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Asset Management LLC

Investment Commentary—April 2026

On occasion the words on these pages have a limited shelf life. That can be because of unforeseen subsequent events. Or it can be the result of what former Secretary of Defense Donald Rumsfeld referred to as known unknowns[1], things we know that we don't know (yet). Which brings us to the Iran war. At this writing, a two-week cease-fire has been announced, with the hope that a long-term peace deal can be achieved during that time. The price of oil fell sharply on the cease-fire announcement and stock markets rallied. Several known unknowns remain, including whether the two-week cease-fire holds, whether and how quickly it leads to a full opening of the Strait of Hormuz, whether a peace deal is actually consummated during the two weeks, whether and how the deal provides for Iranian control of the Strait, and the extent of damage that needs to be repaired to get back to some semblance of a normal flow of oil, gas and other commodities. *[Subsequent note: the cease-fire has held so far, but in response to the continued closure of the Strait and the failure of round one of negotiations, the U.S. has imposed a blockade on the Strait. Negotiations are expected to resume soon.]*

Understanding that the situation is fluid (to say the least), here are some thoughts on how the impact of the Iran war—whether a long-term peace deal is achieved in short order or not—may ripple through the global economy and the stock and bond markets.

It's not just oil

Let's start with the bad news. Oil is just one of many commodities that flow through the Strait of Hormuz, a narrow passage leading from the Persian Gulf to the Arabian Sea. Disruption in the flow of oil is bad enough. Before the war, 20% of the world's oil passed through the Strait bound for international markets. Closure of the Strait is being partially mitigated by loosened sanctions on Russian oil, rerouting of oil through Saudi Arabian pipelines that run to the Red Sea, and the coordinated gradual release by 32 countries of 400 million barrels of oil from strategic reserves. Despite partial mitigation, supply shortages are spreading rapidly in major importing countries. (The U.S. imports oil, but, unlike the oil crises of the 1970s, is now a net oil exporter.)

Beyond oil, much of the global supply of liquified natural gas—used to generate a significant portion of the world's electricity—flows through the Strait, as does a significant percentage of the global supply of fertilizer products. One-third of the world's helium—essential for the manufacture of semiconductor chips—comes from Qatar and travels through the Strait. The

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[1] Rumsfeld famously said in 2002, in response to a question about the Second Gulf War, "as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know." A bit convoluted but quite insightful!

longer the war goes on, the more supply shortages will lead to higher prices on gasoline, jet fuel, diesel fuel, electricity, food, and products (including autos) containing chips.

It will take considerable time for supplies to normalize

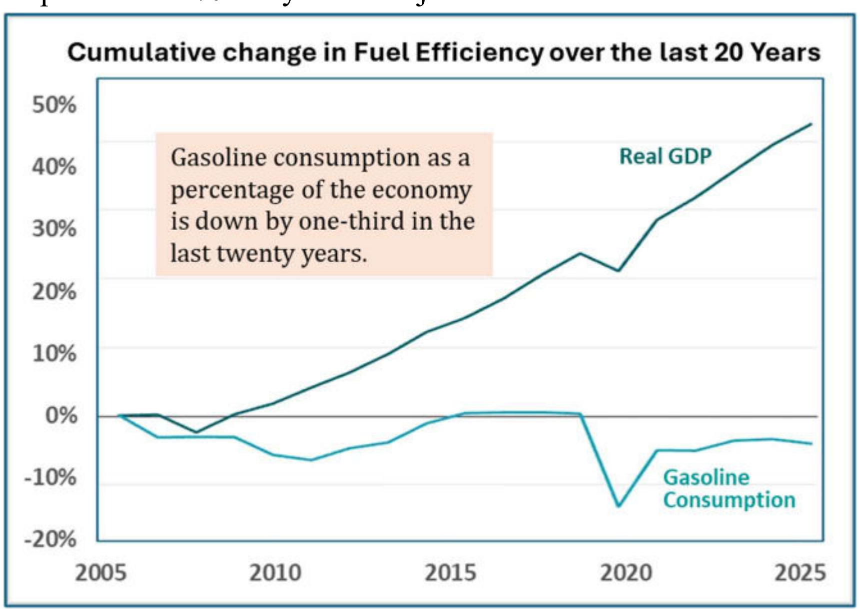
If and when a long-term peace agreement is reached, it will still take a considerable amount of time for the flow of affected commodities to normalize. Tanker owners and their insurance providers will need to be convinced that passage through the Strait of Hormuz is safe. A peace deal may allow Iran to collect a toll on ships passing through the Strait. It's not clear how that would work and whether the implementation of toll collection would, at least for a while, significantly slow the pace of traffic through the Strait.

