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Rates Forecast Update – Getting a grip

It continues to be a tenuous period for markets, with policy shifts from the new US administration sending shockwaves globally. In the US, the haphazard rollout of tariffs, spending cuts, and Federal workforce cutbacks have driven a massive increase in economic uncertainty and an unwind of some of the US exceptionalism narrative that was broadly consensus into 2025. Those tariffs also pose a major threat to Canada's economy. We haven't made major changes to our central bank forecasts, but risks in the US are now strongly skewed towards cuts being added back into our outlook. Canada outperformance vs. the US reached extremes earlier this quarter, but looks set to reverse on shifting fiscal winds.

Canada

Policy: The BoC cut by 25bp on March 12, as was broadly expected, but their communications were balanced. They presented concerns on weaker sentiment, lower business investment and hiring plans, and the knock-on effects on activity, but balanced these with upside inflation risks from tariffs. We have a low-conviction base case of another cut in April and a final one in Q3 to leave terminal at 2.25% and envision fiscal policy doing the heavy lifting in offsetting the tariff impact. All eyes will be on election timing and the possibility of any fiscal announcements from PM Carney ahead of the election call. Recent polls have shown a tighter race, but the opposition Conservatives narrowly ahead and increasing likelihood of a minority government (either Conservative or Liberal).

Rates: The near-term path for yields is unclear due to trade policy uncertainty. While rates could be pulled modestly lower by US counterparts (see below), we think CA/US spreads should widen (CA underperform). Importantly, we think that GoC yields across the curve are near the lows for the cycle unless the market moves to pricing a policy rate sub-2% (which we think would be unjustified with impending fiscal risks). After mid-year, supply-related yield rises should be evident and push the curve steeper across most segments, but especially 2s5s and 2s10s.

US

Policy: Our base case remains that the Fed is on hold in 2025. Our prior expectations were for that hold to eventually shift to a hiking bias in the second half of the year. However, the chaotic rollout of tariffs and other policies from the new administration means that our more optimistic view for H2 can no longer be our base case. Instead, we now see the balance of risks as [skewed to the downside](#). For now, our base case assumes new policies push growth below trend (but not into outright "deterioration" territory), while upward pressure on inflation leaves the Fed on hold. However, it won't take much to add cuts back into our outlook. Like everyone else, we'll be closely watching the hard data for signs that confirm a drag from elevated policy uncertainty. We outlined three potential scenarios for the Fed in a [recent note](#).

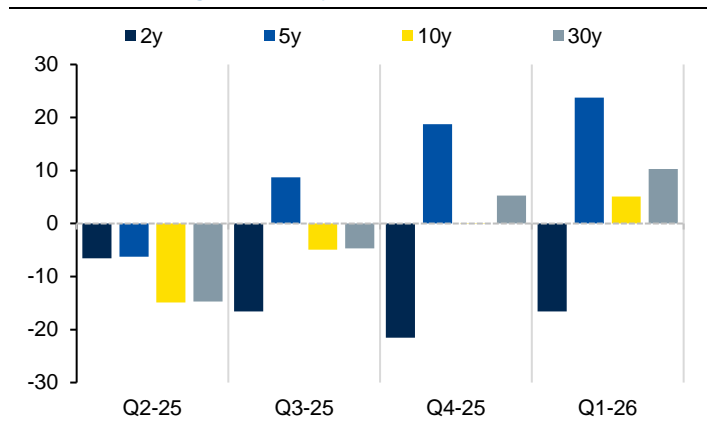
Rates: The removal of an expected hiking bias in H2, as well as [a major reversal in supply-related risks](#) (given the administration's increased focus on 10-year yields) drove meaningful changes to our yield forecasts since the last update. Nearer-term, we see yields shifting lower and curves flattening into mid-year as signs of weakness appear in the hard data, but inflation concerns leave the Fed on hold – leaving the front-end pinned. From there, we see yields moving modestly higher in the back half of the year as the Fed remains on hold, but growth prospects slightly recover from the buildup of pessimism in H1. If the economic outlook ends up deteriorating by more than we currently anticipate, then we'll be adding back in cuts and shifting our yield forecasts lower.

