

Thinking Out Loud



Now Youse Can't Leave

3/27/2026

The White House insists talks with Iran are making progress — Press Secretary Leavitt said earlier this week that the U.S. has been engaged in "productive conversations" and that the regime is looking for an exit ramp. The administration has delivered a 15-point peace proposal through Pakistan, Vice President Vance may travel to the region this weekend, and President Trump has set a five-day deadline for a deal. **Capital markets initially applauded the prospect of a near-term resolution but have since retreated.**

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Juxtaposed the White House, the Iranians are telegraphing a very different narrative and intent. For example, Foreign Minister Araghchi went on state television and flatly denied that negotiations are even taking place. Parliamentary speaker Ghalibaf dismissed U.S. claims and desire for a peace as an attempt to manipulate oil markets. **Rather than responding with a realistic counteroffer, Tehran issued demands the U.S. cannot accept, such as reparations, sovereignty over Hormuz, and guarantees against future attacks. The gap between the two sides isn't small, it's a structural divide, in our opinion.**

Compounding the problem, the U.S. may not have a clear counterpart to negotiate with. Much of Iran's senior leadership has been killed since the conflict began. Early hopes that the campaign would topple the regime have not materialized. **Despite more than 9,000 targets struck, Iran continues launching missiles and drones, has hit the Bushehr nuclear plant again, struck Kuwait's main airport, and shows no signs of fracture. The regime has consolidated around defiance, not splintered under pressure. In our opinion, the weight of evidence suggests this war is becoming harder, not easier, to resolve on President Trump's terms.** Further, in Washington, actions are contradicting diplomatic rhetoric. The Senate rejected a third War Powers challenge, giving the White House an open runway to escalate. A 2,200-troop Marine Expeditionary Unit arrives Friday, the 82nd Airborne is being prepared, and the Pentagon ordered over 1,000 paratroopers to the region the same day the peace proposal was delivered. The administration is caught between promising armistice on one hand, while threatening to intensify military action on the other.

At the center of the current economic fallout—and the key litmus test for any claim of victory—is the Strait of Hormuz, now effectively closed, with vessels facing informal transit fees of up to \$2 million. Oil prices have surged roughly 40%, gasoline is up about \$1 per gallon, and diesel in California has exceeded \$7.00 per gallon. **The broader U.S. economy is now flashing its clearest stagflation warning in decades.** March's S&P Flash PMI pointed to GDP growth of just 1.0%. At the same time, annualized inflation surged toward 4%¹, employment contracted for the first time in over a year, and input costs spiked on Gulf energy disruptions. Services — the largest part of the economy — missed expectations. In our opinion, most recent economic data is inflationary, not growth-driven: February import prices surged 1.3% versus a 0.6% expectation, export prices jumped 1.5% versus 0.3% expected. **In addition, Q4 unit labor costs were revised sharply higher to 4.4%² against a 2.3% consensus, while productivity came in soft at 1.8% versus a 2.2% downwardly revised expectation — meaning labor is getting more expensive much faster than it's getting more efficient.**

Soft Treasury auction results indicate investors are demanding greater compensation to absorb U.S. debt, reinforcing a market repricing anchored in inflation risk—not an improvement in underlying growth. **This is the setup the Fed dreads most: cutting rates to support growth would accelerate inflation, but holding firm would risk tipping a**

¹ [S&P Global US Flash PMI](#)

² [BLS](#)

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fragile economy into recession. And with employment now deteriorating, the public is starting to feel it on both ends: higher prices and fewer paychecks.

That said, markets have yet to fully wash out despite the intensity of recent headlines. Since the conflict began, the S&P 500 is down approximately 5.5% on a price-only basis. By comparison, equities declined roughly 9.3% in the month following the 1990 Iraqi invasion of Kuwait and lost 8.5% during the first month of the 1973 OPEC oil embargo. In our view, markets continue to price in a relatively swift resolution, sustaining a persistent “buy-the-dip” mentality. At the same time, corporate fundamentals remain more resilient than the macro backdrop would suggest. Consensus expectations for Q1 S&P 500 EPS growth have been revised higher to 12.9% year-over-year, signaling underlying earnings strength despite rising geopolitical and inflationary pressures. However, the bond market is beginning to flash cautionary signals. The 10-year Treasury yield has risen approximately 45 basis points to ~4.4% since the conflict began, while the 2-year has climbed nearly 60 basis points to ~4.0%, resulting in a bear flattening of the yield curve—a dynamic that has historically been unfavorable for equities.

We continue to expect a “persistent disruption” scenario, as highlighted in our last webinar entitled [“Iran Conflict: Let’s Get Strait To The Point,”](#) lasting 4–8 weeks, in which Iran sustains resistance with support from allies such as Russia and China. Under this framework, the regime remains intact and potentially emboldened, while the Strait of Hormuz stays effectively closed and regional drone strikes persist. In this environment, Brent crude is likely to trade in the \$90–\$100 range, equity markets move largely sideways, and central banks remain cautious with ever growing concerns about stagflation and recession.

We’d love to hear your thoughts.

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