Thinking Out Loud

Green Shoots or Withering Vines?

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Growth is resilient, but war-related uncertainty is showing up in the April Beige Book, via deferred capital spending and softer hiring intent. PPI illustrated that deadline inflation is accelerating on energy; but core remains well-behaved. Still, the inflation side of the Fed's mandate has re-awakened, in our opinion.

Markets brushed off renewed threats against Chair Powell, with Powell's continued presence through mid-2026 the most likely outcome. Rate cuts are pushed to September at the earliest; with the FOMC expected to hold at their April 28–29th meeting. NY Fed President Williams expects inflation ending 2026 at 2.75–3.00%, easing to 2.00% in 2027.

The ceasefire-extension path has real economic impact all sides but a Hormuz reopening, enrichment terms, and Lebanon all have to resolve before any durable framework holds. Mediators report an "in principle agreement" on a two-week ceasefire extension and suggest enrichment levels are "negotiable" — creating a subtle opening/off ramp for a true end to the conflict. Further, the war is having a profound impact on Iran's economy with $270 billion in reconstruction costs, up to 12 million jobs at risk, and a blockade costing ~$435 million per day. As Bill Maher suggested in his latest Monologue, *"We came to an agreement with Iran. We agreed to stop bombing them, and they agreed to stop being bombed."*

WTI near $90/bbl and Brent near $96 — well off the $120 peak suggests that the geopolitical premium in energy is clearly unwinding. However, a failed cease-fire extension past April 22 deadline could translate into more permanent oil field shut-in damage and a move back toward $100+.

The S&P 500 closed above 7,000 this week for the first time; the Nasdaq 100 is tracking its longest winning streak since 2017. Earnings and the ceasefire supporting the rally, but breadth remains narrow and speculative behavior; in other words, "buy the dip" mentality has returned. Investors need to remember that the Hormuz situation is somewhat binary. Still we are becoming more optimistic that this cease-fire will hold, providing outsized support to beaten down Large Cap Technology. FactSet cconsensus estimates expects S&P 500 Q1 earnings to grow +12.6% y/y — the sixth straight double-digit quarter. Technology leads at +45%, Semis at +95%.

The 10-year sits at roughly 4.28-4.30% and the 2-year at roughly 3.75%. The MOVE index has fallen sharply from its late-March peak. Investment Grade spreads over Treasuries are roughly 0.92% versus a 1.63% post-2008 average. At the same time, High Yield spreads over Treasuries are roughly 2.93% versus a 5.05% long-term average. Unless the consumer is increasingly impaired and jobs numbers implode over the summer, the bond market is signaling the war is over.

We'd love to hear your thoughts.

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