

Out of the frying pan, into the ceasefire

Report for the week ending April 11, 2026

Dylan Smith

Key Takeaways

- **MONOLOGUE:** What we've learned: the Trump chaos factor is real, as is "TACO," the Strait of Hormuz is now a permanent hotspot, and oil will have a higher baseline premium. What we'll need to re-focus on: the slow-motion run in retail private credit, and the Fed.
- **MACRO:** Headline CPI jumped on energy, but core behaved better than expected. US growth lost momentum in March. Meanwhile, Gross Output contracted for the first time since 2022, suggesting firms are eating tariff costs.
- **MARKETS:** A powerful relief rally followed the ceasefire. WTI fell \$15 to \$96.6, the S&P 500 rose 3.6%, and the Nasdaq 4.7%, led by inflation-sensitive consumer and tech names. Gold kept climbing, the dollar sold off 1.6%, and spreads compressed modestly. Notably, the yield curve barely moved.
- **MEMO:** We bust the myth that energy imports are the key determinant of economic exposure to oil price shocks. A wide range of factors determines a country's sensitivity to changes in the global oil price. When modeling out the potential impact of geopolitical shocks, a country-by-country approach is more appropriate than cross-sectional analysis.

Monologue

All is quiet in the Persian Gulf. A little quieter than we'd like. Missiles and interceptors no longer trace their arcs across the sky. But we're still waiting for the steady thrum of hundreds of stranded heavy tanker engines to fill the air as they prepare to transit the Strait of Hormuz.

The two-week ceasefire announced this Tuesday will give Iran and the US a chance to reach a durable end to hostilities. But only a chance — the peace is fragile and it would not take much to re-enter an escalation scenario. This looks more likely after "marathon" talks between Vice President Vance's American delegation and his Iranian counterparts broke down over Iran's unwillingness to shut down its nuclear program and control of the Strait of Hormuz.

Markets will remain hair-trigger sensitive to any hints on the shifting probability of a longer-term deal as the ceasefire enters its second week, and the powerful "relief rally" in risk assets that followed the ceasefire announcement cannot be relied upon to turn into a bull market.

But we can dream. Assuming that there is enough willpower (and enough to lose) on both sides to reach an agreement that normalizes trade through the Strait of Hormuz in further talks, we might as well engage in some reflection and forward-looking thinking that equity markets are clearly engaging in.

What have we learned, if anything, from this war? What's changed since February 27th?

- The concern we expressed in our 2026 Outlook that challenges on the domestic front ahead of the November midterms would lead President Trump to be more active and unpredictable in foreign policy has been proven sadly correct. The Trump chaos factor is real, and will not end with the Iran War.
- The "TACO" trade has also been validated. This makes me nervous. "TACO" is true until it isn't — perhaps catastrophically so. The better lesson to take from this affair is that:
- President Trump is a political animal and a market obsessive. His willingness to back down on major decisions has a lot to do with the recent performance of the S&P 500 and his approval ratings among his base.

- Israel is gaining increasing foreign policy independence from its US sponsor, via a combination of influence and initiative.
- The Strait of Hormuz is now a permanent political hotspot. Iran has learned that it can keep the Strait closed with limited military hardware and endure a major bombardment. It has been unwilling to test this leverage in the past, but the Rubicon has been crossed.
- From an economic standpoint, this will mean a higher baseline premium for Gulf oil than before the war, a narrower WTI-Brent discount, and more volatile energy prices.
- Economic impact models have been largely correct so far. There has been a jump in energy-related inflation, but almost no pass-through to core inflation, which would require 3-6 months of sustained high oil prices. There are indications of a loss of economic momentum, but no seriously concerning indicators yet.

What have we been missing? What will we need to re-focus on after a deal is reached?

That may be a little way out, but two main things:

- The slow-motion run in retail-oriented semi-liquid private credit. We've argued that this is not a systemic risk, but we think that spreads will widen somewhat and that markets will become distracted by this narrative.
- The Fed! Interest rates! Without Iran, this would be a major story:
 - The reversal in labor market (stabilizing) and inflation momentum (rising) compared with late 2025 would be shifting rate expectations and creating uncertainty relative to prior Fed guidance even without the oil price spike.
 - Kevin Warsh has yet to be confirmed as Fed Chair by the Senate. Hearings have been delayed. There is a rising (though still low) probability that he does not get confirmed. In this case, Jay Powell would remain in charge.
 - Combine this with a less certain future path for the Iran War, and the outlook for interest rates is as uncertain as it has been in years.