Canada Rates Forecast

	Current	Q2-25	Q3-25	Q4-25	Q1-26
BoC overnight rate	2.75	2.50	2.25	2.25	2.25
Cash Bonds					
Level (%)					
2y	2.57	2.50	2.40	2.35	2.40
5y	2.71	2.65	2.80	2.90	2.95
10y	3.05	2.90	3.00	3.05	3.10
30y	3.30	3.15	3.25	3.35	3.40
Curve (bp)					
2s5s	15	15	40	55	55
2s10s	48	40	60	70	70
5s10s	34	25	20	15	15
5s30s	58	50	45	45	45
10s30s	25	25	25	30	30
Fly (bp)					
2s5s10s	-19	-10	20	40	40
5s10s30	9	0	-5	-15	-15
Swaps (CORRA)					
Level (%)					
2y	2.41	2.35	2.20	2.17	2.20
5y	2.48	2.40	2.55	2.62	2.70
10y	2.77	2.62	2.65	2.70	2.75
30y	2.94	2.75	2.80	2.90	2.90
Curve (bp)					
2s5s	7	5	35	45	50
2s10s	37	27	45	53	55
5s10s	30	22	10	8	5
10s30s	17	13	15	20	15
Fly (bp)					
2s5s10s	-24	-17	25	37	45
5s10s30	15	9	-5	-12	-10
Swap Spreads (CORRA, bp)					
2y	-16	-15	-20	-18	-20
5y	-23	-25	-25	-28	-25
10y	-27	-28	-35	-35	-35
30y	-36	-40	-45	-45	-50

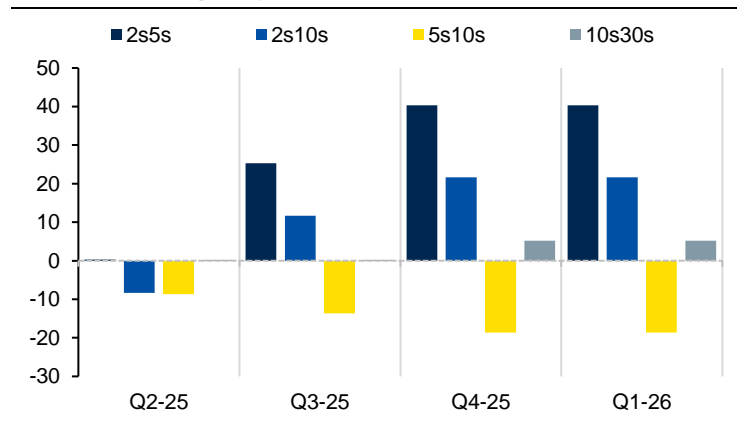
Source: Bloomberg, RBC. Current is 12pm ET, March 14.

Expected change in bond yields (bp)



Source: Bloomberg, RBCCM.

Expected change in yield curves (bp)



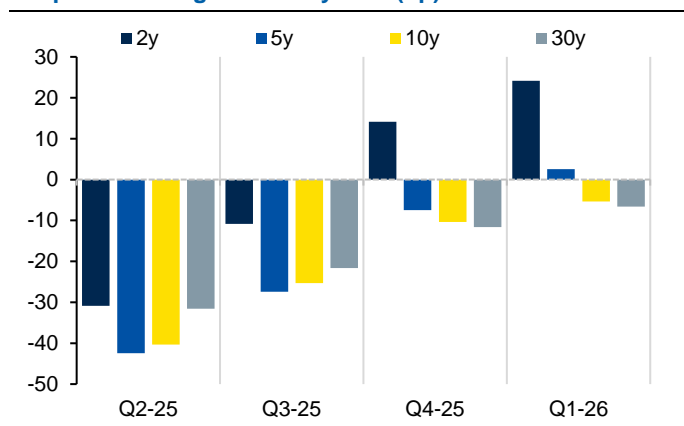
Source: Bloomberg, RBCCM.

US Rates Forecast

	Current	Q2-25	Q3-25	Q4-25	Q1-26
Fed Funds	4.33	4.33	4.33	4.33	4.33
Cash Bonds					
Level (%)					
2y	4.01	3.70	3.90	4.15	4.25
5y	4.07	3.65	3.80	4.00	4.10
10y	4.30	3.90	4.05	4.20	4.25
20y	4.65	4.30	4.40	4.55	4.60
30y	4.62	4.30	4.40	4.50	4.55
Curve (bp)					
2s5s	7	-5	-10	-15	-15
2s10s	29	20	15	5	0
5s10s	23	25	25	20	15
5s30s	54	65	60	50	45
10s30s	31	40	35	30	30
Fly (bp)					
2s5s10s	-16	-30	-35	-35	-30
5s10s30	-8	-15	-10	-10	-15
10s20s30s	37	40	35	40	40
Swaps (SOFR)					
Level (%)					
2y	3.84	3.55	3.73	3.96	4.04
5y	3.79	3.38	3.55	3.73	3.83
10y	3.89	3.50	3.59	3.76	3.81
30y	3.87	3.58	3.70	3.82	3.85
Curve (bp)					
2s5s	-5	-17	-18	-23	-21
2s10s	5	-5	-14	-20	-23
5s10s	10	12	4	3	-2
10s30s	-2	8	11	6	4
Fly (bp)					
2s5s10s	-15	-29	-22	-26	-19
5s10s30	12	4	-7	-3	-6
Swap Spreads (bp)					
2y	-17	-15	-17	-19	-21
5y	-28	-27	-25	-27	-27
10y	-41	-40	-46	-44	-44
30y	-75	-72	-70	-68	-70

