the week or as long as necessary." However, it's still unclear as to whether this administration has the appetite for a protracted regional conflict in the Middle East, particularly one in which the US is acting alone with little help from its allies.

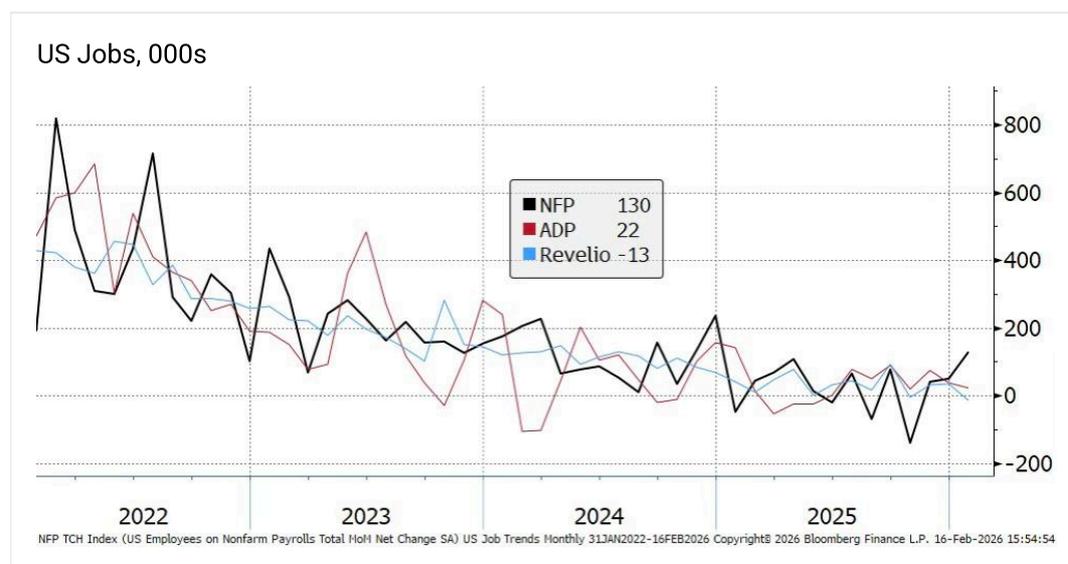
President Trump's rationale and goals for the attack remain fuzzy. If the primary goal is regime change, the killing of Supreme Leader Ayatollah Khamenei and members of his inner circle is clearly meant to be the trigger. The Assembly of Experts will eventually appoint his replacement but, until one is chosen, Iran will be ruled by an interim council.

Most experts believe that it will be very difficult for the fractured opposition to unite behind one leader. If so, the goal of regime change may ultimately fail. Given Iran's hardline response to past protests, we would expect another crackdown on any attempted uprising.

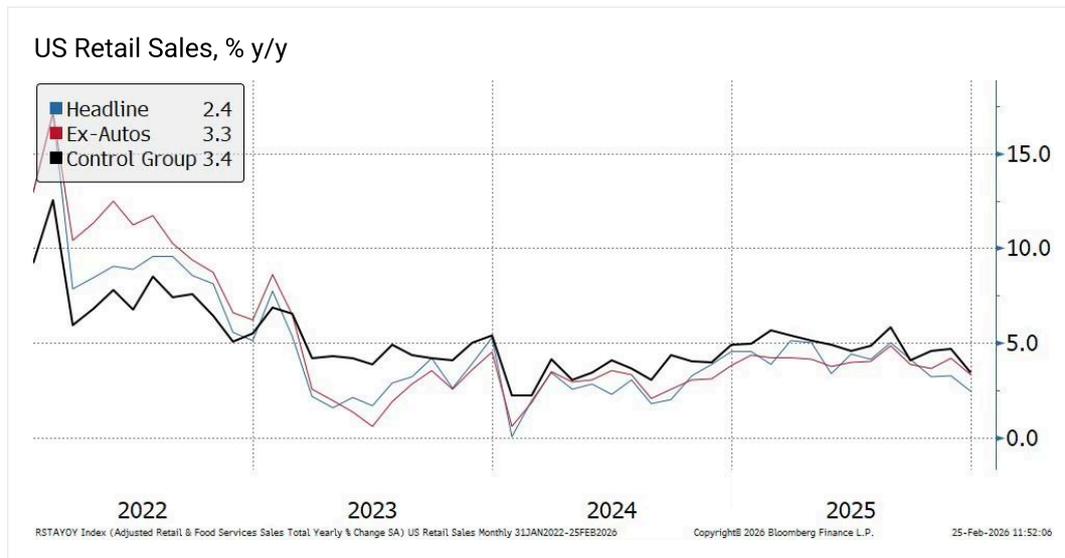
We will be writing a more in-depth piece on Iran later this week. Some key unknowns may become known by then but for now, the fog of war prevails. Until that fog clears, markets are likely to remain volatile as hostilities remain ongoing and uncertainty is likely to remain high as the duration of the conflict remains unknown.

Americas

US data highlight will be February jobs data Friday. Bloomberg consensus for NFP is at 60k vs. 130k in January, while its whisper number is at 70k. The unemployment rate is expected to remain steady at 4.3%, while average hourly earnings are expected to remain steady at 3.7% y/y. Of note, the Chicago Fed real-time model forecasts the unemployment will remain steady at 4.3%. Ahead of the jobs report, ADP reports its February private sector jobs estimate Wednesday and is expected at 50k vs. 22k in January. Revelio reports its estimate Thursday but there is no consensus reading.



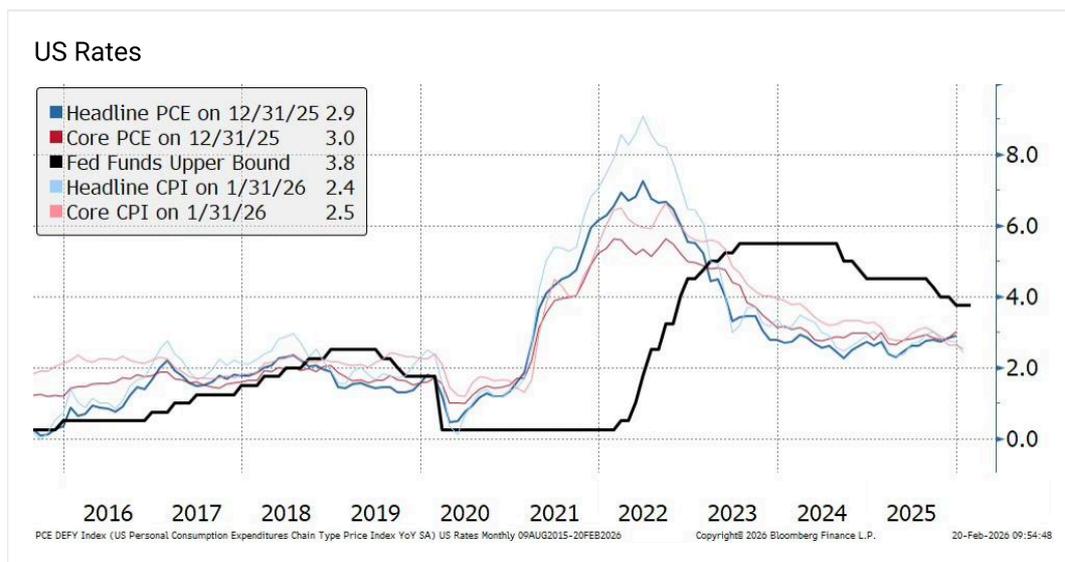
January retail sales data will also be reported Friday. Headline is expected at -0.3% m/m vs. flat in December, while ex-autos is expected flat m/m, same as December. Of note, the Chicago Fed CARTS model estimates January retail sales ex-autos fell -0.1% m/m in both nominal and real terms. The so-called control group used for GDP calculations is expected at 0.3% m/m vs. -0.1% in December. Growth in y/y terms for all three measures have been slowing sequentially since August to multi-year lows. We believe this reflects the ongoing softness in the labor market, which is expected to carry over into 2026.



