

Q&A with Investment Strategy

Amid Ceasefire, Markets Show Resilience

April 20, 2026

Larry Adam, Chief Investment Officer

Pavel Molchanov, Senior Investment Strategist

Matt Barry, Senior Investment Strategist

S&P 500 TOPS PRE-WAR LEVELS AS INVESTORS PRICE IN AN EVENTUAL DEAL

Last week's Iran-related news flow was relatively quiet. The US blockade of Iranian ports remains in place, but Iran's response has been—somewhat surprisingly—measured. Both sides appear focused on preserving the ceasefire, and the newly initiated parallel Israel-Lebanon ceasefire increases the odds that it holds. Any renewed US military engagement would face a domestic backdrop in which public opinion remains opposed to the conflict. Meanwhile, equity markets continued to climb for a third straight week, with the S&P 500 reaching a record high for the first time since January 27.

WHAT HAPPENED ON THE DIPLOMATIC FRONT LAST WEEK?

There have been no direct talks between the US and Iran since the April 11-12 meeting in Pakistan concluded without a breakthrough. A US delegation is on its way to the next round of talks that could take place this evening, though Iran has indicated its reluctance to participate. This morning's oil price increase and equity weakness provide a reminder that the situation remains fluid.

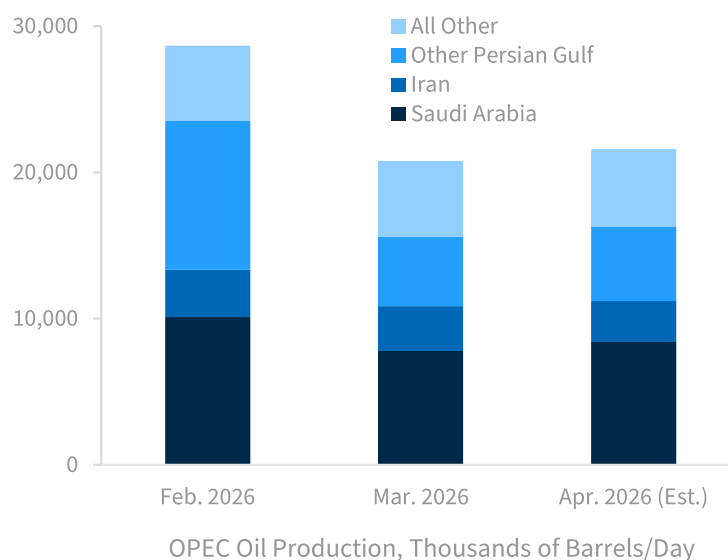
Last week brought two encouraging developments. First, a ten-day ceasefire between Israel and Lebanon took effect on Friday. Israel-Lebanon strife is a decades-long story, but the latest flare-up took on added significance because Iran demanded a ceasefire in Lebanon during the first round of talks with the US. The Israel-Lebanon ceasefire should create a more favorable backdrop for extending the US-Iran ceasefire. Second, Friday's statement by Iran's foreign minister—indicating that all commercial ships will be allowed to pass through the Strait of Hormuz for the duration of the US-Iran ceasefire—also helped to improve the atmosphere for future talks. On Saturday, however, the Iranian military contradicted the minister's statement, declaring that Hormuz will stay shut until the US ends its blockade of Iranian ports. That same day, two ships came under attack from Iran—illustrating how quickly conditions can deteriorate.

WHAT'S THE LATEST ON OIL PRODUCTION?

Shipping traffic, [which we discussed one week ago](#), is available in real-time, but oil production is reported monthly. Last week, OPEC released its production data for March, confirming that the 12-member group's aggregate volumes fell at an unprecedented rate, both in absolute and percentage terms (*down 27% MoM*).

The sharp drop largely reflected logistical constraints rather than deliberate supply cuts. Iraq, Saudi Arabia, UAE, and Kuwait were forced to curtail production from major oilfields due to a lack of tankers available to pick up cargoes. By contrast, Iran's production fell *only* 6%, largely because a hefty share of ships transiting the Strait of Hormuz had links to Iran. But now that the US Navy is intercepting ships docking at Iranian ports, Iranian output is poised to decline meaningfully in April. Normally, Iran produces ~3.2 million barrels/day, of which ~1.4 million are exported. Those exports have been pushed to near-zero levels by the US blockade, offsetting a partial recovery in production by some of Iran's neighbors, who are taking advantage of bypass options around Hormuz, [as we discussed in our note on April 6](#).

