

Market and Economic Update

April 2026

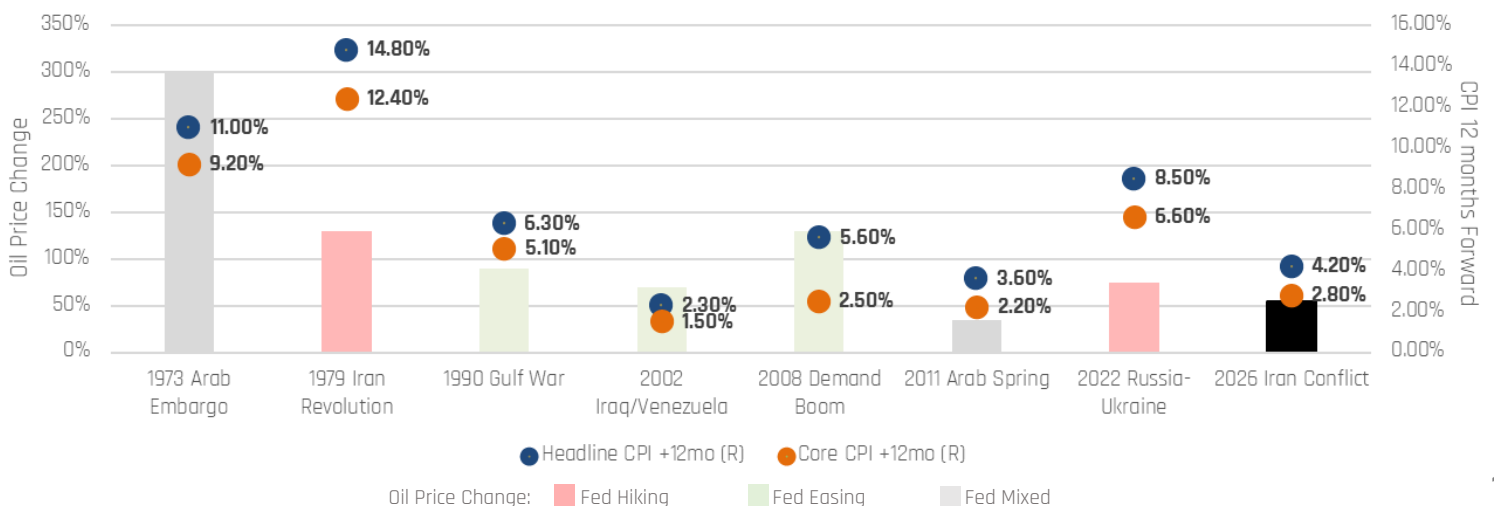
Now in its sixth week, the U.S.-Israeli military campaign against Iran remains the dominant macro variable. Operation Epic Fury achieved its initial objectives, including the elimination of Supreme Leader Khamenei, but Iran's closure of the Strait of Hormuz has become a separate and compounding problem. Tanker traffic, which normally accounts for roughly 20% of global daily oil supply, has fallen to near zero. As of this writing, Trump has issued a 48-hour ultimatum while simultaneously signaling the conflict's core objectives are nearing completion. Over 35 nations have signed a joint maritime security statement, and active diplomatic efforts are underway to establish safe passage. Our GIG view is this could last for a couple more weeks, but a lot depends on how the next few days evolve. Markets should expect a two-stage reaction: an initial relief rally on a presidential declaration of victory, and/or as vessels visibly transiting the strait.

Brent pushed above \$118 intra-month and U.S. gasoline prices hit \$4.10 per gallon, up 37% since the conflict began. February Core PPI rose to 3.9%. The inflationary concern is real, but we continue to view it as transitory. Oil shocks historically become growth-destructive before they become durably inflationary, and long-run inflation expectations currently remain well-anchored. On trade, the effective tariff rate has fallen to roughly 13.7% from the Liberation Day peak of 27% after the Supreme Court invalidated IEEPA authority. USMCA-compliant imports remain exempt. Tariff pass-through into goods prices is a secondary risk that warrants monitoring, particularly if dollar strength does not materialize as a partial offset.