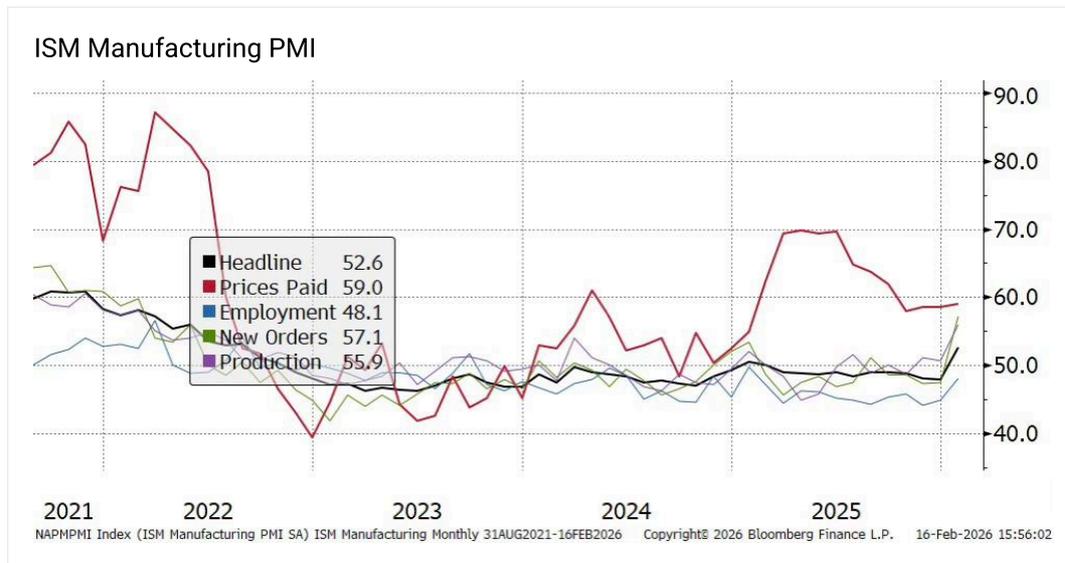
The Fed releases its Beige Book report prepared for the March 17-18 FOMC meeting Wednesday. Here is a summary of the last Beige Book report that was prepared for the January 27-28 meeting. *On Overall Economic Activity: Overall economic activity increased at a slight to modest pace in eight of the twelve Federal Reserve Districts, with three Districts reporting no change and one reporting a modest decline. This marks an improvement over the last three report cycles where a majority of Districts reported little change. Outlooks for future activity were mildly optimistic with most expecting slight to modest growth in coming months. On Labor Markets: Employment was mostly unchanged in the most recent period, with eight of the twelve Districts reporting no changes in hiring. Wages grew at a moderate pace, with multiple contacts reporting that wage growth had returned to "normal" levels. On Prices: Prices grew at a moderate rate across a large majority of Districts, with only two Districts reporting slight price growth. Cost pressures due to tariffs were a consistent theme across all Districts. Looking ahead, firms expect some moderation in price growth, but anticipated prices to remain elevated as they work through increased costs.*

In this report, we believe the Fed may highlight a modest improvement in both the economic outlook and the labor market, in keeping with its more upbeat tone at the January meeting. Given ongoing concerns about sticky inflation, the Fed may highlight some modest improvement in prices whilst warning of ongoing upside risks.

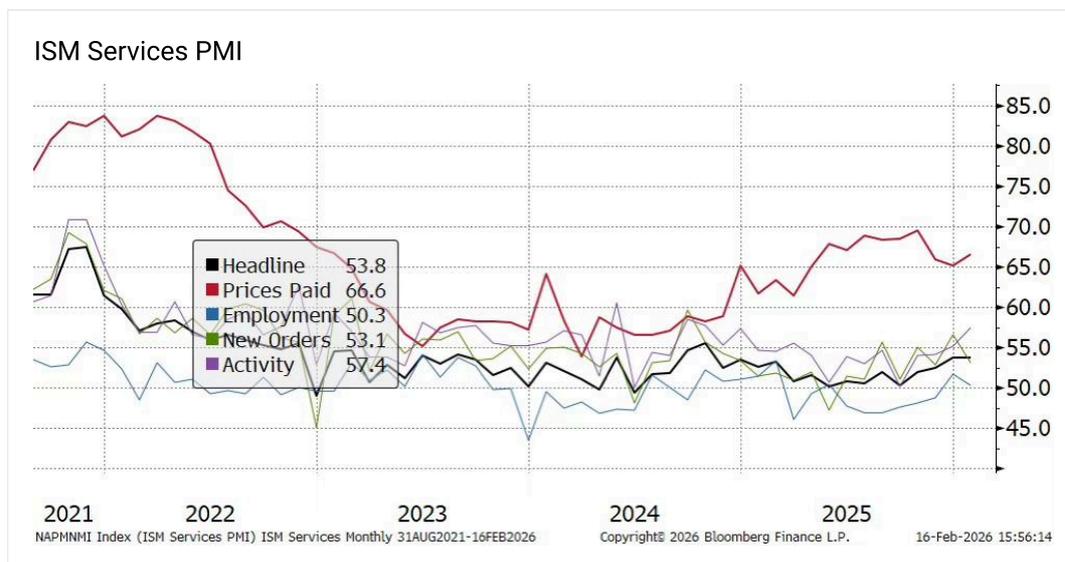
Fed officials will get their last chance to make their views known ahead of the March FOMC meeting. Williams and Kashkari speak Tuesday. Daly, Paulson, and Hammack speak Friday. At midnight Friday, the media blackout begins and there will be no Fed speakers until Chair Powell's post-decision press conference March 18. The market sees only 5% odds of cut then, rising to 25% at the April 28-29 meeting, 65% at the June 16-17 meeting, and fully priced in at the July 28-29 meeting. As we've noted before, the timeline for renewed easing hinges crucially on the labor market. If it weakens considerably, we believe a cut is likely to come much earlier than July.



