

May 7, 2026

## An Eventful April

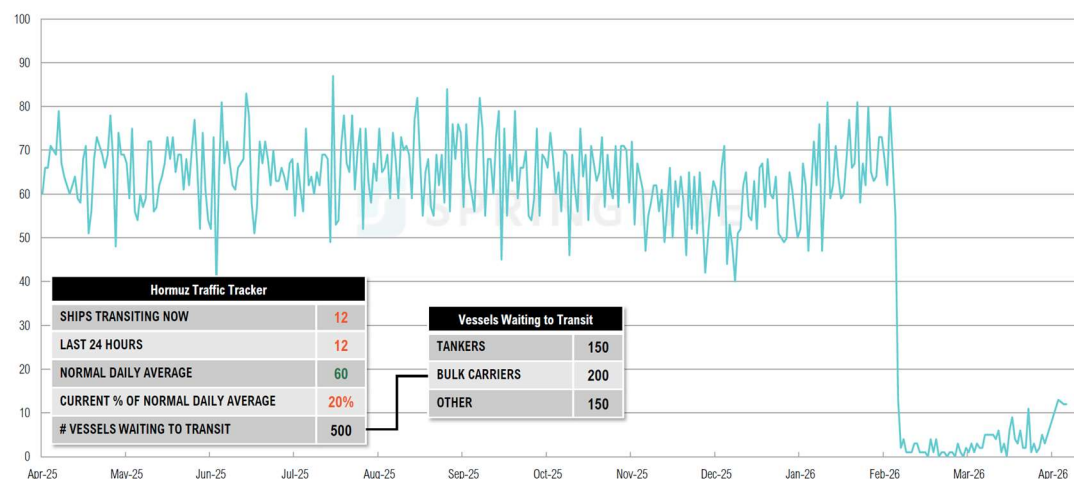
Following a rather lackluster first quarter – the S&P 500 was actually down 4% as of March 31st and other indices were up only low single digits – April's returns were surprisingly strong. Last month the S&P rose 10% - something it had not done since 2020! It is encouraging that many companies have been reporting solid growth in earnings – so we have earnings (and profits) supporting equities, not simply rising valuations (which can tend to correct). Despite the very positive returns seen in the equity markets, the main news story continues to be...

### Iran – The Lead News Story

As investment managers, we continue to follow developments in the middle east very closely. The events of last month remind us that no matter the situation or circumstance, the incentives that drive behavior and outcomes almost always come down to economics. While conventional wisdom was that the U.S. blockading the strait would leave the global energy markets in deeper trouble than before the two-week ceasefire deal was announced, investors viewed the shift from accelerating the military confrontation to economic warfare as the first step toward a constructive and lasting cessation of the conflict.

The reason is that Iran previously had an incentive to wait out the U.S. by closing the strait and keeping oil prices high and severing supply chains for liquified natural gas, refined energy products, petrochemicals, and fertilizers to sow as much economic chaos in the global markets as possible. That incentive would change if the U.S. took control of Iran's oil revenue, but that was expected to require U.S. ground troops to control Kharg Island - which holds little, if any, support domestically - or destroying Iran's oil infrastructure which would remove Iran's oil supply for an extended period from global oil markets and make it difficult for a new regime or the defrocked remnants of the prior regime to rebuild the country and its economy.

## Daily Number of Ships Transiting the Strait of Hormuz



Source: Bloomberg, Hormuz Strait Monitor, Springtide Partners

According to one estimate, the U.S blockade will cost Iran between \$400 to \$500 million a day, mostly in lost oil and petrochemical export revenue. Additionally, as Iran runs out of oil storage, it will be forced to shut in active wells, a costly and drastic measure that risks impairing crude production for years to come. Iran's Hormuz vulnerability was exposed.

With the S&P 500 and the NASDAQ Composite reaching new all-time highs last month, the markets are expecting that the Iran conflict will remain on a path of de-escalation, which will eventually lead to a workable resolution. Given the ability of the U.S. economy to weather a period of higher oil prices and the devastating chokehold the blockade is having on Iran's economy and the potential for long term damage to Iran's oil wells, the markets appear to be expecting Iran to return to the negotiating table before long.

Despite oil prices ending April near two-month highs and negotiations to end the Iran war stalled, stock prices rebounded sharply last month. The NASDAQ Composite led the way with a gain of 15.3% during April as investors gravitated to the companies demonstrating the strongest actual and potential earnings growth. The other major stock market indices posted gains of 7.1% to 12.2% during April. Since the March 30 low, the major stock market measures are higher by 9.8% to 19.7%. Despite the conflict in the Middle East, the major stock market measures have gained 3.3% to 12.8% over the first four months of 2026 as strong earnings growth has outweighed geopolitical risks.

## **The Federal Reserve – It Looks Like We Have a New Chair!**

President Trump has nominated Kevin Warsh to be the next chair of the Federal Reserve. Warsh previously served as a Fed Governor from 2006 to 2011. The nomination had been held up by retiring Senator Thom Tillis, the swing vote on the Senate Banking Committee, who intended to block Mr. Warsh's confirmation vote before the full Senate until the DOJ dropped its criminal probe of Chair Powell's congressional testimony last June regarding the renovation of the central bank's office buildings.

A breakthrough to move Kevin Warsh's nomination to a confirmation vote in the Senate occurred on April 24 when the DOJ dropped its criminal investigation into Jerome Powell. The criminal probe faced an uphill battle after a federal judge quashed the subpoenas served against Chair Powell, ruling they were improper and found "essentially zero evidence" of criminal wrongdoing and said there was "abundant evidence" that the dominant purpose of the subpoenas was to pressure him to cut interest rates or resign. The DOJ referred the investigation to the Federal Reserve's inspector general - an independent official within government agencies tasked with detecting and preventing fraud, waste, abuse, and mismanagement - to review the significant cost overruns in the headquarters project.

With Jerome Powell's term as chair ending on May 15 and the Senate Banking Committee approving Kevin Warsh's nomination to become the next Federal Reserve chair on April 29, it appears Mr. Warsh will be in place by the time Mr. Powell's leadership term ends and will be able to chair the next FOMC meeting on June 16-17.

Looking ahead, what actions will the Federal Reserve take with regard to monetary policy? "The Fed" remains in a difficult position as the oil shock creates both downward pressure on growth and upside pressure on inflation. We continue to expect no rate cuts in the near term because no matter how the data is viewed, inflation remains uncomfortably high. The minutes of the Federal Reserve's March 17-18 FOMC meeting said "the vast majority" of officials thought progress bringing inflation down could be slower than previously expected due to lingering tariff effects on goods prices, higher oil prices not only raising energy costs, but also bleeding into transportation costs and other measures of underlying inflation, and the possibility that consumers could begin to expect further price increases.

### **In Summary**

As we mentioned last month, investors need to keep in mind that during periods of heightened geopolitical risks, markets may be volatile but the need to remain invested is paramount, providing portfolios with the opportunity to recover once the period of heightened risks is over. While we are not asserting that an end to the conflict in Iran is near or that the associated market volatility is over, the strong gains in the market last month underscored the need to maintain a steady hand with your investments when geopolitical risks rise. The initial retreat from risk assets tends

not to last long and has relatively quickly been recouped so long as the economy was not already in recession or stocks in a bear market when the conflict started.

Always feel free to reach out to your Advisor with any questions you may have. Please know that we truly value our wonderful clients.

Sincerely,

The Private Capital Management Team

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