Steepest-Ever Decline in OPEC Oil Production



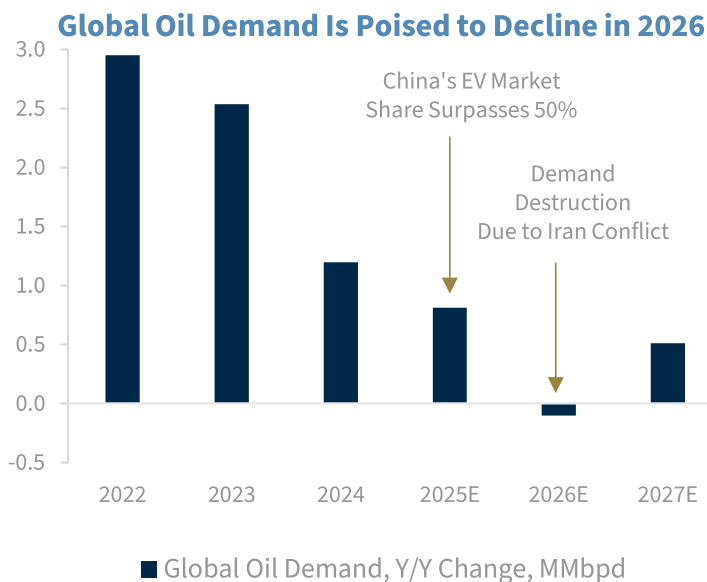
Source: OPEC. Data as of 4/17/2026.

TO WHAT EXTENT IS OIL DEMAND AFFECTED BY THE PRICE SPIKE?

Although WTI crude ended last week at its lowest level since March 10, prices remain nearly 50% higher YTD. Among the consequences is what the industry refers to as *demand destruction*. In developed economies, this mainly refers to changes in discretionary travel. For example, some households may opt for a staycation this summer instead of paying extra for gasoline or airline tickets. In Asia's emerging markets, which have outsized exposure to disrupted oil and LNG supply from the Persian Gulf, the effects may be even more painful. Fuel rationing is being enforced in Indonesia, Bangladesh, Sri Lanka, and Cambodia. Even with rationing, some factories and office buildings are unable to operate due to excessive costs.

As industrial sites in Asia face the risk of curtailment or closure, resulting supply chain disruptions could reverberate across other parts of the global economy, potentially pressuring oil demand further.

Putting all this together, the IEA's latest forecast calls for global oil demand to tick *down* 0.1% in 2026, as compared to its pre-war estimate of a 0.6% *increase*, and marking the first decline since COVID in 2020. While global oil demand should resume growing in 2027, the pace of growth is set to be slower than it would have been in the absence of the Iran conflict. Put another way, some amount of demand destruction may be permanent, due to substitution away from petroleum.



HOW MUCH OIL IS BEING RELEASED FROM THE STRATEGIC PETROLEUM RESERVE (SPR)?

After a slow start during March—reflecting the time required to establish an auction system—releases of oil from the SPR have picked up pace. The SPR released 4.1 million barrels in the week ended April 10, more than the prior two weeks combined. If this new pace is maintained, the US contribution to the [IEA's aggregate pledge of 400 million barrels](#) would be completed around the end of 2026.

To clarify, the oil being released from the SPR is *not* physically needed for US refineries, which process either domestically produced light sweet crude or imported heavy crude—both of which remain plentiful. Accordingly, the 'extra' supply from the SPR is going towards exports, which in the latest weekly data rose to a record 12.7 million barrels/day. The most immediately pressing need for these barrels is in Asia—the region that is historically the most dependent on oil from the Persian Gulf—with Europe also feeling some of the same effects. In particular, Asia and Europe are at risk of jet fuel shortages as early as May. While there is no risk of such shortages in the US, US-based airlines are passing through higher fuel prices onto their customers, via higher headline fares or energy surcharges. We are also seeing evidence of airlines around the world suspending some of their less-profitable routes due to high fuel costs.

WHAT'S THE LATEST ON WHAT AMERICANS THINK ABOUT THE IRAN CONFLICT?

As we initially noted in our [Q&A on the Iran conflict from March 16](#), we typically avoid polling, but under current circumstances and public sentiment, it's difficult to ignore. With six and a half months left until the midterms, domestic political concerns are among the factors influencing the White House's decision-making. To the extent that opposition continues to build, the administration is 1) more likely to keep the current ceasefire in place and 2) show greater flexibility in future negotiations with Iran.