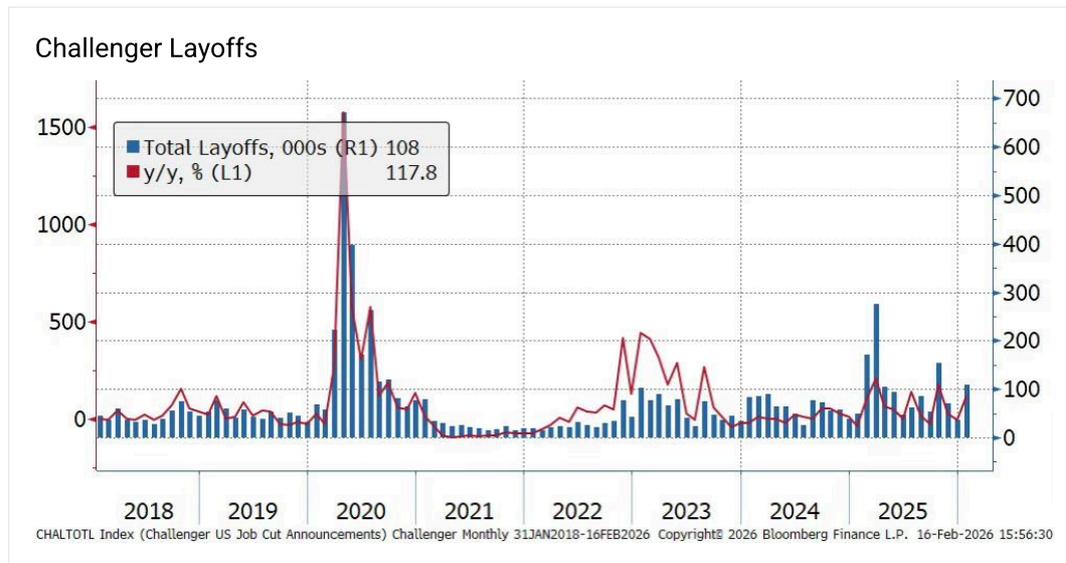
February ISM PMIs will also be important. Manufacturing will be reported Monday and headline is expected at 51.5 vs. 52.6 in January. If so, it would remain above 50 for the second straight month. Prices paid is expected to rise a full point to 60.0. If so, it would be the second straight rise and the highest since September. Of note, the preliminary S&P Global manufacturing PMI fell to 51.2 vs. 52.4 in January and so we see downside risks to the ISM reading.



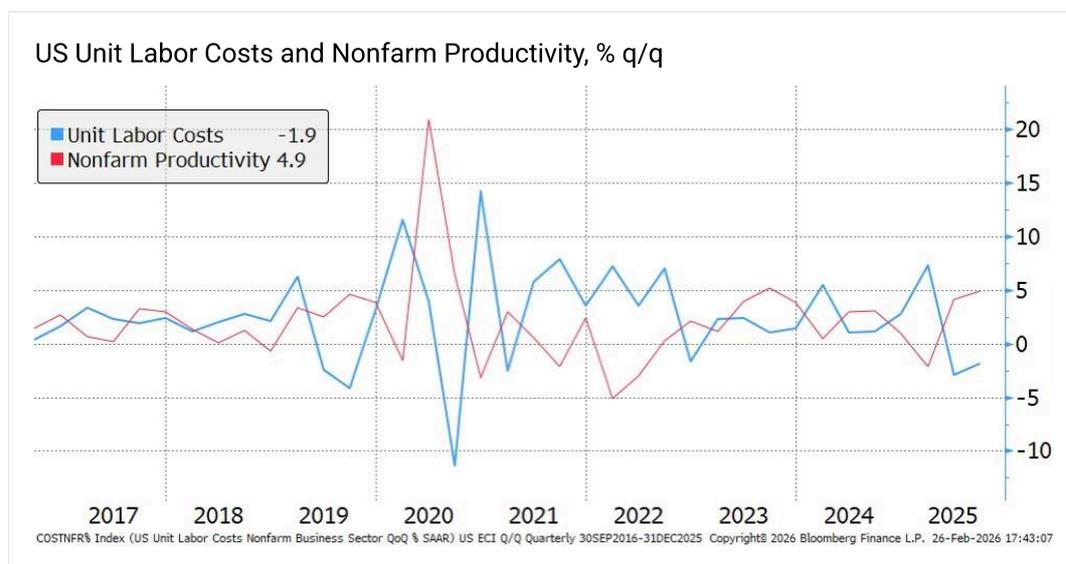
ISM services PMI will be reported Wednesday. Headline is expected to fall three ticks to 53.5. If so, it would be the first drop since September. Prices paid is expected to rise over a point to 67.8. If so, it would be the second straight rise and the highest since October. Of note, the preliminary S&P Global services PMI fell to 52.3 vs. 52.7 in January and so we see downside risks to the ISM reading.



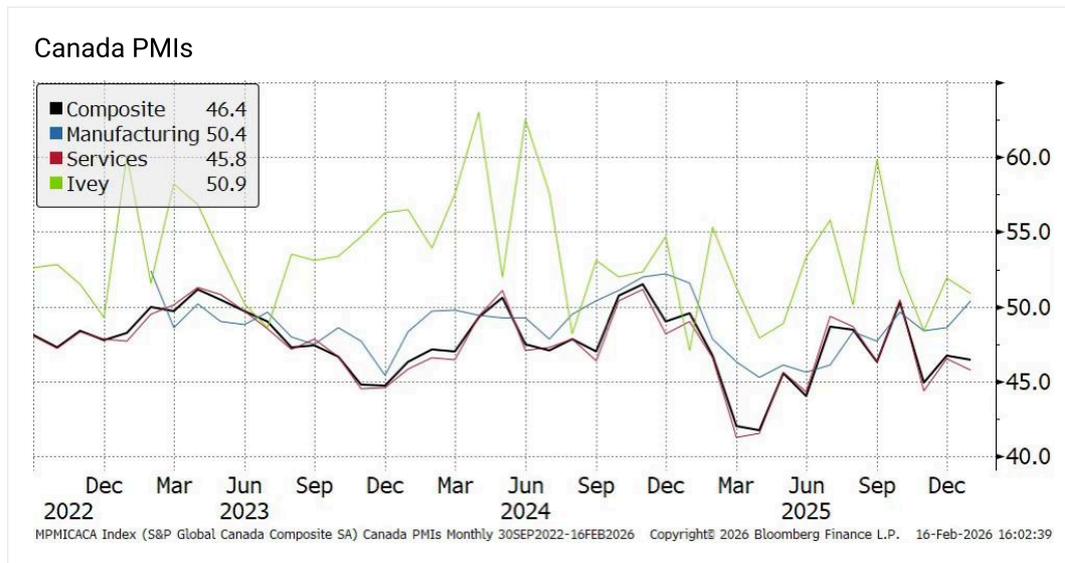
Challenger reports February job cuts Thursday. After the January data, senior Challenger official noted that “Generally, we see a high number of job cuts in the first quarter, but this is a high total for January. It means most of these plans were set at the end of 2025, signaling employers are less-than-optimistic about the outlook for 2026.” Rising layoffs are one major factor supporting our softening labor market narrative.



