

Market Review - April 2026

**Fear in the Strait**

On March 18, the Singapore foreign minister, Lawrence Wong, said it bluntly in a recent press conference: the Pax Americana, which had underwritten global stability for eight decades, is effectively over. The United States has become, in his words, a revisionist power, a disruptor of the very norms and institutions it once championed." As Mark Carney stated in Davos, it is time for realpolitik; the Europeans must understand that it is not the time to be idealistic. We are in the clearest articulation yet of the seismic shift now reshaping the global order: a multipolar world where there are no permanent friends, only interests. Once again, for investors, the implications are profound and will outlast the current conflict.

The war between the United States, Israel, and Iran has now entered its fifth week with no resolution in sight. Prediction markets assign only a 34% probability that the Strait of Hormuz will fully reopen by the end of April, and a 60% probability that US boots will be on the ground in Iran by June. This is not a good sign. The conflict has already inflicted an energy shock that dwarfs anything seen in recent decades. Approximately 20% of global oil supply transits the Strait, and effective closures have removed an estimated 15 million barrels per day from available markets, roughly 15 (fifteen, yes) times the disruption caused by the Russia-Ukraine war, which alone sent Brent to \$120. Saudi Arabia's east-west pipeline provides a partial bypass (7 Mbpd capacity), and IEA reserve releases can deliver up to 2 Mbpd, but the arithmetic remains deeply unfavorable. According to many, most traders are freaking out at the situation and expect much higher oil prices in the coming weeks.

The Strait has not been closed as hermetically as the worst-case scenario suggests. Windward data indicates that Iran has selectively permitted permission-based transit for friendly nations, notably China.



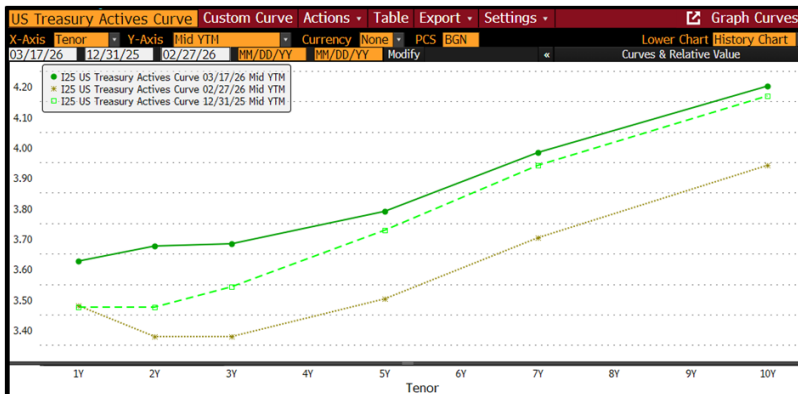
This partial opening serves Iran's interests: it maintains leverage, preserves relationships with key trading partners (China accounts for the bulk of Iranian oil purchases and, critically, supplies virtually every manufactured good that makes Iran a modern industrial state), and avoids the full global coalition that an absolute blockade would generate. Regarding a ground-based invasion, some of Iran's regions or islands, the Geopolitical Cousins podcast put it well: Iran today resembles Kevin in Home Alone, patiently setting traps while the US arrived with 8,000 marines, where Schwarzkopf once needed 750,000.

As some experts put it, two scenarios dominate the outlook. In the base case, both sides face binding constraints; Iran cannot afford to drive China and India into the arms of a US-led coalition, while the US cannot sustain an open-ended disruption of global supply chains without triggering a recession it would own. A tacit equilibrium emerges organically, possibly within the next two weeks: no formal ceasefire, but a gradual shift in targeting away from economically critical infrastructure, with selective Hormuz transits quietly expanding. In the adverse case, the conflict escalates, Saudi, Qatar and UAE energy infrastructure comes under direct attack, the Houthis re-enter the conflict, and we experience what a fund manager described bluntly as a pandemic-level extinction event for commercial activity, except this one involves physical shortages of molecules that cannot be fixed by declaring essential workers (like governments did during the covid crisis). Each day that passes without a shift toward the beginning of a solution will bring markets down until we reach the full panic trigger point.

The bond market is speaking

The bond market, as it so often does, is saying what equity markets have not yet processed. In the United States, the entire yield curve has shifted approximately 30 basis points higher since the start of the war, with 10-year Treasuries approaching 4.5%, a level that threatens an already slowing American economy.