With that, enjoy this week's note.

Dylan Smith

Founder and Chief Economist

Marginal Movers

Rising 🙌

- **Opportunism:** [Goldman Says It's Ready to Pounce as Retail Flees Private Credit](#) — "Goldman Sachs is seeing a “meaningful shift” in the lending environment: the fierce competition that marked the rise of the \$1.8 trillion asset class in recent years is starting to ease. That's tilting the balance back toward the lender rather than the borrower."
- **Earnings:** [Highest Number of S&P 500 Companies Issuing Positive EPS Guidance in 5 Years](#) — "This quarter marks the highest percentage of S&P 500 companies issuing positive EPS guidance for a quarter since Q3 2021 (57%)."

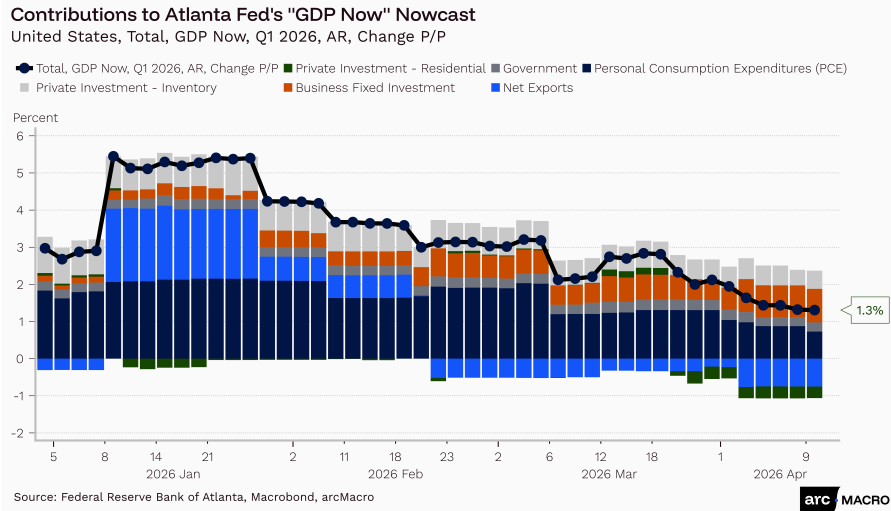
Falling 🙋

- **White Collars:** [The job-security premium of a Bachelor's degree has disappeared.](#) — Read it for the chart.
 - **Insider trading:** [Capital in the Capitol: Congressional Trades Resemble Uninformed Retail Trading](#) — "We show that legislators' positions track financial professionals' recommendations, and that their timing largely reflects prevailing market sentiment, estimated from retail investors' social media posts, rather than anticipating future price changes."
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Macro Monitor

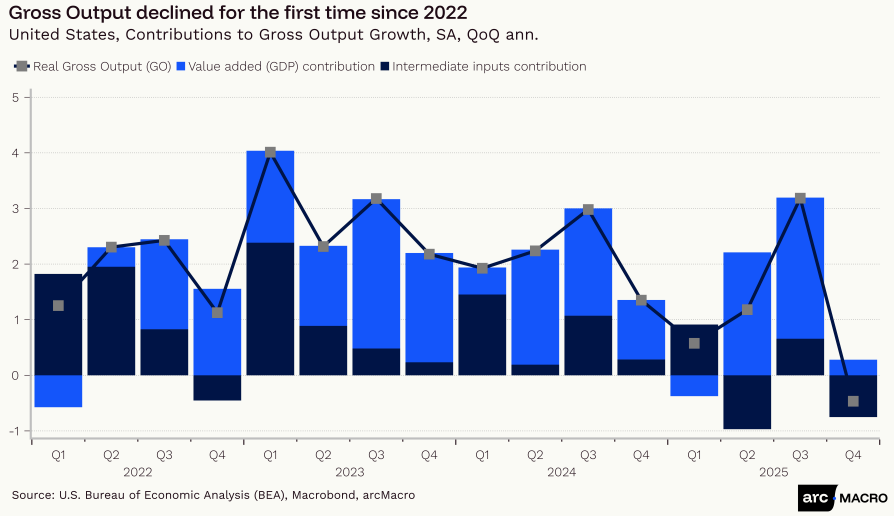
Growth faltering

For several weeks, we've been seeing data that paints a picture of a US economy in pretty good shape on the eve of the first bombardments of the Iran War.