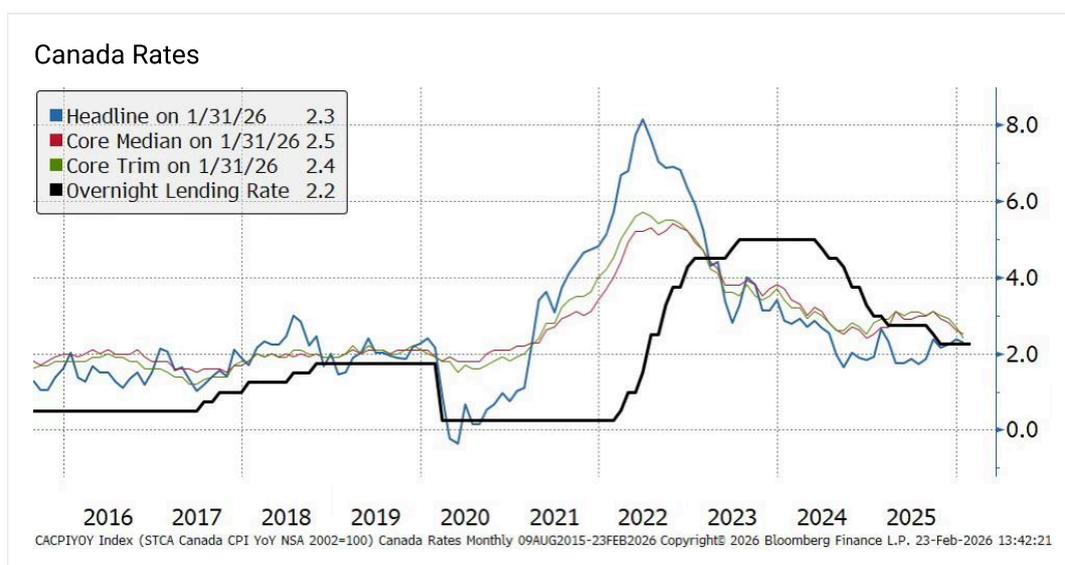
US Q4 unit labor costs and nonfarm productivity will also be reported Thursday. ULC is expected at 2.0% q/q vs. -1.9% in Q3, while nonfarm productivity is expected at 1.8% q/q vs. 4.9% in Q3. Productivity is measured as total output divided by total hours worked and is meant to show how efficiently labor is converted into output of goods and services. Productivity has been strong for two straight quarters but as the graph below shows, it is also very volatile. The role of AI in boosting productivity remains an ongoing debate that probably won't be resolved anytime soon.



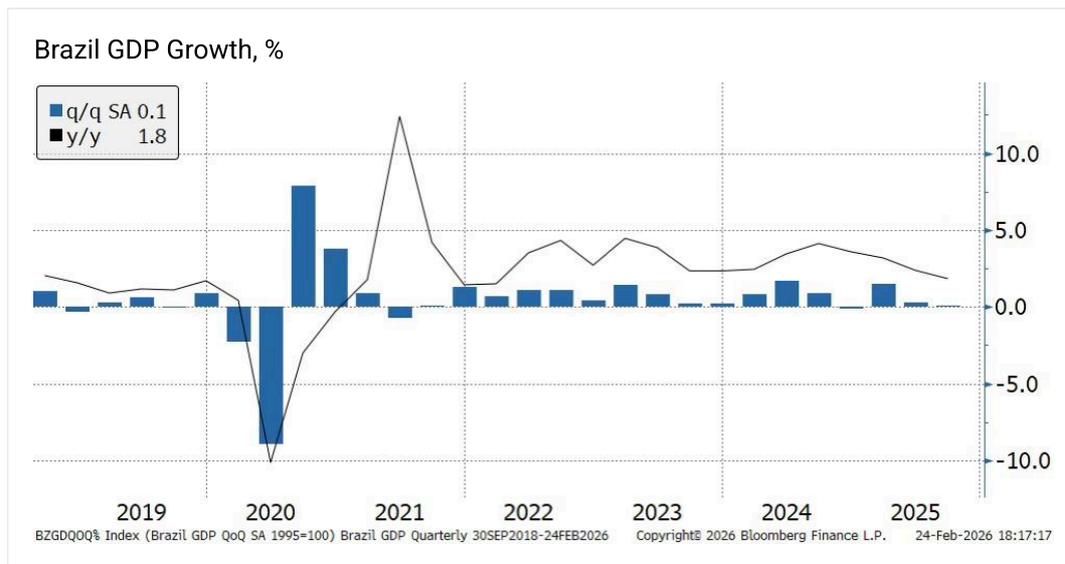
Canada reports February PMIs this week. S&P Global manufacturing PMI will be reported Monday, while its services and composite PMIs will be reported Wednesday. Ivey PMI will be reported Friday. After last week's Q4 GDP print of -0.6% SAAR, markets will be looking for some signs of improvement in Q1.



There are some Bank of Canada speakers this week. Deputy Governor Kozicki speaks Monday. Governor Macklem speaks Wednesday. At the last meeting January 28, the BOC kept rates steady at 2.25% but shifted to a more cautious tone. Macklem noted that “The Canadian economy is adjusting to the structural headwinds of US protectionism” and stressed that “elevated uncertainty makes it difficult to predict the timing or direction of the next change in the policy rate.” The next meeting is March 18 and no change is expected. Looking ahead, the swaps market has shifted from pricing in a rate hike over the next twelve months to pricing in about 40% odds of a rate cut over the next six months.

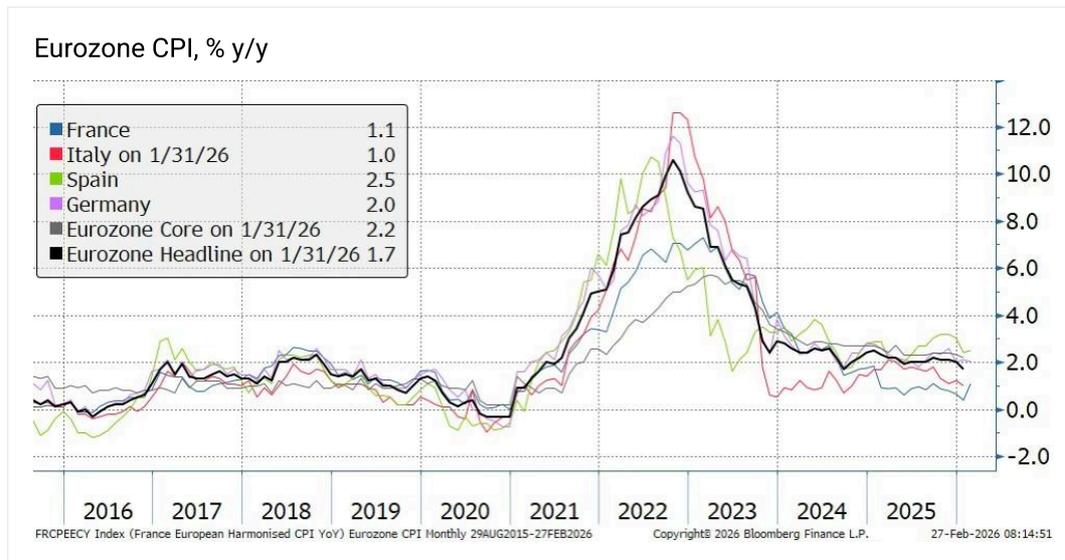


Brazil reports Q4 GDP data Tuesday. Growth is expected to pick up a tick to 0.2% q/q, while the y/y rate is expected to fall two ticks to 1.6%. For the entire year, growth is expected at 2.3% vs. 3.4% in 2024. With the central bank about to embark on an easing cycle with an expected 50 bp cut at the March 18 meeting, growth could pick up modestly in 2026. Looking ahead, the swaps market is pricing in 275 bp of total easing over the next twelve months.