US Yield Curves Shifts YTD And As Of February 28 S The bond market is speaking



In Europe, EU yield curves have undergone a bearish steepening, with every maturity now yielding more than at the beginning of the year, a structural repricing, not a blip. European intra-sovereign spreads have widened, and 10-year yields have reached decade highs. UK gilt yields tell a similar story. These are not technical moves; they reflect a genuine re-anchoring of

inflation expectations. The cost of capital is exploding higher.

The inflation pipeline is more complex than gasoline prices alone. Since the beginning of March, fertilizer inputs, urea prices, have been up 65-70%, which will feed through food costs over the coming quarters. Freight rates have risen fourfold on certain routes. Petrochemical inputs flow into clothing, footwear, and packaging. Qatar accounted for approximately 17% of European LNG supply; hits on gas infrastructure will be measured in years rather than months. The ECB's own worst-case scenario analysis flagged a severe-shock path where core inflation peaks near 4% in 2027.



The BofA Fund Manager Survey for March is unambiguous: net 45% of respondents now expect higher global CPI over the next 12 months, up from 9% just one month earlier, the largest one-month jump in the survey's history.

The Fed is trapped. Rate-cut expectations for 2026 have effectively evaporated. Kevin Warsh, who takes over as Fed chair in May and was widely expected to provide a dovish pivot, now faces an inflation trajectory that makes any immediate easing politically and technically impossible. The 2-year US Treasury yield has risen 60 basis points (yes, 0.6%!) over the past three weeks, and the latest 2-year auction recorded the weakest bid-to-cover ratio since the SVB crisis. The 30Y mortgage rate is rising again; it was a touch below 6% before the war, and it now stands close to 6.4%.

In Europe, market pricing has gone further: three ECB rate hikes have been priced in for 2026, and soon more to come. Lagarde herself has hinted at this trajectory. Central banks are caught between an inflation surge they cannot ignore and a demand shock they cannot yet fully offset. The risk of a monetary policy error is as elevated as at any point since the 1970s. If the war doesn't stop, central banks will have to raise rates into a recession.

Corporate spreads wider but contained, for now

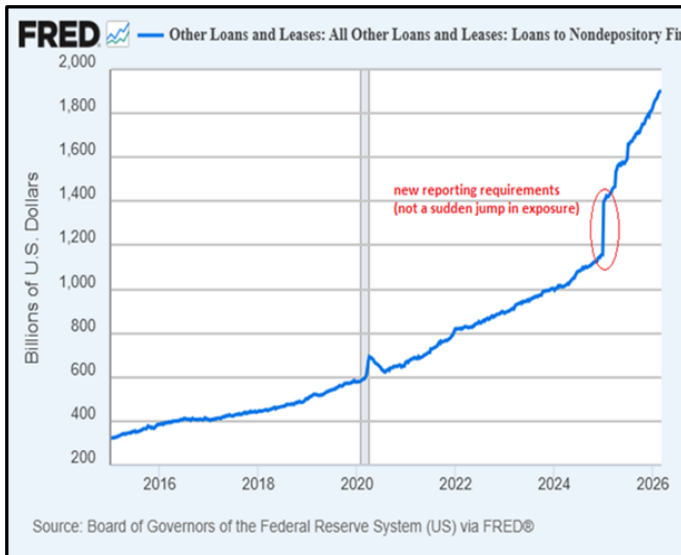
One of the more counterintuitive features of this market environment is the relative calm in credit spreads. US investment-grade and high-yield spreads have widened, but not to levels consistent with an imminent recession scenario. European and EM high-yield OAS spreads tell a similar story: movement, but no dislocation. Bank CDS remain near historic lows. The credit market is, quite simply, not pricing what the physical commodity market is pricing.

The stress point that warrants the most attention is private credit. For the eighth consecutive month, the BofA Fund Manager Survey identifies private equity and private credit as the most likely sources of a systemic credit event, with 63% of respondents citing them in March. Listed BDCs (Business Development Companies) are trading at a discount to NAV of approximately 27% as of mid-March, reflecting genuine investor concern about underlying loan quality in a rising-rate, slowing-economic growth environment. Private credit lending funds trade at NAV, but as redemption requests mount, fund managers are unable to meet demand. Therefore, the fund managers are forced to gate investors. This is a normal procedure; what is a bit alarming is that more funds are "gating". Redemptions as a share of beginning-of-quarter NAV in the non-listed BDC space almost tripled from the prior quarter. Redemption gate is a structure that can amplify stress in a forced-selling scenario. Once again, the reason for the stress is that enterprise software companies have been a favored sector for private credit lenders since 2020, accounting for about 17% of BDC investments by deal count, according to PitchBook, second only to commercial services. As generative AI "commoditises" coding and software development, fears have intensified that the enterprise value of these SaaS borrowers is eroding, making them unable to service the massive debts they accrued during the low-rate years. If proven true, default rates in the sector will spike.