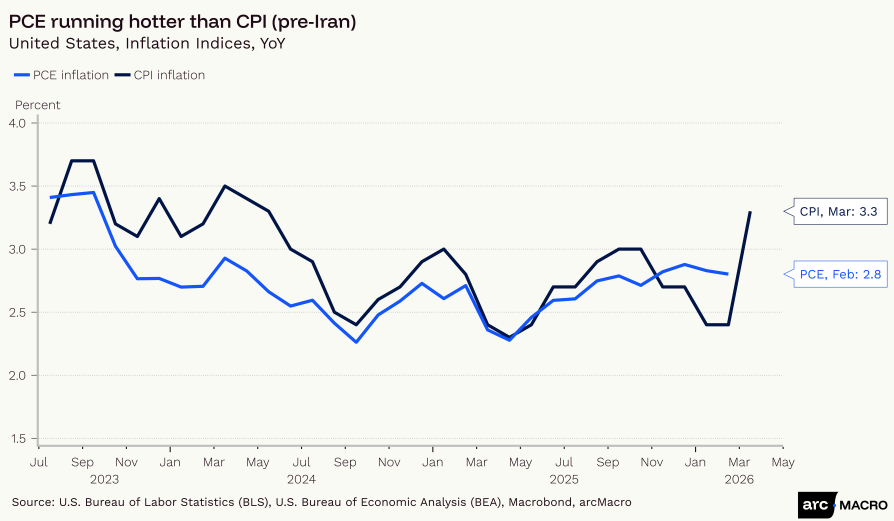
In older news, US GDP growth for Q4 2025 was downgraded again. It's now down from an initial estimate of 1.4% to 0.5% (QoQ annualized). This week's third estimate came with additional contextual data, most important of which are the Gross Output (GO) numbers. GO expands the concept of economic activity, adding to pure value-added (the basis of GDP) intermediate activity (B2B transactions along the value chain), akin to the difference between sales and earnings on a company income statement. GO is a better business cycle indicator than GDP, and is the more relevant number for investors (who, unlike consumers, have a direct interest in the B2B economy).

The update from the GO report was not great – for the first time since 2022, Gross Output contracted, with the small improvement in value-added not sufficient to offset a 1.8% contraction in intermediate output. Our read is that firms remained in cost-management mode as tariffs moved through the economy, rather than passing on the cost to consumers.

