Market Update

Iran War Commentary

Signs of a possible truce have pushed the market higher, but uncertainties remain.

In our last note on the conflict in Iran and its potential implications, we focused on three key questions: how long the conflict will last, how high oil prices may rise, and how long they could remain elevated. Today, we'd concur that these remain the key questions, but a fourth question has emerged: how long will it take to repair the damage and return to a more normal economic environment.

By way of update, we note the following financial impacts thus far:

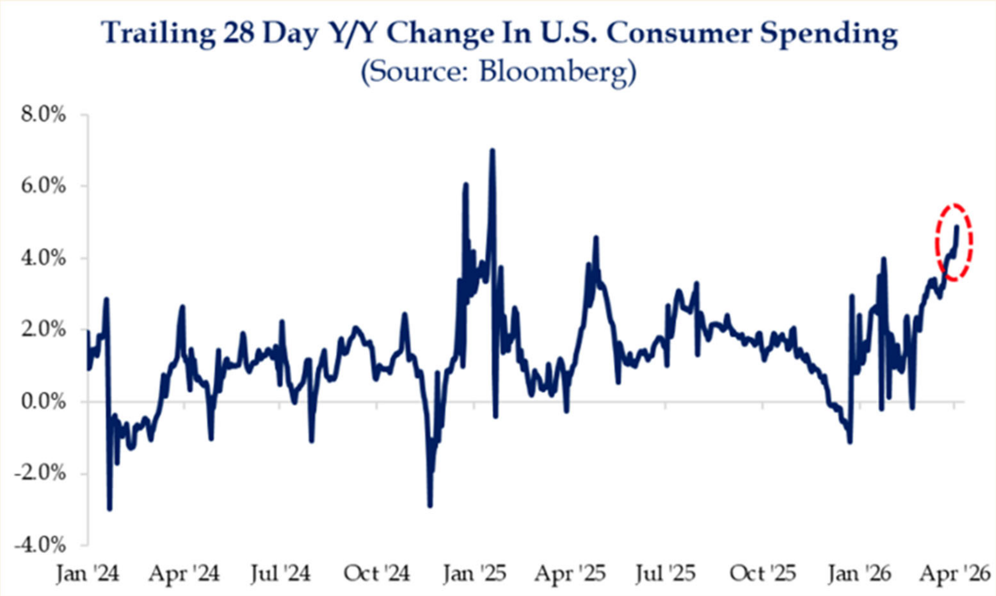
- WTI crude oil prices have been very volatile, rising from $65/bbl before the attack, peaking at $114/bbl in early April, before falling to $95/bbl following the April 7 announcement of a two week cease fire and partial re-opening of the Strait.
- Stocks have also been volatile, with the S&P 500 falling by roughly 9%, then rebounding to within 2% of the previous high following the cease fire.
- Interest rates initially spiked, with the 10-year Treasury jumping 47 bp to 4.43%, but has since settled lower, in the 4.3% range.
- Fed Fund futures were pricing in rate hikes at one point but are now expecting potentially a 25 bp cut before year-end.
- We've already seen inflation impacted by the rise in oil prices, as March CPI rose to an annualized rate of 3.29%, with energy costs up 10.9% and gasoline up 21.2%.

We were correct in stating that signs of a near-term end to the conflict would have a significantly positive effect on both stock prices and oil prices, as noted above, but we are not out of the woods yet.