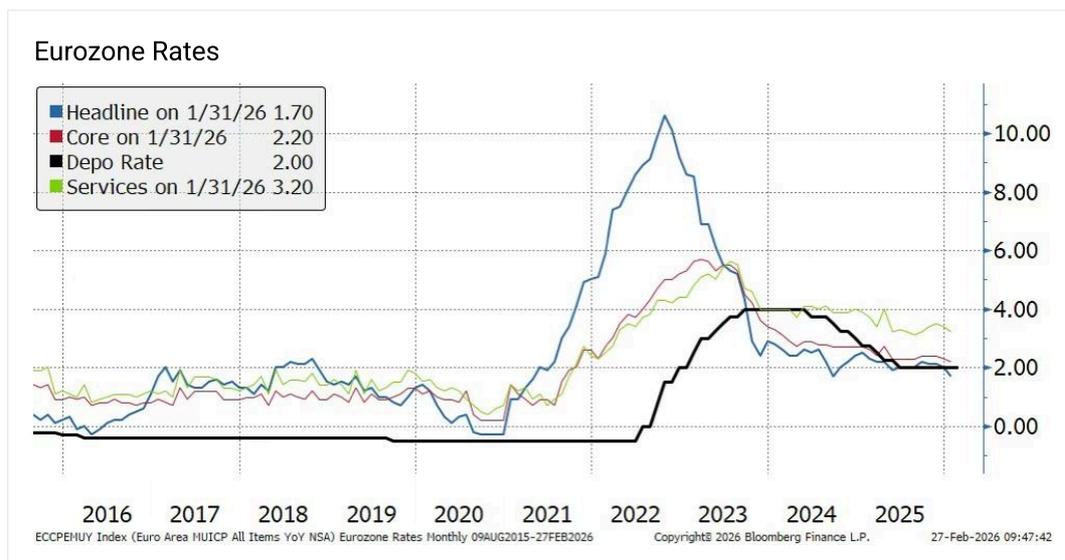


Europe

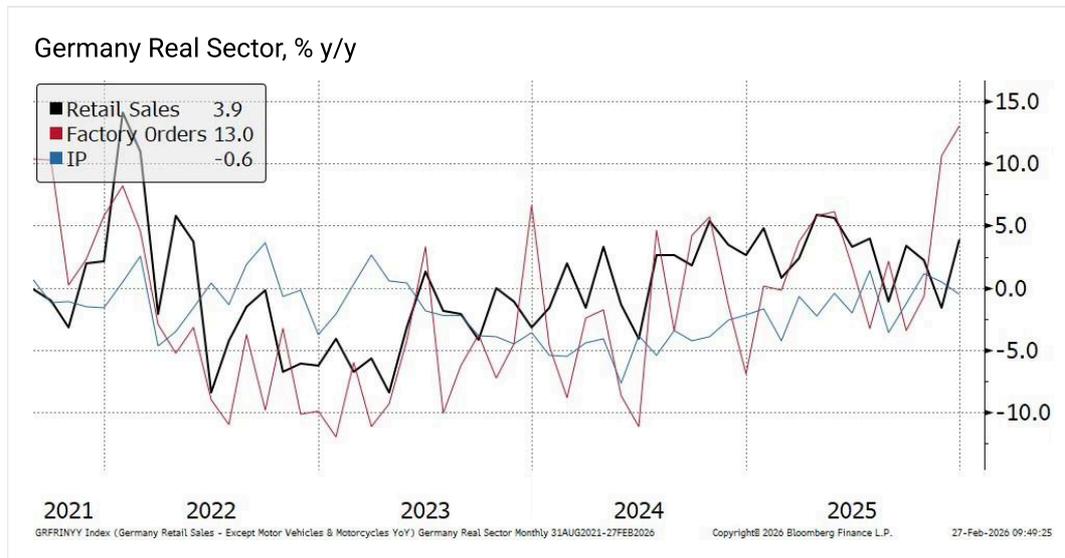
Eurozone continues to report February CPI data. Italy reports Tuesday and its EU Harmonised inflation is expected to pick up a tick to 1.1% y/y. Last week, Germany, France, and Spain reported mixed results for CPI. Germany's EU Harmonised inflation came in a tick lower than expected at 2.0% y/y, France's came in three ticks higher than expected at 1.1% y/y, and Spain's came in two ticks higher than expected at 2.5% y/y. Spain is one of the only eurozone countries to report core inflation and it came in a tick higher than expected at 2.7% y/y. Eurozone inflation data will also be reported Tuesday. Headline is expected to remain steady at 1.7% y/y and core is expected to remain steady at 2.2% y/y.



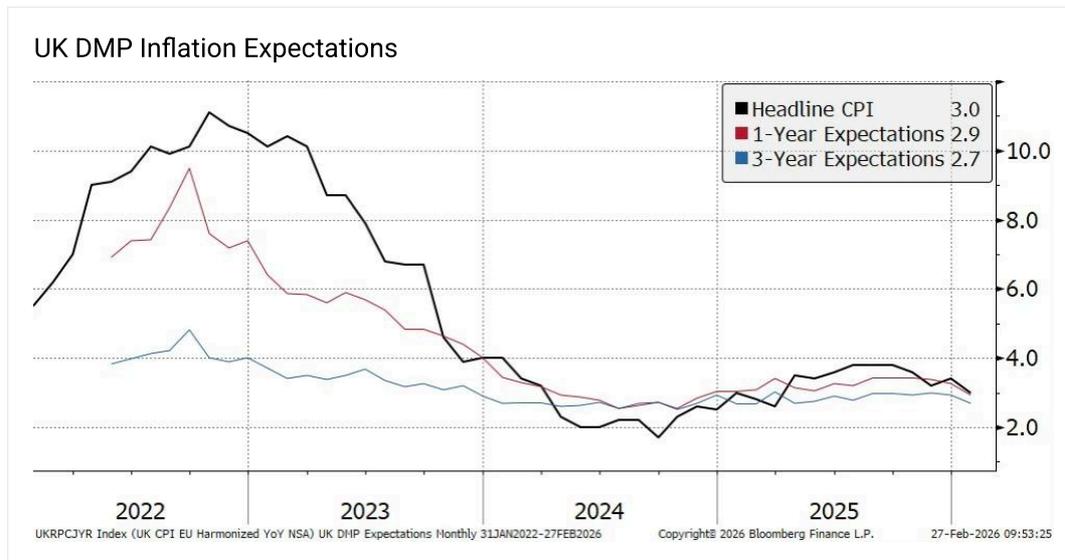
There will be several ECB speakers this week. Nagel spoke Sunday. Lagarde, Nagel, and Stournaras speak Monday. Kocher and Sleijpen speak Tuesday. Muller, Cipollone, Villeroy, and Guindos speak Wednesday. Guindos, Rehn, Nagel, and Lagarde speak Thursday. Cipollone and Schnabel speak Friday. Last week, the ECB reported lower inflation expectations in January. If this week's inflation data come in as expected, the bank will remain well positioned to keep rates steady for the foreseeable future. Of note, the swaps market is pricing in around 50% odds of a 25 bp cut over the next twelve months.