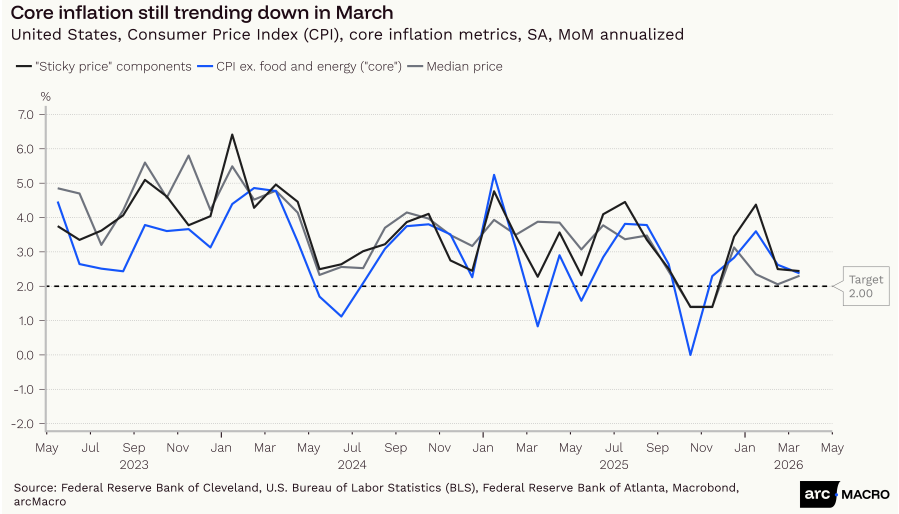


Inflation firm

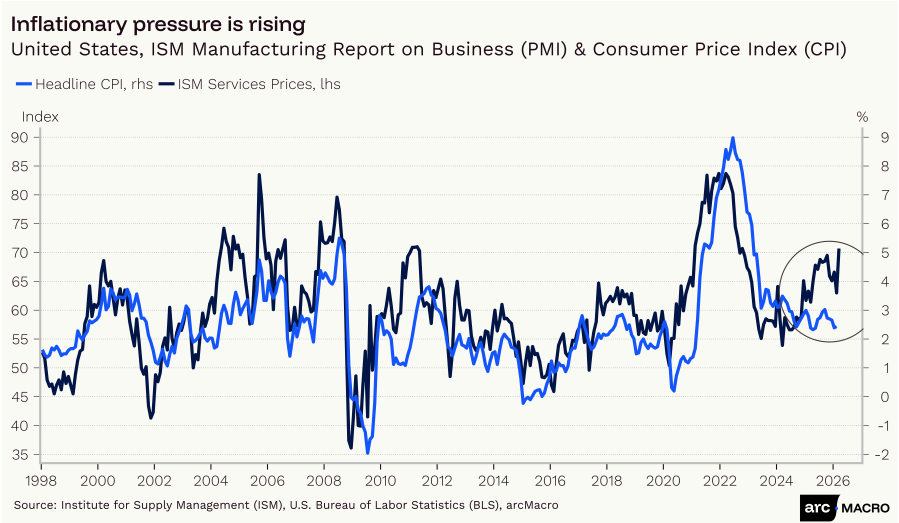
It will surprise nobody that headline CPI inflation rose sharply in March, primarily owing to a 10.9% month-on-month rise in energy costs.



But the March CPI report was actually good news overall: Core inflation - stripping out food and energy prices - did not rise as expected, and in fact trended down on our preferred 3-month window as a delayed moderation in shelter costs continued to feed through the index.



Looking ahead, there is plenty more space for inflation to rise. Even before the Iran War, the typical relationship between the ISM services price gauge and headline CPI suggested we're on track to see consumer prices growing at a 3.5%-4.5% rate. This indicator now stands above 5.0%.



No wonder, then, that inflation expectations have risen by 1.0 percentage points in the latest University of Michigan Survey of Consumers. This more than anything will keep the Fed cautious as they assess the degree and persistence of the inflation shock.



See the appendix for arcMacro proprietary Factors and the Key Macroeconomic Indicators tracking chart.

Market Monitor

The story of the week was a powerful "relief rally" in risk assets after the announcement of the two-week ceasefire between the US and Iran on Tuesday. The price of WTI crude oil fell by \$15.0 to \$96.6 per barrel, leaving it nearly 50% higher than it was going into the war on February 27th.

Equities led the rally, with the S&P 500 up 3.6% and the Nasdaq Composite index up 4.7%. Inflation-sensitive consumer segments and technology led the rally, which was broad-based outside the energy sector.

Gold followed suit (still behaving like a risk asset), rising by 2.9% (we turned near-term bullish on gold two weeks ago, and see more room to run). The dollar sold off to the tune of 1.6%, with the euro and emerging markets the strongest relative performers against the greenback.

Spreads compressed, with BBB-rated corporate bond spreads contracting by 3.1 basis points. However, the yield curve shifted less than one might have expected. Markets are not putting interest rate cuts back into play, partly because of persistent uncertainty, and partly because there was never much justification for easier rates in the US in any case.

See the appendix for the market monitor table

Memo

Busting the energy import exposure myth

Bottom line: *When assessing the inflationary impact of oil price shocks, import status is important, but not deterministic. Oil markets are global; price changes affect domestic fuel, electricity and food costs even when countries are net exporters.*

What it means for investors: *A wide range of factors determines a country's sensitivity to changes in the global oil price. When modeling out the potential impact of geopolitical shocks, a country-by-country approach is more appropriate than cross-sectional analysis on a small number of variables.*

In the weeks after the Iran war started, a strong consensus began to emerge that countries that import more crude oil, processed petrochemicals, and natural gas would be hit hardest and fastest, starting with a sharp spike in domestic inflation.