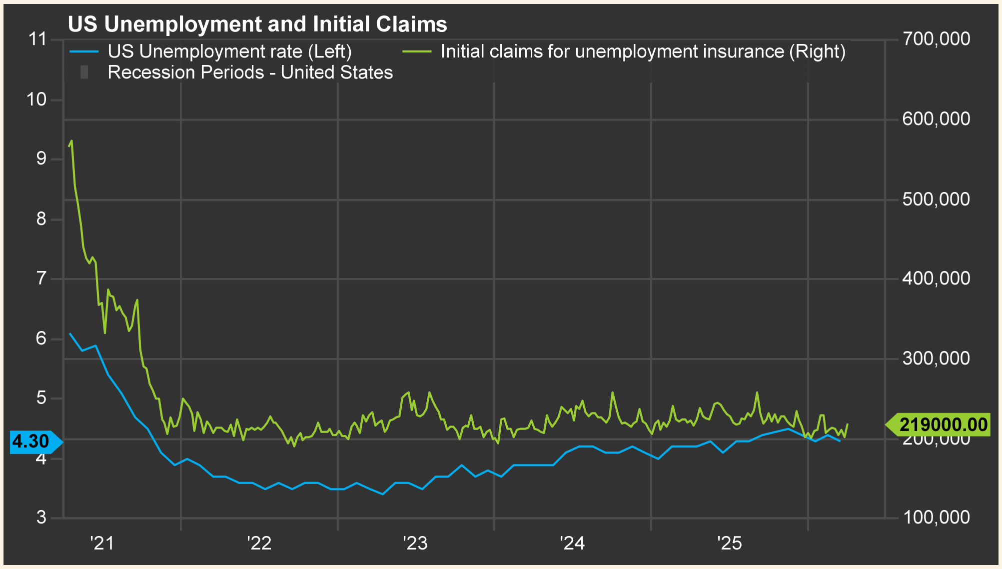
Specifically, a component of the two-week ceasefire was a negotiating session this past weekend in Pakistan, where Vice President JD Vance would work with the Iranians to end the conflict. The key terms demanded by the U.S. included: the reopening of the Strait of Hormuz, Iran's pledge to end uranium enrichment, and Iran's pledge to cease financial support of Middle East terror groups (e.g., Hezbollah). Despite the efforts, no agreement was reached. At this point, both Iran and the U.S. believe they have the upper hand in future negotiations, which is a signal that the last six weeks did not inflict enough pain on either party to get a deal done.

Despite failed U.S.-Iran talks, there has been no immediate return to hostilities in the region. Iran says it has no plans for further U.S. peace talks as it vows to keep control over Strait of Hormuz, although reports on April 14 suggested more negotiations could occur in a few days. As a result, President Trump has rotated from military to economic pressure and announced the U.S. will begin to blockade ships coming out of the Strait to force Iran's hand. On Monday, April 13, WTI prices jumped 6% to $102/bbl on this news. If successful, the economic impact to Iran stemming from lower oil exports, less oil production, and a potential currency collapse could be significant enough to force sufficient pain for Iran to make a deal with the U.S. This blockade is designed to stop all Iranian ships from entering and exiting the Strait to cut off the economic lifeline of the Iranian regime. Estimates suggest that a blockade will cost Iran a combined $12-13Bn per month in lost revenue from lower oil production stemming from shutting oil wells. Iran retaliation could consist of drone attacks on U.S. naval ships, missile attacks on U.S. ships if they can reach, Iran's proxies (the Houthis) closing the Red Sea, and missile attacks on gulf ports.

The good news is that the stock market and interest rates seem to have stabilized (the S&P 500 has actually risen the past few days and rose above the level it was at just prior to the onset of the conflict), while the U.S. economy remains in good shape (including employment and consumer spending), despite consumer sentiment hovering around the lowest point since mid-year 2022.



Source: Strategas As of 04.13.26



Source: FactSet As of 04.13.26

So, we return to the key factors – how long does this last and how much time will it take to repair the damage? It's clear that both sides are seeking to end the conflict, and terms will have to be negotiated before that can happen. However, it is possible a lasting truce could occur over the next few weeks or months. On the supply chain, estimates suggest it could take several months before oil supply is fully restored, during which time economic pain is likely to be felt; e.g., airlines are already considering cancelling flights. If the waterway blockade escalates beyond the Strait of Hormuz and spills over into other international waterways, that could lead to a global shipping cost story on top of the energy story, which could impact supply chains well beyond oil and lead to inflationary and supply chain pressures. As a result, oil prices are likely to remain volatile and elevated in the near term. If oil stays elevated through Q2, the one projected cut that the fed fund futures market is pricing in may start to look optimistic. The second-order impacts could include effects on credit markets and real asset investments. Finally, Iran's allies and oil consumers, including China, have been encouraging an end to the conflict, as it's placing downward pressure on their economies. It is fair to say that a number of key uncertainties remain.

Geopolitical conflicts are nothing new and generally do not have long-lasting impacts on financial markets or global economies provided they are settled relatively quickly. That is our hope with regard to the current conflict. As always, we believe prudent diversification, a long-term approach, and emphasis on risk management and capital preservation, paired with taking advantage of asymmetric investment opportunities is the best way to weather such storms and remains a prudent strategy for investors.

Thank you for your support of Turtle Creek. Please contact us if you have any questions or concerns.