A normal flow of oil and other commodities requires tankers to move freely through the Strait, but it also relies on a great deal of infrastructure in and around the Persian Gulf. Much of that infrastructure has been badly damaged and will need to be repaired. When oil stopped moving through the Strait, upstream storage facilities quickly reached capacity, forcing producers to shut down oil wells. Restarting those wells is a difficult process. In some cases, especially with older wells, it may not even be possible to restart production at all.

At best, getting back to something close to the pre-war flow of oil and other commodities through the Strait of Hormuz will take many months.

Fortunately, the U.S. economy is resilient and less sensitive to energy prices than ever …

The good news is that the U.S. economy has proven to be very resilient over the last year. Despite an aggressive tariff regime that created a lot of disruption for companies importing goods from overseas and led to a bump in inflation, real GDP growth came in at a very respectable 2.0% last year. The job market has weakened over the last six months, and lower income households are under stress, but even so, recession odds were not especially high heading into the war. Gasoline prices are significantly higher than they were in February, but as the chart to the left illustrates, expenditures on gasoline are much smaller relative to the overall economy than they have been in many decades.



Even with the war leading to higher inflation in the cost of jet fuel, diesel, food, and semiconductor chips, the consensus among economists seems to be that the U.S. will not tip into a recession from the Iran war absent unanticipated consequences (unknown unknowns!) Also, the U.S. exports more oil than it imports and very little of what we do import comes from the Middle East. While higher prices at the pump may affect consumer spending, a supply-driven economic slowdown, though very likely in parts of Asia and Europe, is not a concern here.

While economic resilience, ample supplies of oil and natural gas, and an economy that spends much less than it ever has on gasoline, are all encouraging, intangibles sometimes play a big role in economic cycles. It's important to note that consumer confidence measures are at multi-decade lows. That doesn't necessarily translate into lower spending, but it could.

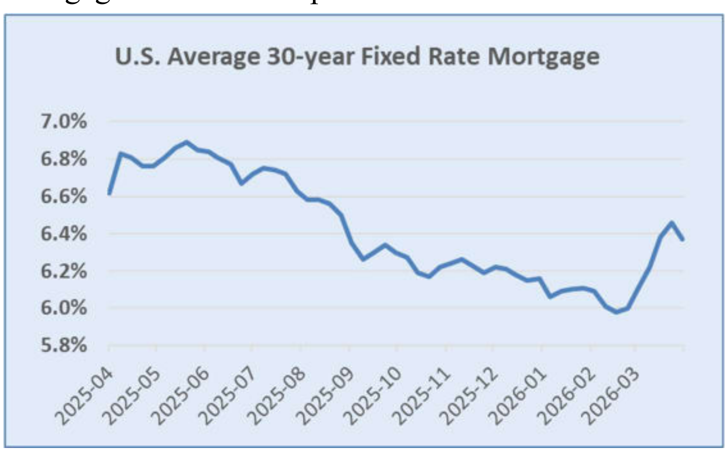
But other parts of the global economy are more vulnerable …

Unfortunately, many other countries are quite vulnerable to the impact of the Iran war and the shutdown of the Strait of Hormuz. Much of Asia—including India, Japan and South Korea—is extremely dependent on the Middle East for oil. China is as well but is better positioned due to massive strategic reserves. Europe is not as dependent on Middle East oil as Asian countries but may be more vulnerable to rising energy prices because many of Europe's large economies were quite fragile heading into 2026.

… and keep an eye on interest rates.

Prior to the outbreak of the Iran war, Federal Reserve watchers anticipated two more rate cuts in 2026. The benchmark 10-year U.S. Treasury yield had come down steadily beginning last June. Mortgage rates followed suit, which led to increased home construction. The anticipation of war-related inflation has led most analysts to predict no Fed rate cuts in 2026, with some even expecting a rate ***increase***. The changing rate environment has led to higher mortgage rates as shown below. The increase is modest so far, from an average 30-year mortgage rate of around 6.0% to roughly 6.5%. An increase of that size won't have significant effects on the overall economy; nor will it necessarily have a material impact on the stock market. But if inflation were to persist, forcing the Fed into a series of rate hikes, the impact could be more troubling.

A significant increase in interest rates could have wide ranging economic impact. Higher mortgage rates could depress new home sales and new home construction. Consumers paying more for adjustable rate mortgages and auto loans might be forced to spend less and businesses could delay or cancel capital expenditures. In addition to the negative economic effects, rising interest rates lead to higher bond yields. Better prospective bond returns can draw investors away from stocks and lead to stock market declines.



For the time being, global stock markets have held up well. After a significant recovery in the first two weeks of April, all major indices are now positive for the year, reflecting market expectations that the impact of the Iran war will be relatively short-lived. That could be the case but for all the reasons cited above, some caution is in order as it will take several months or more for the full impact of the war to play out.

Boston, MA
April 15, 2026

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