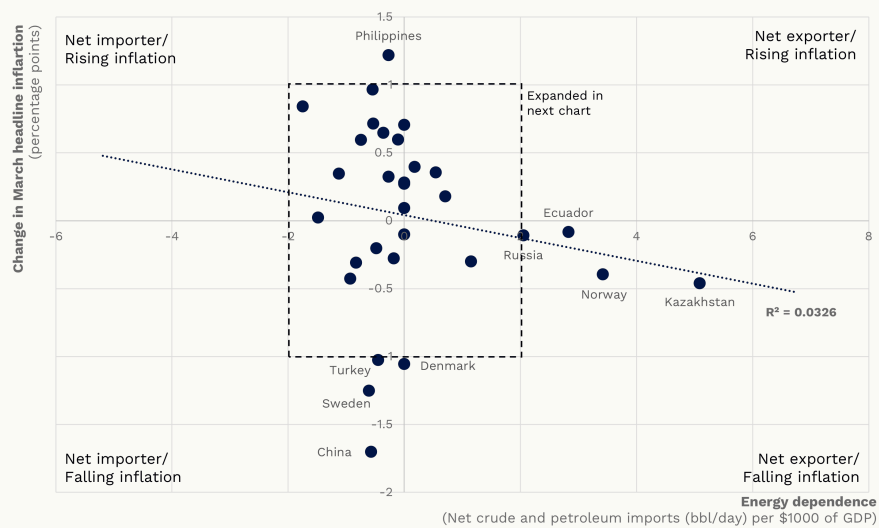
As the March inflation data have come out, this is starting to look like a busted myth. We document the relationship between traded hydrocarbon dependence and inflation impact.

Our method requires nothing more complicated than a few scatter charts.

On the x-axis, we plot net energy exports in physical units, sourced from OPEC. We scale this by GDP to turn it into a measure of traded energy dependence – units of net physical exports (imports) per dollar of GDP. Bigger numbers should imply higher economic sensitivity to hydrocarbon prices, with the sign dictating whether higher prices are a net positive or negative.

On the y-axis, we plot the change in headline inflation between March and February, giving us a rough measure of the aggregate inflationary impact of the Iran War so far. Since not all countries have published their March inflation reports yet, this limits our sample.

A weak relationship between oil dependance and inflation change (1)
 World, net crude and refined imports scaled to GDP vs. March change in inflation



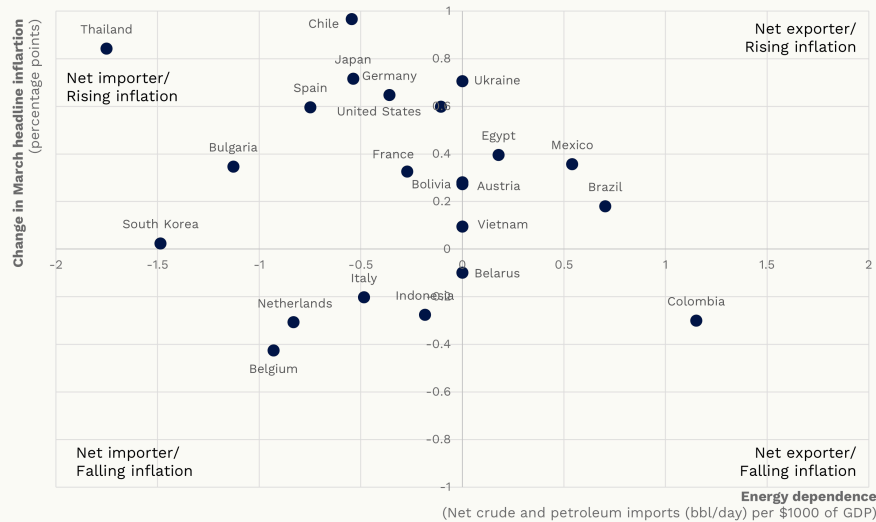
Looking first at crude oil and refined petroleum products, a group of net exporters with falling inflation in March stands out. These are Russia, Kazakhstan, Norway, and Ecuador. No surprises here.

There are also several importers with very large inflation drops in March. Three of them – Turkey, Sweden, and Denmark– have experienced disinflationary exchange rate improvements and have benign local inflation conditions. The other, China, has extremely weak underlying inflation dynamics, central control over fuel markets, and has been feeding its refinery industry from reserves.

When we plot a trend line through the points, we get a shallow line with essentially no statistical power.