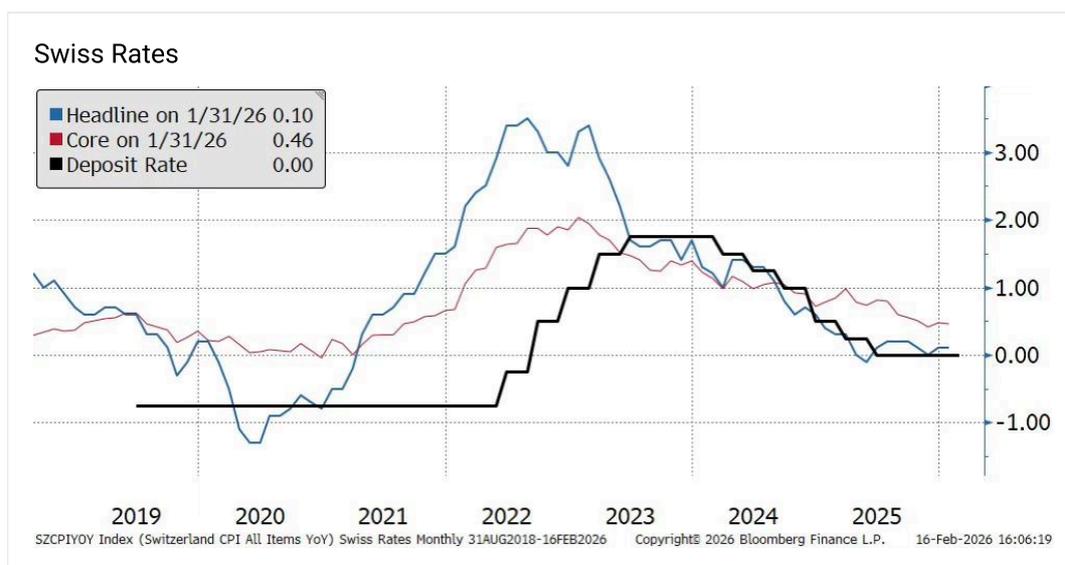
Germany reports some key real sector data for January. Retail sales will be reported Monday and are expected at 1.2% y/y vs. 3.9% in December. Factory orders will be reported Friday and are expected at 13.2% y/y vs. 13.0% in December. IP and trade will be reported next week. The strong orders data in recent months support the more positive outlook suggested by the survey readings, especially the PMIs.



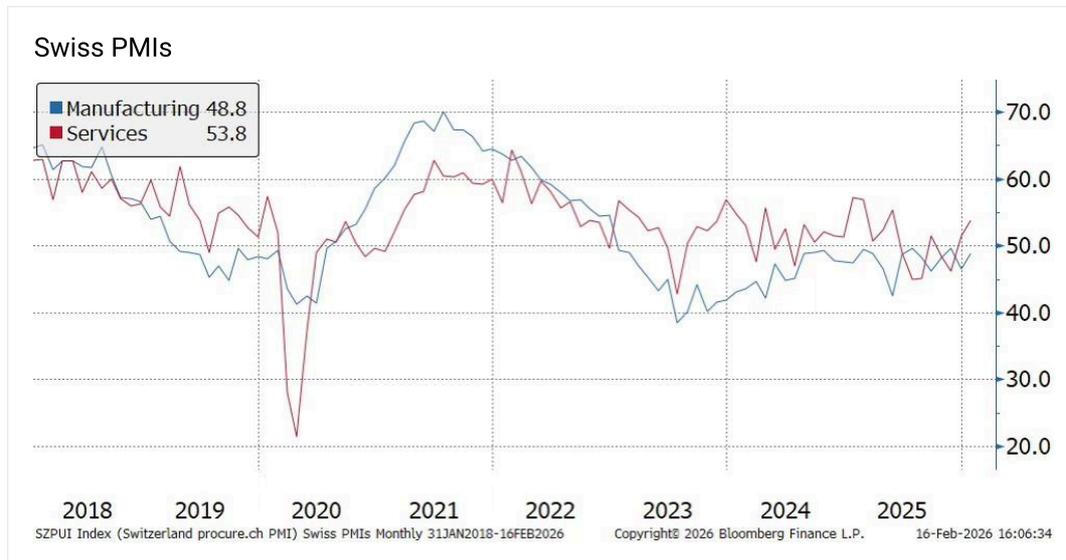
UK highlight will be February DMP inflation expectations Thursday. 1-year expectations are seen falling a tick to 2.8%. If so, this would be the third straight decline and the lowest since November 2024. Inflation and inflation expectations continue to fall. That and the deteriorating UK economic outlook should lead the BOE to resume cutting rates, most likely at the next meeting March 19. The swaps market is pricing in 50 bp of total easing over the next twelve months but we see risks of a deeper easing cycle. Bank of England MPC member Taylor speaks Monday. Recall that he was one of the four dissents (along with Breeden, Dhingra, and Ramsden) in favor of a 25 bp cut at the February 5 meeting and so his comments should tilt dovish.



Switzerland reports February CPI data Wednesday. Headline is expected to fall a tick to flat y/y. If so, inflation would continue to flirt with outright deflation, something we haven't seen since May 2025 (for just that month). Last week, Swiss National Bank President Schlegel said inflation will average 0.3% this year, unchanged from the bank's December forecasts. However, he warned that deflation readings are possible this year but won't trigger much alarm at the SNB as inflation is expected to accelerate in the coming quarters. The next meeting is March 19 and no change in policy is expected then. The swaps market sees nearly 80% odds of a 25 bp cut over the next twelve months that would take rates negative.