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Eight weeks into the conflict, recent polling still shows that the majority of American voters remain opposed to US military action in Iran. News of a ceasefire has done little to shift public opinion. Instead, the conflict has highlighted President Trump's vulnerability on core economic issues—including elevated gasoline prices, broader affordability frustrations, and mounting warnings that a prolonged conflict in the Middle East could amplify downside risks to the global economy.

The conflict's unpopularity isn't taking place in isolation—it feeds directly into President Trump's historically weak job approval ratings overall. Since the conflict started, Trump's net approval rating in the RealClearPolitics average has ticked down from -11.4 to -14.7. As it stands, 56.2% of Americans disapprove, versus 41.5% who approve—thus, Trump's net rating is 14.7 points 'underwater.'

One consequence of President Trump's low approval ratings is that Democrats are now favored to regain control of at least one chamber of Congress in November's midterms, now less than 200 days away. Betting markets imply an ~85% probability of Democrats winning the House and about a 55% chance of taking the Senate. The latter represents a notable increase from around 41% before the onset of the Iran conflict.

WHAT ARE OUR LATEST THOUGHTS ON THE ECONOMY?

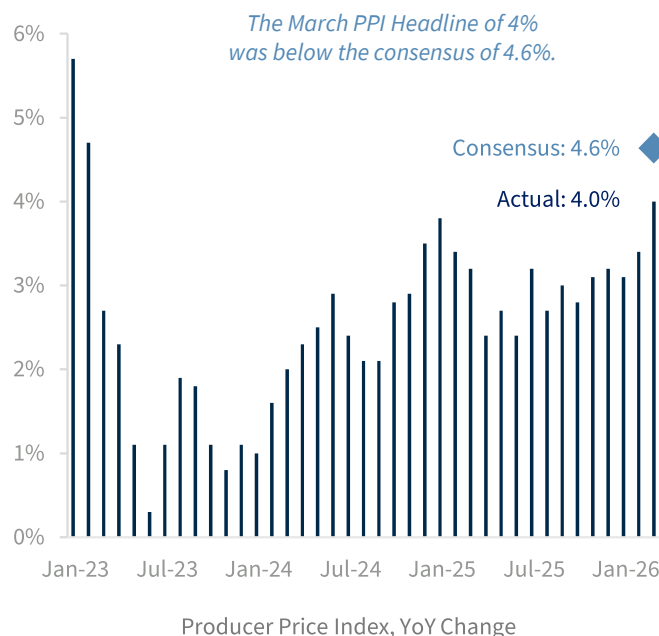
With oil prices stabilizing over the past two weeks, the conflict's impact on the US economy has been more limited than initially feared. While headline inflation has moved higher, the latest PPI and import price data suggest that a worst-case outcome has been avoided. With the broader disinflation trend still intact, we continue to expect one Fed rate cut this year—a view markets appear to share as rate cut expectations have increased to 53%, according to Bloomberg.

From a growth standpoint, the impact also looks contained. Bank CEOs continue to report solid consumer spending, regional Fed surveys (Empire State and Philly) point to a healthy expansion in manufacturing, and real-time indicators suggest steady underlying growth. Overall, the US economy—supported by energy self-sufficiency, added military spending due to the Iranian conflict, and a resilient consumer—appears better positioned than most economies in Europe and Asia.

We will look for further confirmation of consumer resilience in tomorrow's March retail sales report, though we would caution that the headline figure may appear elevated due to higher nominal gasoline spending. Our focus will be on the control group, which feeds more directly into GDP and provides a clearer read on underlying demand. We expect that to remain positive, supporting a solid finish to 1Q26. Moreover, household balance sheets remain in good shape, with debt service ratios still at healthy levels.

On private credit—an area of elevated investor concern—last week's commentary from several bank CEOs was reassuring. They emphasized that most private credit risk resides with fund investors rather than banks, and that bank exposures remain limited, conservatively structured, and supported by broadly sound lending conditions. As a result, we continue to believe that private credit spillovers do *not* pose a systemic risk to the economy and are likely to remain contained, though we will continue to monitor developments closely.

YoY Rise in March PPI Was Cooler Than Expected



Source: BLS. Data as of 4/17/2026.

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WHAT ARE OUR LATEST THOUGHTS ON EQUITIES?

Last week marked the S&P 500's third consecutive week of gains greater than 3%—a streak which has only occurred twice before: in September 1982 and June 2020. The cumulative three-week gain of 11.9% is the strongest since 2020. And with the S&P 500 surpassing the 7,000 milestone to reach a new record high, this represented the fastest-ever recovery from a 7% or greater drawdown.