In Europe, economic growth forecasts have been revised slightly upward. Households have accumulated savings and are in good health, which constitutes a reserve for consumption. In addition, Europe and Germany have infrastructure and defense spending programs that should support growth. Therefore, economists' expectations seem overly cautious.

US Banking System Loans to NDFIs



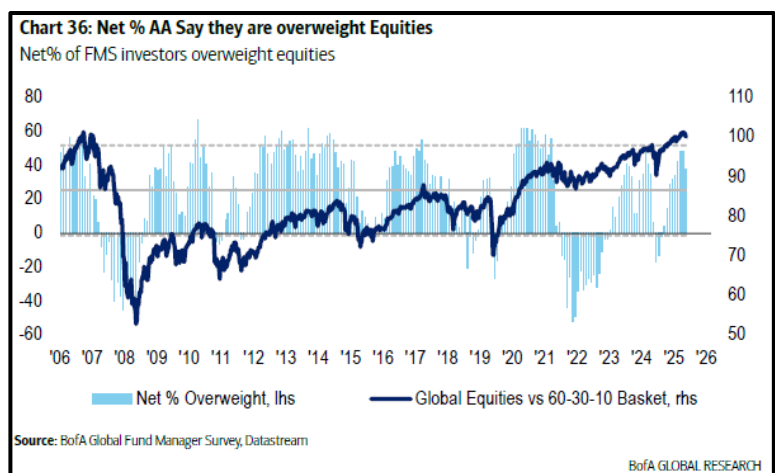
At a systemic level, however, it remains manageable. US banks' total loans to non-deposit financial institutions (NDFIs) have reached approximately USD 1.9 trillion, representing roughly 7% of total bank assets of USD 24.5 trillion. The big four US banks carry 4-10% of assets in NDFI exposure; the super-regionals somewhat more. Critically, banks now hold approximately 32% of their assets in nominally risk-free instruments, near a record high. This is not 2008. The leverage ratios, capital buffers and opacity are much better. The stress is real, but the contagion pathway to a systemic event requires several more dominoes to fall. But expect spreads

to widen should the Hormuz crisis continue. This is not a good time for this confidence crisis to emerge.

Equity Markets: A Correction Without Capitulation

March was a terrible month for equity investors. The SP 500 broke below its 200-day moving average, while European markets corrected more sharply from an extended bullish pattern. The BofA FMS equity allocation fell to a net 37% overweight from 48%, with the broadest sentiment measure dropping to a six-month low of 5.6, though still well above the April 2025 Liberation Day nadir of 1.8. Critically, positioning is nowhere near the uber-bearish levels recorded at prior major lows (COVID, Russia-Ukraine, GFC), which means the margin for further de-risking is substantial if macro conditions deteriorate.

BofA FMS: % Saying Overweight Equities





The most striking feature of equity markets right now is the absence of earnings revisions. FactSet consensus still expects 16% earnings growth for the SP 500 in 2026, implying investors are either betting on a rapid resolution of the conflict or are behind the curve in acknowledging the structural impact of a 15 Mbpd supply disruption. The forward 12-month P/E has compressed to 20.3x, down 2.8 points from the high, technically correction territory, but remains historically elevated given the macro environment. Earnings revisions are coming; the question is when.

Depending on the sector, the impact is deeply asymmetric. The industries most exposed to a prolonged closure of the Strait of Hormuz are airlines, cruise lines, consumer discretionary, and petrochemical-

