



Thinking Out Loud

Everybody's Working For The Weekend

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The Iran conflict remains key for risk assets, though markets are leaning toward de-escalation. **Talks may resume this weekend as Iran engages via Pakistan, and the Israel-Lebanon ceasefire has been extended.** On the ground, little has improved: the Strait of Hormuz remains effectively closed, Iran is reportedly mining further, and U.S. naval presence is at multi-decade highs. Diplomatically, Iran appears more hardline, complicating any durable resolution. **Markets are pricing disruption, not destruction, however since the conflict began, equities have started off the week strong, only to fade into the weekend.**

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The week's data, overall, was uniformly stronger than feared, supporting a soft-landing/green-shoots backdrop. Tax refunds and OBBBA stimulus is helping to offset higher gas and food costs. However recent layoff announcements by Meta and Microsoft could be just the beginning of a larger wave of job cuts in the tech sector. March retail sales jumped +1.7% month-over-month (the fastest gain since January '23) driven by higher gas. However, the GDP-feeding control group posted a 0.72% gain, versus a +0.20% consensus, confirming broad-based strength well beyond the gasoline distortion. The S&P April Flash PMIs printed at multi-year highs while initial jobless claims held at 214K and continuing claims near their lowest level since June 2024. However, the stagflation overhang remains as Michigan Inflation Expectations remain elevated while 1Q GDP may miss the 2.0% expectation.

Kevin Warsh's Senate hearing was the week's key macro event, outlining a reform agenda—ending the dot plot, refocusing on price stability, recalibrating data reliance, and shrinking the balance sheet—while reaffirming independence. His confirmation now seems certain, as the DOJ has suspended their investigation into cost overruns relating to the renovation of the Federal Reserve Building. FedSpeak has turned more hawkish, and all eyes will be closely watching next week's Federal Open Market Committee meeting—alongside GDP, core PCE, ECI, and ISM. Currently, the market is pricing a 99% probability there will be no change to the overnight borrowing rate.

Earnings season is showing strength, with 134 S&P 500 companies (25% of index market cap) having reported: sales are up 10.0% and earnings are up 28% suggesting quarterly EPS growth tracking at +14.9%. Still, Equities round-tripped on the week after Monday's run to fresh all-time highs, with the S&P 500 finishing off 0.24% over the last week (Thursday's close). The Dow Jones Industrial Average is down 0.26%, while the NASDAQ is higher by 0.41%. Defensives names modestly outperformed Cyclical. Beneath the surface, the rotation out of software and into hardware continued. International markets lagged the US, with STOXX Europe 50 down -1.76% and MSCI AC World ex-USA off -0.88%, though MSCI Emerging Markets added +0.44%.

Credit continued to confirm rather than challenge the modest equity melt up, with US Investment Grade Corporate bonds yielding roughly 5.24% and US High Yield Bonds yielding 7.23% — translating to roughly a 91 and 291 basis point

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spread over Treasuries, compared to historical averages of 163 and 505 basis points. The Treasury curve steepened modestly on better than feared data. The 10-year ended the week at 4.33% (up from 4.24% Monday), the 2-year at 3.84%, and the 2s10s at approximately +50 basis points above the 3.75% Fed Funds target. Municipals held steady at 2.50% (5Y) and 2.93% (10Y). Structured credit remained well-behaved with CMBS yielding 5.20% and 15-year MBS at 4.23%. Still, material stress continued to surface in private credit, where the SEC opened enforcement investigations into several large managers.

Brent crude climbed back to the \$100 handle during the week on Iran tensions and news that Tehran's lead parliamentary negotiator resigned amid hardliner pressure, while WTI ended Friday giving back about 1% after a four-session run. The oil futures curve continues to signal a sharp decline over the next twelve months though the International Energy Agency now expects the global natural gas market to remain tight well beyond 2026 due to infrastructure damage. Gasoline remains above the critical \$4-per-gallon threshold that has historically preceded economic damage. This concern will only grow, especially if relief is not found by July 4th. Gold was roughly flat on the week after earlier strength, silver modestly higher, and Bitcoin edged up. The energy backdrop remains two-way: crude carries a durable Hormuz risk premium while AI-driven power demand creates a structural bid for natural gas and power infrastructure.

We'd love to hear your thoughts.

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