Market and Economic Update

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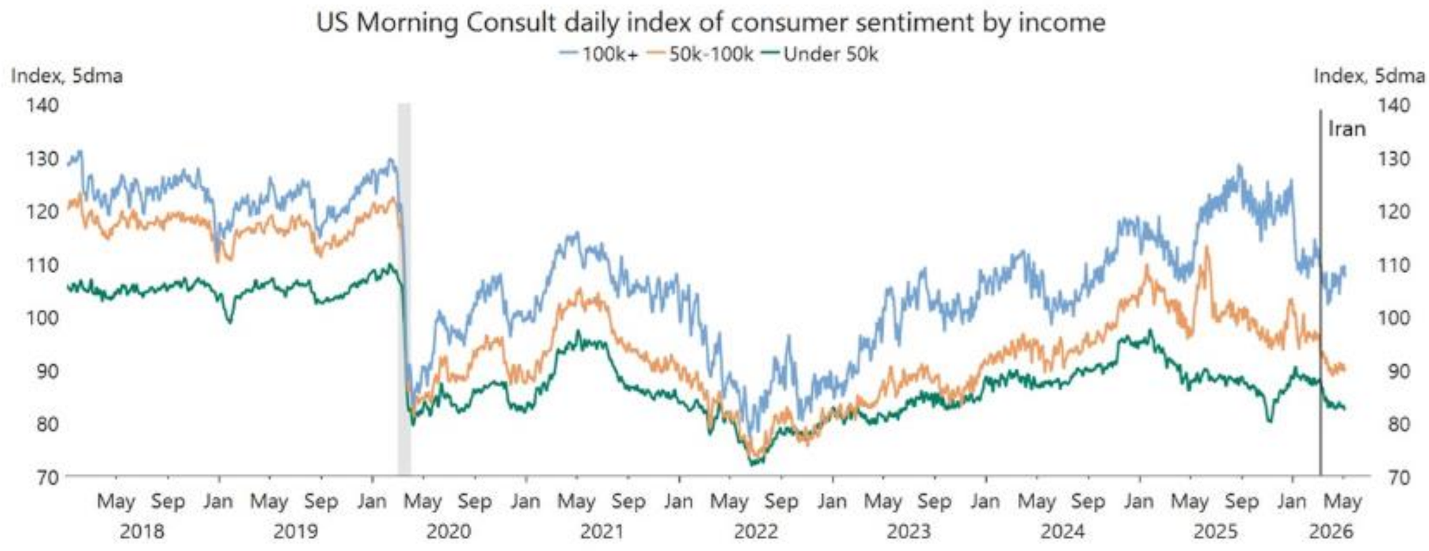
Now in its eleventh week, the U.S.-Israeli campaign against Iran has entered an awkward equilibrium. The April 7-8 ceasefire is technically holding, but recent incidents (UAE intercepts of Iranian missiles, U.S. destroyers exchanging fire while transiting the Strait) have kept war-risk pricing embedded across asset classes. Strait traffic remains around 5% of pre-conflict levels. Qatar moved its first LNG cargo through Hormuz since February last week on a Tehran-approved northern route, and Abu Dhabi has managed a small number of LNG transits.

The narrative has now moved past oil. Europe sources 12-14% of its LNG from Qatar through Hormuz, and Asian spot LNG has more than doubled. Jet fuel and kerosene supply at Gulf hubs has collapsed. Brent has settled in the $100-115 range, U.S. gasoline is around $4.15, and the IEA estimates the conflict is removing ~14 mb/d from global supply, all creating the largest disruption in oil market history. The UAE's exit from OPEC and OPEC+, effective May 1, is the most consequential structural change to the post-conflict energy map and a symbolic win for the Administration.

President Trump arrives in Beijing May 13 for a three-day summit with President Xi, the first U.S. presidential visit to China in nearly nine years. The agenda spans trade, rare earths, Taiwan, AI, and Iran. The deliverable that matters most for us is whether Xi agrees to lean on Tehran to reopen the Strait; Beijing has the leverage given the 2021 strategic partnership and the bulk of Iranian crude exports. Also watch any extension of the October 2025 Busan trade framework (currently 47% tariffs), Chinese commitments to U.S. agricultural and energy purchases ahead of November midterms, and rare-earth export-control language. A constructive outcome would compress war-risk premia and support a rally in Treasuries.

Headline consumer data still looks resilient. Conference Board Consumer Confidence edged up to 92.8 in April, but the composition tells a different story. University of Michigan sentiment printed 49.8, the series low. Card-network and Deloitte pulse data show discretionary spending recovering at the top quintile while middle- and lower-income cohorts have pulled back across travel, services, and big-ticket purchases.

The April 29 FOMC was Jerome Powell's final meeting as Chair. The Committee held rates stead at 3.50-3.75% on an 8-4 vote, the most dissents since 1992. The Summary of Economic Projections (SEP) retained only one cut for 2026. Warsh's confirmation vote is expected this week. Kevin Warsh favors the Dallas Fed Trimmed Mean PCE (~2.3%) over Core PCE (~3.0%), which still provides cover to cut. This feels similar to Chair Powell leaning on "supercore" to frame a preferred inflation narrative. Warsh also advocates for a smaller balance sheet, which we see as a potential tradeoff for additional rate cuts. In our view, the bar for hikes remains exceptionally high. Our base case is 50 bps of cuts through the end of Q1 2027, contingent on the strait reopening in the near term.



Source: Morning Consult, Macrobond, Apollo

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Product Views

Rates: The 10-year sits above 4.40% with the 30-year recently topping 5%. Given, we do not see the Fed hiking and inflation expectations are anchored and the labor market has some risks. When short-to-intermediate Treasuries approach 4%, that is a level we find compelling. Sustained oil shocks have historically proven growth-destructive before they prove durably inflationary; the 1973, 1990, and 2008 episodes all saw the inflation impulse fade within twelve months while the growth damage persisted. We are constructive on the front-to-intermediate part of the curve and would use any further back-up tied to headline oil prints to add duration

Credit: Investment-grade issuance reached a record $721 billion in Q1, up 12% year over year, driven by refinancing activity, AI-related capex, and debt-funded M&A. Supply has remained elevated through April and early May, yet demand has been resilient, allowing the market to digest the volume without meaningful dislocation. We remain focused on developments in private credit, where rising redemption pressure could create a transmission channel into public markets as investors seek liquidity. At the same time, spread tightening appears limited with valuations near cycle tights, particularly given ongoing macro uncertainty.

That said, corporate fundamentals remain supportive, with earnings strength helping support spreads. On balance, we maintain an underweight to investment-grade credit, favoring selectivity and higher-quality exposure over broad market participation.

Securitized: Agency MBS remains our highest-conviction allocation within fixed income and continues to outperform, with returns of roughly 0.69% versus 0.26% for corporate credit and 0.22% for the broader Agg. Elevated rate volatility has kept OAS somewhat compressed. A normalization in geopolitical conditions, particularly around Iran, would likely reduce volatility and support further spread tightening.