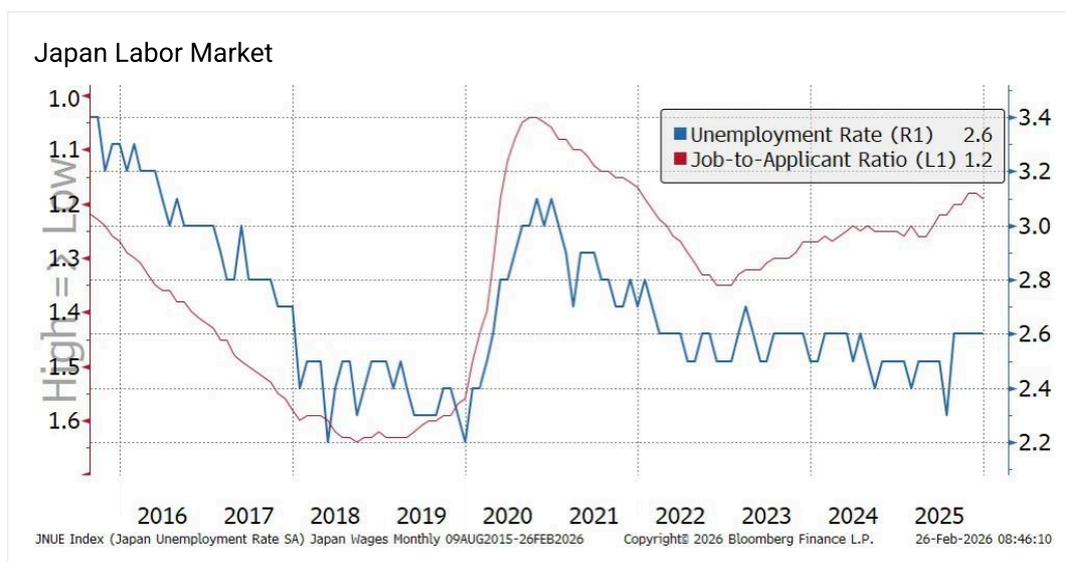


Switzerland reports February PMI readings Monday. Manufacturing is expected to rise a full point to 49.8. If so, it would be the second straight rise and the highest since December 2022. Such an improvement would be a pleasant surprise given the strong headwinds from the strong franc.

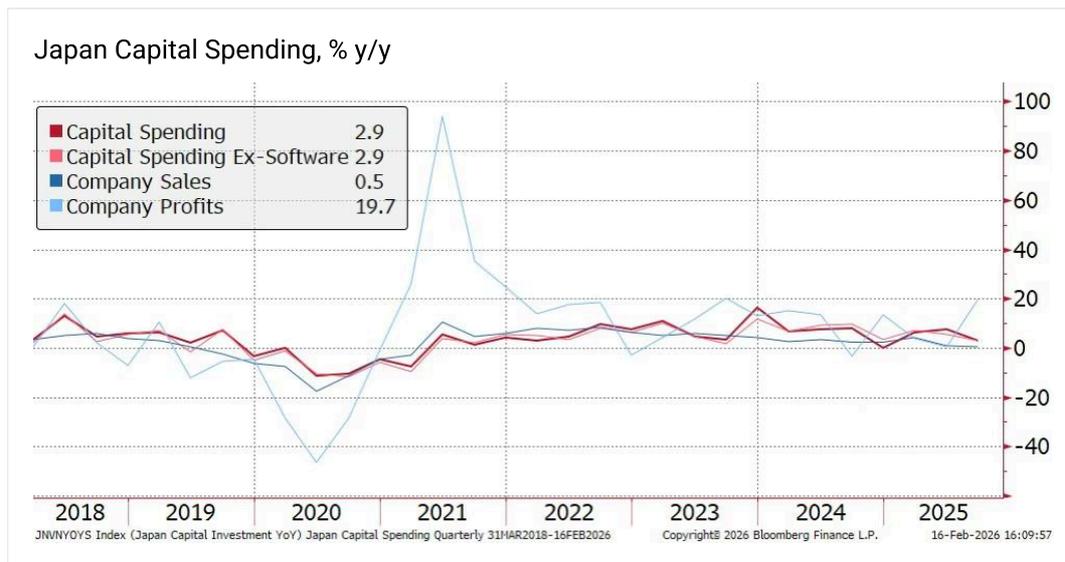


Asia

Japan highlight will be January labor market data Tuesday. The unemployment rate is expected to remain steady at 2.6% while the job-to-applicant ratio is expected to rise a tick to 1.20. For now, wage pressures are contained but we'll know more after the January cash earnings data are reported next week.

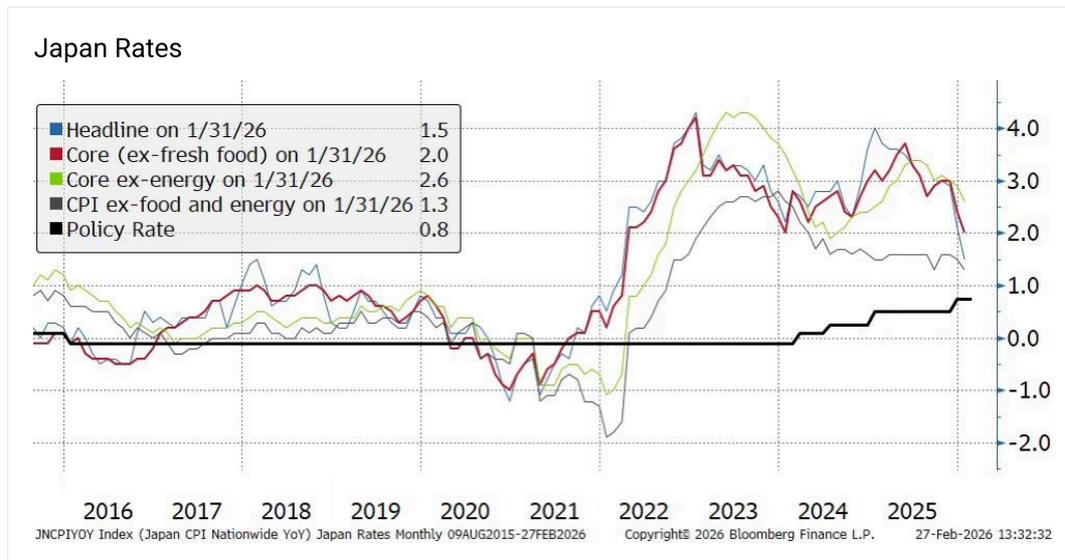


Japan Q4 capital spending data will also be reported Tuesday. Total capital spending is expected to pick up a tick to 3.0% y/y, while spending ex-software is expected to pick up a whole point to 3.9% y/y. Elsewhere, company profits are expected to slow to 3.0% y/y vs. 19.7% in Q3. Overall, Japan Inc. remains in solid shape even as the economy is performing relatively well. This should give the Bank of Japan confidence to continue the tightening cycle.