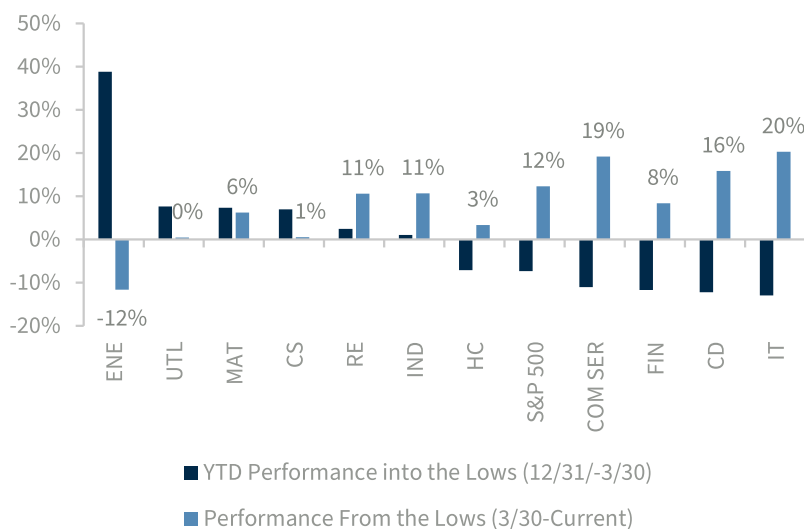
While the magnitude of the rebound has exceeded our expectations, the rally itself was unsurprising. First, as we often note, market volatility is a normal feature of investing, and the S&P 500's 9.1% peak-to-trough decline during the Iran conflict was well within the typical annual drawdown of ~14%. More importantly, equity markets have historically looked through geopolitical shocks as long as economic and corporate fundamentals remain intact—and, as discussed earlier, recent economic data has been largely encouraging.

International equity markets have staged similarly robust rebounds. In local currency terms, markets in Brazil, Taiwan, Israel, and Japan have already reached new record highs, and Korea is close to doing so. European equities have lagged slightly: Stoxx Europe 600 is 1.1% below its record high, with Germany's DAX and the UK's FTSE 100 still roughly 3% and 2% below their peaks, respectively. Keep in mind, economies in Europe and (especially) Asia have greater exposure to the energy supply disruptions.

With earnings season now underway, investor attention is shifting more toward underlying corporate profitability, even as Iran-related developments remain in focus. Because 1Q26 results only capture one month of Iran-related disruptions, forward guidance and management commentary will be especially important. This comes amid elevated earnings expectations, with consensus projecting more than 10% EPS growth for the S&P 500 each quarter through 2027, which, if realized, would mark the longest such streak since 2006. Given these lofty expectations, the market may react more sharply to earnings misses or weaker guidance, possibly leading to increased volatility and wider sector dispersion.

From a sector perspective, market leadership since the lows has been a clear case study of sector rotation. Several of the weakest sectors YTD heading into the lows have delivered some of the strongest gains since, as investors refocus on fundamentals. Case in point: consensus points to Tech delivering 40% EPS growth in 2026—the highest of any sector. Unsurprisingly, Tech has led the market off the lows, followed by Comm. Services and Cons. Discretionary. The rebound reflects renewed investor confidence in sectors with superior earnings and durable growth profiles. Our top preferences are Tech, Cons. Discretionary, Health Care, and Industrials.

Technology, Communication Services, and Consumer Discretionary Have Led Gains From the March 30 Lows



BOTTOM LINE

As we wait for next steps in the US-Iran dialogue, we are encouraged by the US economy and equity market's resilience—underscored by the S&P 500 setting record highs for the first time since January. The speed and magnitude of the market's rebound from the initial selloff reinforce a point we often emphasize: time in the market matters far more than attempting to time the market. But with earnings expectations at historically lofty levels, the durability of recent gains will partly depend on what happens during earnings season.

Source: FactSet. Data as of 4/17/2026.

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WTI Oil | West Texas Intermediate (WTI) is a high-quality, light, and sweet crude oil that serves as the primary benchmark for oil pricing in the United States.

Producer Price Index (PPI) | The Producer Price Index is a monthly economic indicator measuring the average change over time in selling prices received by domestic producers for their output.

STOXX 600 Index | The Stoxx Europe 600 Index represents large, mid, and small-cap companies across 17 European countries, offering broad market exposure.

FTSE 100 | The FTSE 100 is a share index representing the 100 most highly capitalized blue-chip companies listed on the London Stock Exchange (LSE).

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Source: FactSet

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880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863