March payrolls rose 178k, well above the consensus of roughly 65k. However, the headline overstates the underlying picture. Approximately 76k jobs came from healthcare largely attributable to workers returning after the Kaiser Permanente strike, and we also saw construction add backs due to weather-related losses. Strip those out and the four-month average sits near 47k. February was revised to -133k, and the 2025 annual benchmark revision reduced the full-year total from a reported 584k to 181k, confirming the labor market has been softer in real time than the data showed. Average hourly earnings decelerated to 3.5% year-over-year, which is constructive for inflation hawks.

The FOMC held rates steady at the March meeting, with Stephen Miran casting the lone dissent. Chair Jerome Powell pushed back on stagflation concerns, emphasizing that the term reflects a far more severe economic backdrop than current conditions. He also signaled that rate cuts are unlikely to resume until inflation shows clear and sustained progress, with particular focus on goods prices facing tariff-related pressures. Oil shocks are conventionally treated as one-time price level adjustments, not structural inflation, and the dual mandate gives the Committee cover to ease if the employment leg deteriorates. We expect the Fed to remain on hold through late Q3, using that time to assess the economic impact from the conflict and tariff pass-through. While markets have started to price in rate hikes, we view that bar as very high. Inflation expectations are anchored, the labor market is softening, and growth risks are rising. Our base case is 50 basis points of cuts in the second half of 2026. The first move likely comes in September, conditioned on the strait reopening and energy prices retreating, followed by a second cut in December as the Fed shifts its weight to labor market insurance.

Oil price shocks: CPI response and Fed policy (12 months forward from oil price peak)



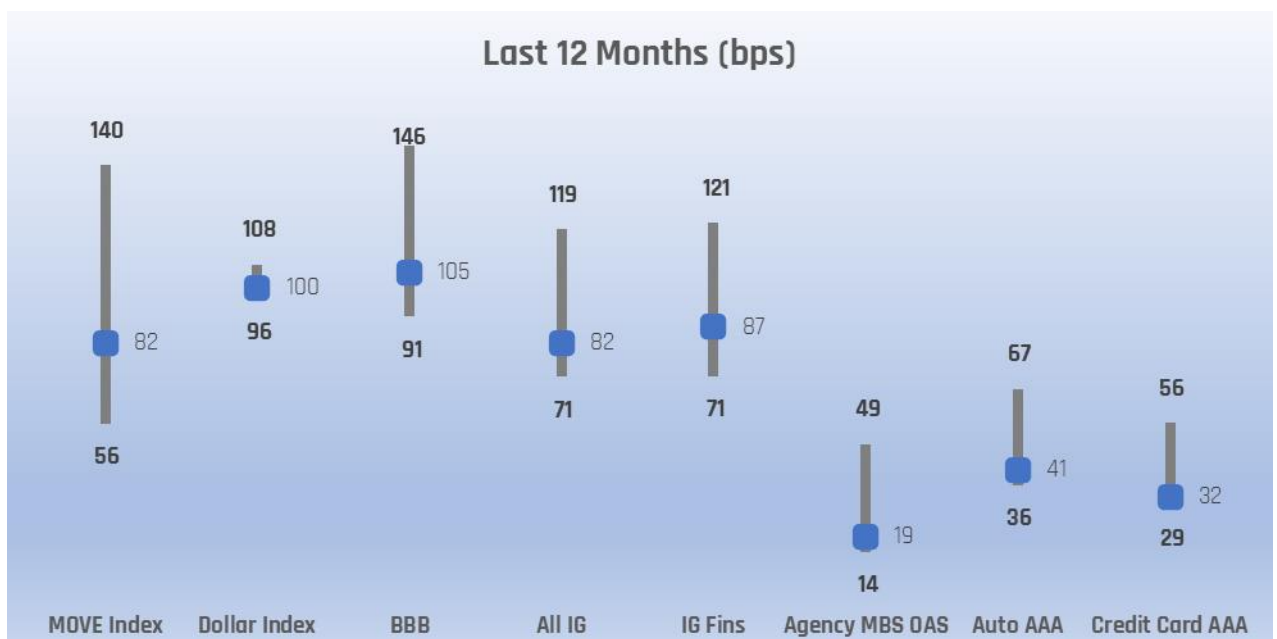
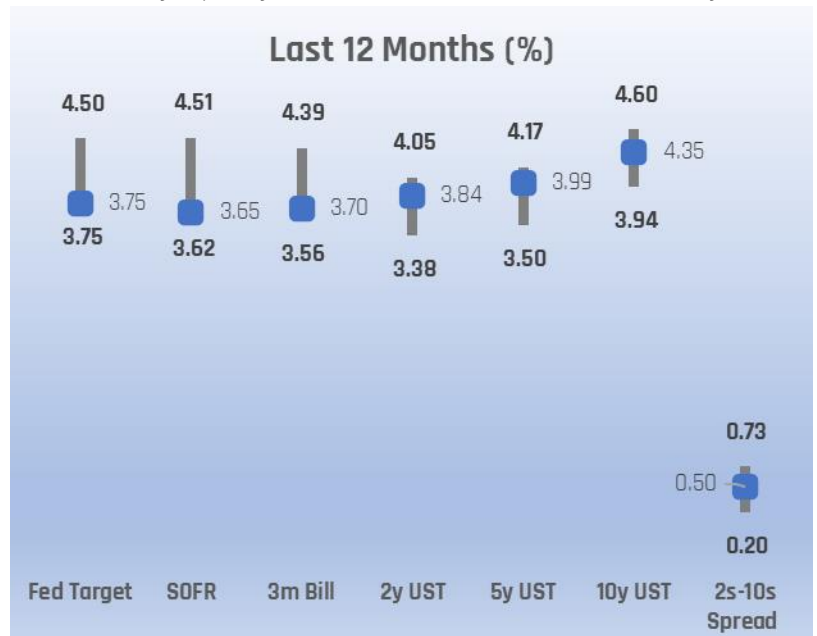
Market Update