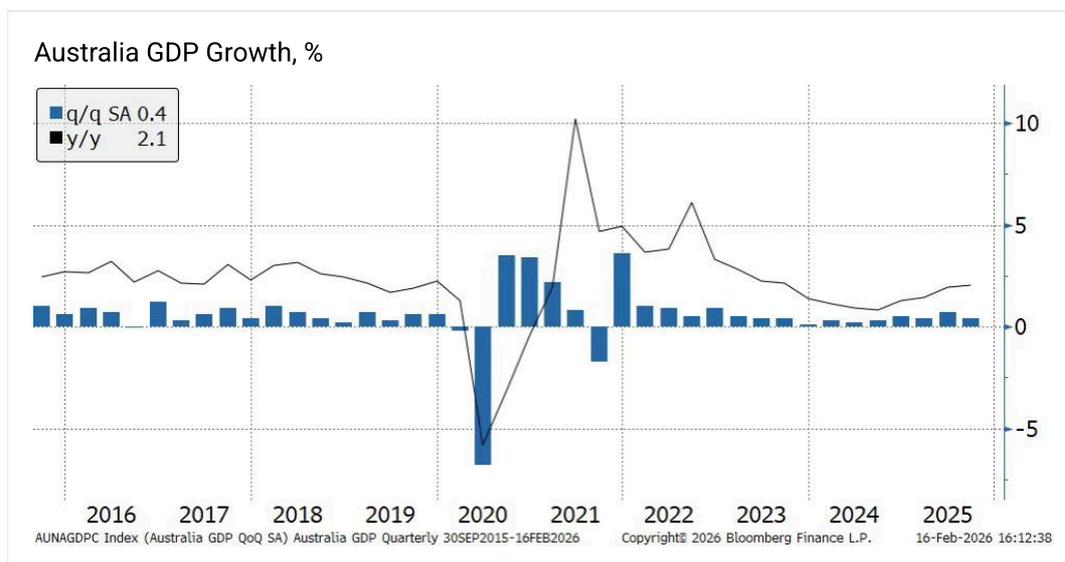


Bank of Japan Deputy Governor Himino speaks Monday. Last week, Prime Minister Takaichi nominated Aoyama Gakuin University professor Ayano Sato and Chuo University professor Toichiro Asada to replace outgoing BOJ board members Asahi Noguchi and Junko Nakagawa when their terms end in March and June, respectively. For now, the hawks remain vocal as board member Takata called for further tightening as he noted that “With the patient continuation of monetary easing for many years laying the necessary groundwork, global inflationary pressure since 2020 has likely heated the center of the frozen food.” Note that Takata dissented in favor of another 25 bp hike when the BOJ delivered a hold.

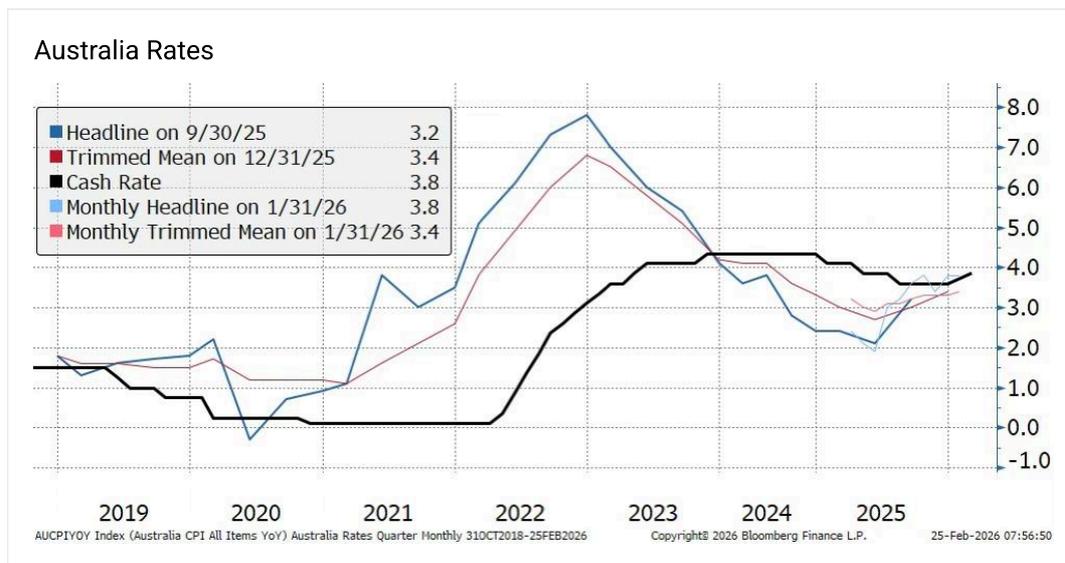
The market is pricing in the next 25 bp hike at the June 15-16 meeting. Looking ahead, the swaps market is still pricing in 50 bp of total tightening in 2026 followed by another 25 bp in 2027, down from 50 bp seen at the start of February. This dovish repricing of BOJ policy due to Takaichi’s dovish BOJ board picks is one factor behind recent yen weakness.



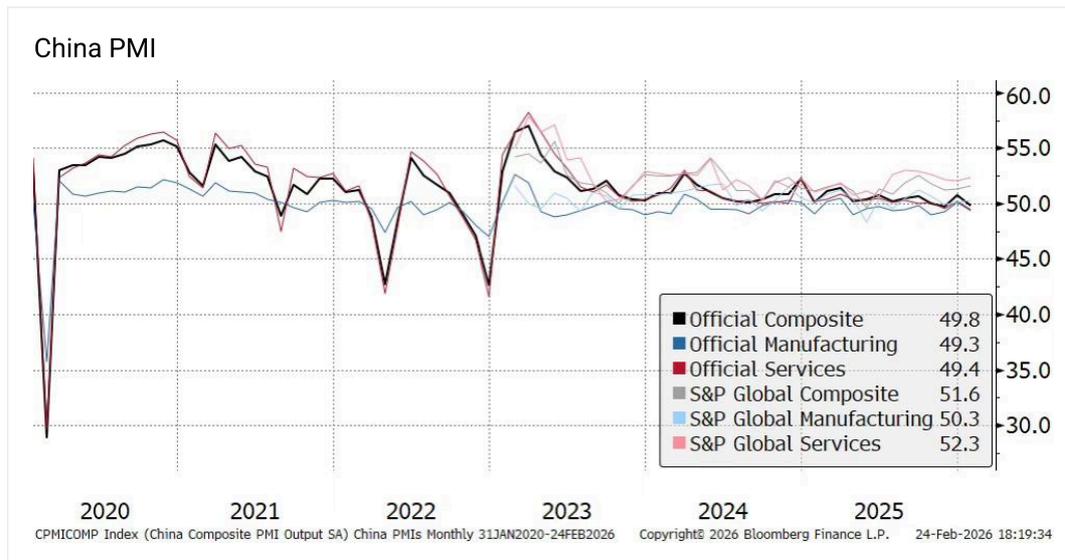
Australia highlight will be Q4 GDP data Wednesday. Growth is expected to pick up three ticks to 0.7% q/q, while the y/y rate is expected to pick up a tick to 2.2%. Ahead of that, Q4 inventories data Monday and Q4 net exports data Tuesday will help round out the picture of overall Q4 GDP. Q4 current account data will also be reported Tuesday.



There are some key Reserve Bank of Australia speakers this week. Assistant Governor and Chief Economist Hunter speaks Monday. Governor Bullock speaks Tuesday. Inflation ran hot in January, justifying the bank's decision to hike rates in February. The bank stressed then that "It was not possible to have a high degree to confidence in any particular path for the cash rate." Next meeting is March 17 and the market sees around 10% odds of another hike then, rising to around 85% at the May 5 meeting and largely priced in for the June 16 meeting. Looking ahead, the swaps market is pricing in only 25-50 bp of total tightening over the next twelve months vs. 50-75 bp seen in early February.



China reports February PMIs this week. S&P Global reports its manufacturing PMI Monday. It then reports its services and composite PMIs Wednesday. Official PMIs will also be reported Wednesday. Manufacturing is expected to fall three ticks to 49.0 and non-manufacturing is expected to rise two ticks to 49.6. S&P Global manufacturing PMI is expected to fall two ticks to 50.1. For now, the mainland economy is muddling through but we do not expect any major upgrade to the outlook given the constraints on policymakers.



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