That's because of the large grouping of countries in the middle of the plot. Zooming in on them, we see a lot of variation.

A weak relationship between oil dependence and inflation change (2)
 World, net crude and refined imports scaled to GDP vs. March change in inflation



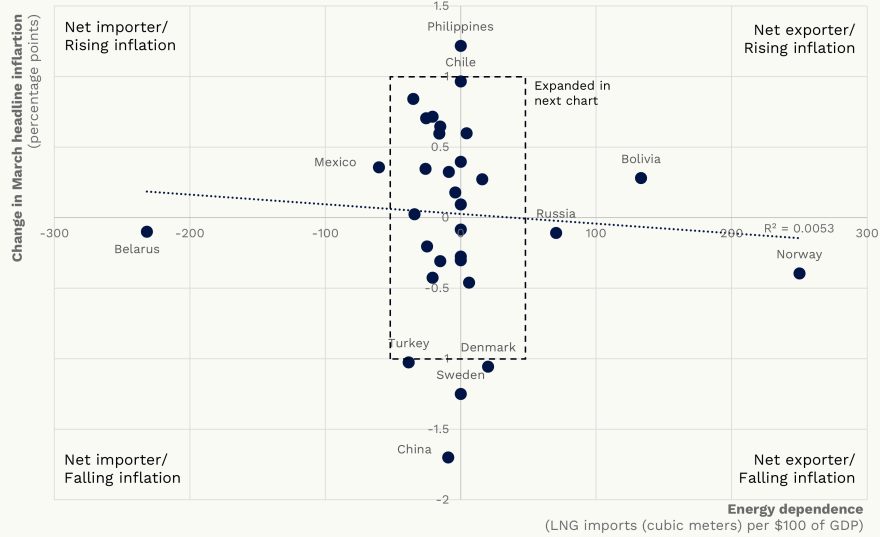
Some net importers (Thailand, Bulgaria, Spain, Japan, Germany) are experiencing the expected effects, with sizable inflation increases in March. But several others with much smaller net imported energy dependence are experiencing low (South Korea) or even negative (Italy, Netherlands, Belgium) inflation changes in March.

Most notable is the significant group of countries that are both net exporters and experiencing a significant rise in domestic inflation in March (Egypt, Mexico, Brazil).

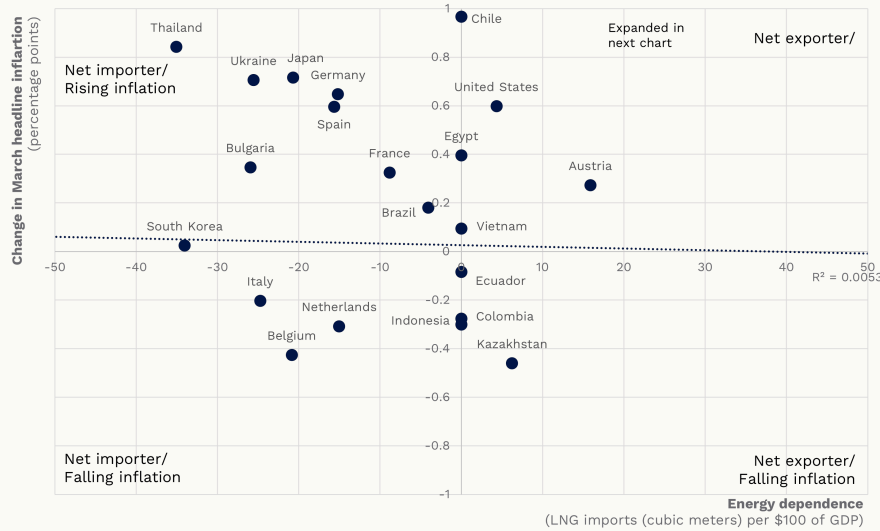
We'd put the US in that category too. Most of its production and refined output is used domestically, and integration with the Canadian oil sands makes it technically a net importer (as of OPEC's 2024 numbers), but it's effectively an independent oil producer. And yet inflation has risen by 0.6 percentage points in March.

Changing the focus from oil and refined products to natural gas does not change the story. Again we see the major exporters untroubled by inflation, but a mix of inflationary effects across importers and more minor exporters. The trend line is even flatter and has less statistical power than for oil products.