Product Views

Rates: On a YTD basis, the curve is modestly higher, with the 10-year Treasury near 4.35%. The recent backup, driven by the Iran conflict and the March jobs beat, is an opportunity. If the conflict resolves, the transitory inflation narrative should reassert itself and rates could rally. Even if oil remains elevated, sustained energy shocks are historically more growth-destructive than durably inflationary, a dynamic that would ultimately shift market pricing toward Treasuries as recession concerns outweigh inflation pressure. We maintain a constructive duration view especially on the front to intermediate part of the curve.

Credit: Public credit faces a double headwind from stagflation concerns and rising stress in private credit markets. We maintain an underweight in investment-grade credit while favoring selective higher-quality exposure. The key risk we are monitoring is liquidity transmission from private to public credit. Several large managers have begun gating or restricting redemptions as withdrawal requests increase. The structural mismatch is clear: semi-liquid vehicles hold illiquid, multi-year loans while offering periodic liquidity. Under sustained pressure, managers may draw on bank credit lines or sell assets into public markets, potentially driving spread widening driven more by liquidity than fundamentals. The U.S. Treasury has also engaged insurance regulators on private credit vulnerabilities, an important systemic signal. Bank lending to non-deposit financial institutions, (~\$1.14 trillion), remains a key transmission channel to Watch.

Securitized: Agency MBS remains our highest-conviction sector within fixed income and has been the strongest performer in the Agg year to date. The sector offers more attractive risk-adjusted carry than comparable corporate alternatives. As private credit turbulence drives demand for high-quality, liquid fixed income, we expect agency MBS to benefit from incremental rotation. While OAS levels appear moderately rich to history, disciplined security selection can still identify bonds with relative outperformance potential.



12 month high
Current
12 month low