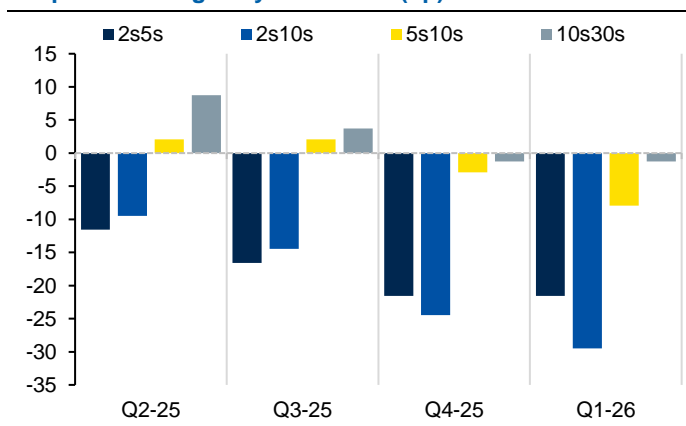
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Expected change in bond yields (bp)



Source: Bloomberg, RBCCM.

Expected change in yield curves (bp)



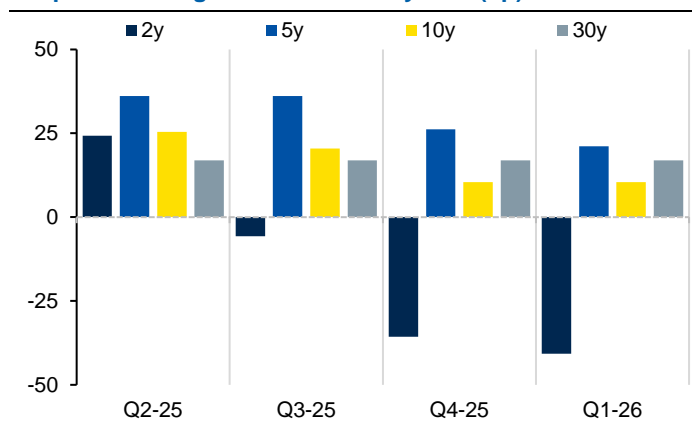
Source: Bloomberg, RBCCM.

Canada-US Cross Market Rates Forecast

	Current	Q2-25	Q3-25	Q4-25	Q1-26
Policy rate differential	-158	-183	-208	-208	-208
Cash Bonds					
Level					
2y	-144	-120	-150	-180	-185
5y	-136	-100	-100	-110	-115
10y	-125	-100	-105	-115	-115
30y	-132	-115	-115	-115	-115
Curve					
2s5s	8	20	50	70	70
2s10s	19	20	45	65	70
5s10s	11	0	-5	-5	0
10s30s	-6	-15	-10	0	0
Fly					
2s5s10s	-3	20	55	75	70
5s10s30	17	15	5	-5	0
Swaps					
Level					
2y	-144	-120	-153	-179	-184
5y	-131	-98	-100	-111	-113
10y	-111	-88	-94	-106	-106
30y	-93	-83	-90	-92	-95
Curve					
2s5s	12	22	53	68	71
2s10s	32	32	59	73	78
5s10s	20	10	6	5	7
10s30s	19	5	4	14	11
Fly					
2s5s10s	-7	12	47	63	64
5s10s30	1	5	2	-9	-4
Swap Spreads (bp)					
2y	1	0	-3	1	1
5y	5	2	0	-1	2
10y	14	12	11	9	9
30y	39	32	25	23	20

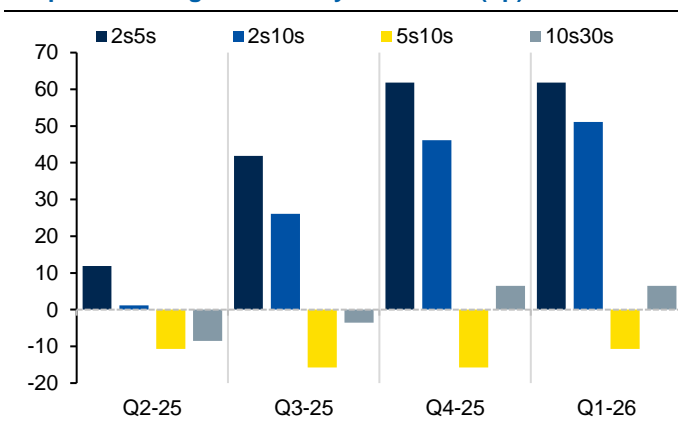
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Expected change in CA-US bond yields (bp)



Source: Bloomberg, RBCCM.

Expected change in CA-US yield curves (bp)



Source: Bloomberg, RBCCM.

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