No relationship between natural gas imports and inflation (1)
 World, net natural gas imports scaled to GDP vs. March change in inflation



No relationship between natural gas imports and inflation (2)
 World, net natural gas imports scaled to GDP vs. March change in inflation



Conclusion

Oil markets are global. Prices are set on international open markets based on the balance of aggregated world supply and demand. Shipping costs, political alignments, and commodity grades can create premiums and discounts from reference prices, but the impact of major increases or decreases is felt globally, including at the pumps of net exporters.

This quick analysis does not invalidate the importance of energy trade balances, but it tells us that it's only one of a number of factors that dictate the propagation of oil price shocks. A country's source of supplies, domestic electricity production mix, refining strategy, use of strategic reserves, broad exchange rate sensitivity, and subsidization choices all affect how global oil prices transmit into consumer prices.

These factors collectively explain far more of a given country's inflationary exposure to the Iran War than import status alone.

In fact, energy trade balances may become a more important factor in the coming months, telling us how the oil price shock (assuming it persists) affects economic growth, fiscal balances (where countries subsidize rising costs), and even who may be exposed to damaging physical shortages.

Appendix

Proprietary Factor and Regime Model and Key Indicators

The Week in Markets							
	Latest*	Change since last week (units)	Change since last week (%)	3-month change (units)	3-month change (%)	Year-to-date change (units)	Year-to-date change (%)
Equity							
S&P 500	6817	234	3.6	-105	-1.5	-28.6	-0.4
Information Technology			4.8		-2.2		-3.1
Financials			2.4		-9.1		-7.3
Consumer Discretionary			5.8		-7.8		-4.6
Communication Services			5.8		-1.4		-0.2
Health Care			0.4		-6.9		-4.8
Industrials			4.7		7.1		10.6
Consumer Staples			0.5		6.7		7.6
Energy			-4.1		22.4		27.1
Utilities			1.3		11.8		10.0
Real Estate			2.9		6.6		6.9
Materials			3.5		9.5		14.4
Nasdaq Composite	22903	1024	4.7	-577	-2.5	-339	-1.5
Dow Jones Industrial Average	47917	1412	3.0	-1350	-2.7	-147	-0.3
Russell 2000	6538	250	4.0	66	1.0	370	6.0
Sovereign Fixed Income							
US: 2-year Treasury Note	3.81	-0.03		0.32		0.34	
US: 5-year Treasury Note	3.94	-0.05		0.2		0.21	
US: 10-year Treasury Note	4.31	-0.04		0.12		0.13	
FRA: 10-year OAT benchmark	3.75	0.00		0.21		0.19	
GER: 10-year Bund benchmark	3.03	0.00		0.16		0.18	
CHN: 10-year CGB benchmark	1.81	-0.01		-0.00250		-0.0345	
CAN: 10-year GoC benchmark	3.46	-0.03		0.060		0.040	
Corporate Bond Spreads							
US: A-rated	72.4	-3.4		3.2		2.6	
US: BBB-rated	110	-5.6		5.8		5.1	
Leveraged Loan Spreads							
US: BB rated	258	-3.1		5.8		2.99	
US: B-rated	451	-7.72		63		59.2	
US: CCC-rated	1972	47.2		402		408	
Foreign Exchange Rates							
DXY US Dollar Index	98.7		-1.6		-0.3		0.3
EUR/USD	1.17		1.4		0.1		-0.6
USD/CAD	1.39		-0.5		0.4		1.1
USD/CNY	6.84		-0.8		-2.1		-2.2
USD/JPY	159		0.1		1.3		1.6
GBP/USD	1.34		1.6		-0.3		-0.4
USD/CHF	0.792		-1.1		-0.7		-0.1
Commodities							
WTI Crude	96.6	-15	-13.4	39	67.2	39.2	68.2
Gold	4774	134	2.9	344	7.8	406	9.3
S&P GSCI Commodities			-8.7		26.9		28.5
S&P GSCI Industrial Metals			2.1		5.2		7.7
S&P GSCI Agriculture			-1.9		-1.9		0.0

* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), CME Group, LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, Cit, Federal Reserve Bank of St. Louis, Energy Information Administration (EIA), Pitchbook | LCD, arcMacro



arcMacro Factor Input Monitor
 Top 10 inputs by factor loading

Indicator	Unit	Latest*	Three months prior	One year prior	Normalized Level (Standard Deviations from Historical Mean)
arcMacro Real Factor					
Standard deviations		-0.1	0.4	-0.1	
Underemployment (U-6)	%	8.0	8.4	7.9	
Capacity Utilization	%	78	75.6	76.3	
Industrial Production (IP)	%, YoY	1.5	2.1	0.8	
Employment-to-Population Ratio	%	59.2	59.7	59.9	
Dallas Fed Services Index	%, YoY	-13.3	-5.0	-13.0	
Unemployment Rate	%	4.3	4.4	4.2	
Transportation Services Index	%, YoY	1.6	0.0	0.7	
Employment	Thousands, MoM	-64.0	232.0	171.0	
Construction Employment	Thousands, MoM	26.0	-7.0	6.0	
Philadelphia Fed Manufacturing Index	%, YoY	18.1	-8.8	10.2	
arcMacro Price Factor					
Standard deviations		0.4	0.4	-0.2	
Trimmed CPI	%, MoM, SA	0.2	0.3	0.2	
"Sticky" CPI	%, MoM, SA	0.2	0.3	0.2	
PCE	%, MoM, SA	0.4	0.2	0.4	
Inflation Expectations (NY Fed)	%, Annual	3.4	3.4	3.6	
Inflation Expectations (U-Mich)	%, Annual	4.8	4.0	6.5	
Core CPI	%, MoM, SA	0.2	0.2	0.1	
Services PCE	%, MoM, SA	0.2	0.3	0.5	
Market-based PCE	%, MoM, SA	0.4	0.2	0.3	
Richmond Fed Services Price Index	%, Annual	4.8	6.1	5.2	
5 Year Break-Even Inflation Rate	%, Annual	2.6	2.3	2.5	
arcMacro Financial Factor					
Standard deviations		0.6	0.6	0.6	
Financial Stress Index (KC Fed)	Index (>0: higher stress)	-0.6	-0.7	-0.6	
Financial Stress Index (OFR)	Index (>0: higher stress)	-0.8	-2.6	-1.3	
Gold Volatility Index	%	35.9	22.2	16.7	
Bank Lending Standards	% (>0: net tightening)	-8.5	-7.1	-0.2	
Anxious Index (SPF)	% (Probability of recession)	20.9	24.0	15.4	
Dividend growth	%, YoY	7.9	8.4	6.2	
Bank Loan Demand	% (>0: net increase)	12.0	18.0	8.7	
Household Debt-to-Income Ratio	Ratio	8.4	8.5	8.7	
IPO Underwriting Activity	US\$ Billions	2.8	8.7	2.0	
Household Debt Growth	%, QoQ, Annualized	3313219.0	4269251.0	3326005.0	
arcMacro Sentiment Factor					
Standard deviations		-1.8	0.1	-1.6	
Cyclically-Adjusted PE Ratio (S&P 500)	Ratio	36.5	39.6	32.6	
Dividend Yield (S&P 500)	Ratio	1.2	1.2	1.2	
12-month Forward PE Ratio (S&P 500)	Ratio	19.9	21.8	20.5	
Price/Book Ratio (S&P 500)	Ratio	5.3	5.0	4.9	
Crude Oil Volatility Index	%	99.8	33.9	34.7	
Economic Policy Uncertainty Index	Index	388.7	359.2	494.2	
MOVE Index	Index	89.4	65.7	100.9	
VIX	%	25.6	15.5	21.8	
Bull-Bear Spread (AAII)	% (>0: net bullish)	-14.8	11.2	-35.9	
Equity Risk Premium (NYU Stern)	%	11	1.2	1.0	

■ 10th-90th Percentile ■ 25th to 75th Percentile ● Mean of past 5 years ◆ Latest Value
 Source: arcMacro, BLS, Fed, Dallas Fed, DOT, Philadelphia Fed, Cleveland Fed, Atlanta Fed, BEA, New York Fed, University of Michigan, Richmond Fed, Macrobond, Kansas City Fed, The Office of Financial Research (OFR), CBOE, S&P Global, SIFMA, Robert Shiller, Economic Policy Uncertainty, ICE BofAML, LJKmfa, AAI
 *Most recent published data point. Time period and frequency do not necessarily align.



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