

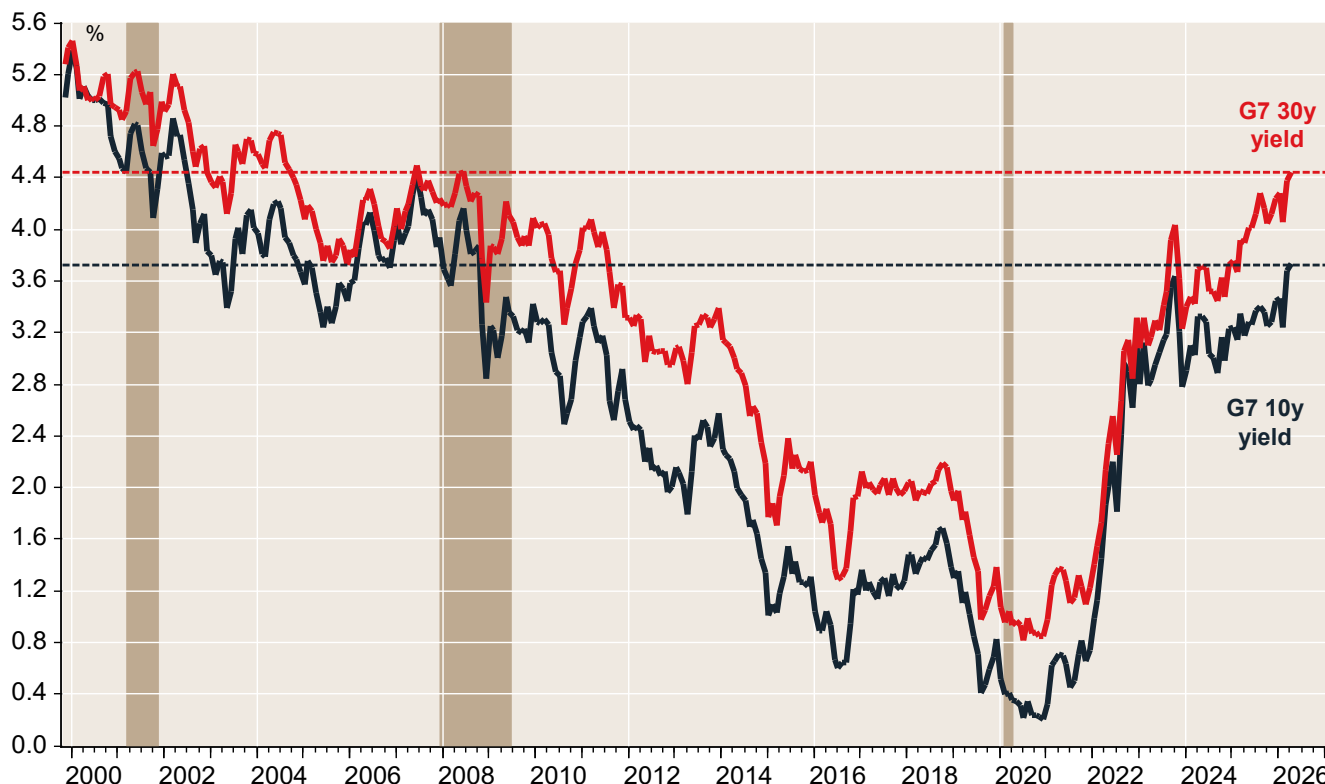
World Watch

By Kyle Dahms and Taylor Schleich

This morning, markets rejoiced over the news that the US and Iran are nearing a peace deal. Oil prices are dropping, equities are bounding higher, and sovereign yields are moderating. But even with today's bond market rally, advanced economy yields remain considerably higher than they were before the Iran conflict began. In fact, as today's Hot Chart shows, the average G7 10- and 30-year borrowing cost ended April at 17-year highs (and we remain within a few basis points of these levels today). Even if a permanent deescalation were to come to fruition, the risk that the long-end remains high is very real. Certain members of the group, notably the U.S. and U.K, were already contending with overly high price pressures before a single missile was launched. Several members have been overly generous in their spending by subsidizing energy (or cutting taxes), despite the fragility of their public finances. The lack of fiscal discipline combined with a high level of geopolitical risk will continue to put upward pressures on term premiums going forward. On the forex side, markets are increasingly treating the long-term yield moves as risk premiums rather than return premiums. For the greenback, safe-haven flows are reversing, and the broad USD is now nearly back to where it was before the conflict, leaving it still down 7% from when President Trump first took office. In Japan, higher yields are undermining, rather than restoring, yen support (see **Forex**). While G7 yields may remain high, this environment favours Canada as a relative outperformer given that inflation was much better contained and fiscal policy is on a more sustainable trajectory. We expect some near-term softness through Q2 but look for the currency to strengthen into the second half of the year.

World: The long-end rate reset

G7 average yield on 10y and 30y bonds (End of month data, last data: April 2026)



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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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