

June 11, 2026

A Quick Trip Around the World

With so much happening in the world we wanted to distill some of the information and deliver our thoughts on the situation with Iran, the recent high-level meetings in China and, finally, our thoughts on the current US market.

Iran – Dueling Blockades

The U.S. and Iran remained deadlocked during May in a high stakes standoff over control of the Strait of Hormuz, characterized by a U.S. naval blockade of Iranian ports and Tehran maintaining control over the international waterway crucial to the world's energy markets.

The dueling blockades the U.S. and Iran have put in place in the Strait of Hormuz have started several clocks ticking which will eventually lead to an end of the conflict. They do not indicate when a resolution to the conflict will be reached or whether the final agreement will achieve all U.S. objectives, however. They only indicate that a series of disequilibrium conditions exist, which will need to be resolved over time.

The key consideration for the U.S. is that while oil prices did rise a little more than 70% compared to before the start of the war to around \$112 per barrel in early April before ending May about 34% higher at around \$87 per barrel, a massive surplus of crude oil in storage tanks, strategic reserves, and floating upon the high seas aboard oil tankers cushioned the rise in oil prices since the Strait of Hormuz was effectively closed three months ago. That surplus is now dwindling at a record pace as an estimated 13 to 14 million barrels per day of Middle East oil and refined products are not reaching the global energy markets on a daily basis. Critical shortages of crude and refined products could emerge within weeks if the Strait of Hormuz remains closed to commercial shipping over the summer months. A surge in energy prices to new all-time highs is not out of the question if the global energy markets suffer a critical supply squeeze during the peak summer consumption period, driving inflation even higher across the globe.

China – Talking About Trade at the Highest Level

While the Iran/Hormuz situation dominated the attention of investors last month, an important summit meeting between the U.S. and China also took place. The expectations for President Trump's state visit to China mid-month were admittedly low, however, the trip went a long way toward strengthening the fragile trade truce reached in October which suspended China's proposed export controls on rare earth

elements and other critical minerals in return for the U.S. lowering tariffs on Chinese imports.

The U.S. and Chinese sides have only released a few details on specific trade agreements which were reached. However, President Trump did announce that China will order 200 Boeing aircraft, which is a major win in its own right. Keep in mind that the commitment by China to purchase jets from Boeing is actually a backdoor way to make sure that the U.S. has ongoing access to rare earth minerals for the manufacturing and technology sectors.

President Trump's invitation to Mr. Xi to visit the White House on September 24 means the two leaders can talk in person again before the expiration of the one year trade truce set for October. President Xi said the U.S. and China agreed to "strategic stability" as a framework for the next three years -- the remainder of President Trump's term in office -- according to state media.

United States – Strong Job Growth and Earnings

The latest release of the Labor Department's non-farm payrolls report showed the economy added +172,000 jobs in May, far exceeding consensus expectations. In addition, monthly totals for March and April were revised upward by a combined +93,000. The unemployment rate remains historically low at just 4.3%.

As we approach the mid-point of the year, we note that pace of earnings growth has been a dominant theme for the stock market's resilience so far this year despite the unsettling geopolitical headlines. Earnings growth has powered the gain in the S&P 500 over the first five months of 2026 as the increase in earnings has outpaced the rise in prices, resulting in the price-to-earnings multiple on the S&P 500 easing to 21.4x at the end of May versus 22.6x at the end of 2025. As the S&P 500 has hit record high after record high since mid-2024, earnings growth has driven all of the gain over the past two years rather than any price-to-earnings multiple expansion.

The biggest risks to common stocks over the next couple of months could be the building inflationary pressures and higher yields on Treasury securities. The rise in energy prices resulting from the Iran war pushed the year-over-year rise in the CPI from 2.7% as 2025 came to a close to 3.8% at the latest reading for April. Without a reversal of the recent rise in energy prices in the near term, inflationary pressures will only rise. As energy prices rise their impact would flow through into the costs of transportation, manufacturing, farming, and packaging, impacting virtually every good and service produced in the U.S. over time.

As fixed income investors price out the likelihood of rate cuts this year and price in higher rates of inflation in the near term, the attractiveness of fixed income securities has increased. The nominal yield on two-year Treasury securities has risen to 4.01% from 3.39% on February 27 before the start of the Iran war. For fixed income investors, higher rates typically lead to higher forward returns.

While Treasury yields could always bounce higher again if the current movement toward a temporary halt to the conflict with Iran falters and the strait remains closed into the summer months, the absolute level of the real yield on ten-year Treasury securities currently is among the highest that has been available since the aggressive tightening of monetary policy from March 2022 to July 2023.

In conclusion, there is a lot of news to follow, and we haven't touched on the upcoming mid-term elections in the U.S. It is encouraging to see solid domestic economic data (moderate inflation, strong job growth and growing corporate earnings). The situation with Iran will come to a conclusion - or a stalemate - at some point and we note the U.S. is virtually energy-independent now. Also, the U.S. and China are at least talking and both have an interest in choosing stability over conflict. As Investment Managers, we continue to recommend diversified portfolios favoring higher quality assets. And as Financial Planners we are always here to help plan the road ahead.

Sincerely,

The Private Capital Management Team

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