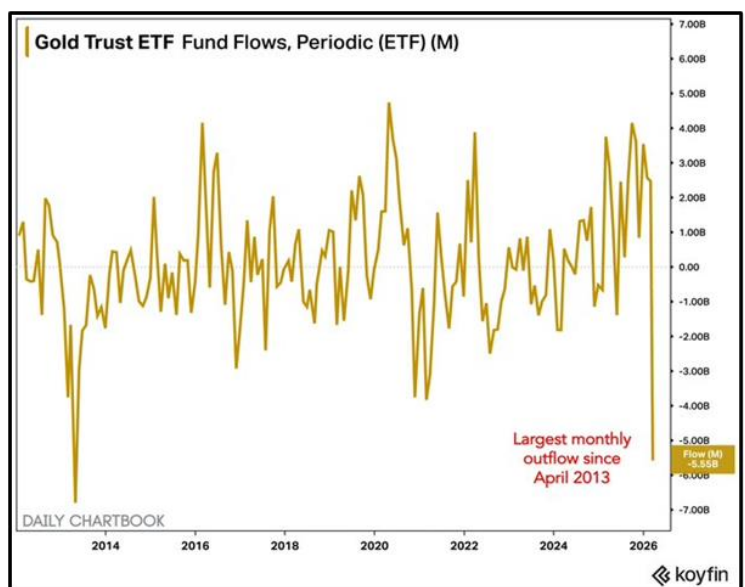


dependent manufacturers, precisely the segments already facing a cost-of-living squeeze. At the same time, higher rates, with the 10-year now approaching 4.5% in the US, act as a direct headwind for long-duration assets: high-growth technology and software companies with distant cash flow profiles. Experienced investors should not forget: Pavlovian faith in central bank intervention, the assumption that any significant

drawdown will trigger a monetary policy backstop, is a dangerous anchor. It's the same with fiscal policy, already stretched to the limit. There is potential for a chaotic environment, because moral hazard won't come to the rescue. In the current stagflationary environment, cutting rates exacerbates inflation; hiking rates destroys demand. *There is no clean exit.*

Gold is still in a consolidation phase after its parabolic rise

Gold's behavior since the outbreak of hostilities has puzzled many observers. Rather than surging on safe-haven demand, the metal briefly touched its 200-day moving average in mid-March, recording the largest monthly outflow from the GLD ETF since April 2013. The explanation is straightforward: gold had already risen by over 60% in USD terms in 2025, reaching parabolic territory well before the Hormuz events. When forced de-risking began, it became the most liquid source of cash for hedge funds and institutional investors seeking to meet redemptions and margin calls. The same dynamic occurred in March 2020.





A few central banks in the Gulf region were allegedly forced sellers, as well as the Turkish central bank, which sold 50 tons from its international reserves in March to support its currency.

The consolidation may not be over, but Yardeni, as some other yellow metal bulls, maintains its long-term price target of USD10,000/oz by the end of the decade. The structural drivers remain firmly intact: dollar debasement, central bank accumulation (particularly by EM central banks diversifying away from US Treasuries), inflationary pressure, and diminishing confidence in paper assets. The current environment, stagflation, elevated geopolitical risk and fiscal deterioration, is historically the most constructive backdrop for gold. The correction is an opportunity to build over time, not an exit signal.

Oil at 200 USD?

Brent crude has oscillated around the USD100 mark since the start of the conflict, a level that, at first glance, seems modest given the scale of the supply disruption. The WTI-Brent spread has widened to its largest divergence in a decade, reflecting the simple fact that US crude does not transit the Strait of Hormuz. The US is cushioned; the rest of the world is not.

In the resolution scenario, a tacit ceasefire within two to four weeks, gradual Hormuz reopening, with, maybe, Iran extracting a transit fee of perhaps USD 1-2 million per vessel (USD 100-200 million per day, roughly equivalent to USD1/barrel surcharge at normal traffic), oil retraces toward USD75-80, consistent with the BofA FMS weighted average price expectation for year-end 2026 (USD76/bbl).

Oil Spread WTI-Brent Crude Oil



In the escalation scenario, Houthi attacks on the Saudi east-west pipeline, attacks on Gulf desalination infrastructure, and an involuntary Saudi entry into the conflict, oil could spike well above USD120 toward the USD 200 mark, and remain there for an extended period, with second and third-order effects on plastics, fertilizers, freight, and semiconductors that cannot be resolved in any short timeframe. The physical economists who trade

energy for a living are, by their own account, the most bearish they have ever been. Mid-April is the critical window: floating storage, sanctioned oil releases, and reserve drawdowns provide cover through then, but not much beyond.

Not a safe heaven

The dollar's behaviour during this crisis has been more muted than one might expect from a classic flight-to-safety episode. EUR/USD has traded sideways; the Brazilian Real has barely moved against the USD; the Yen has been range-bound.



The relative dollar resilience reflects a wait-and-see posture by the market: the conflict is geographically concentrated in a region where US-denominated energy contracts and military engagement traditionally support the greenback. But the "Sell America" theme, which has been building since Liberation Day 2025 across Treasuries, equities, and the currency itself, has not disappeared. Once the conflict de-escalates, the removal of safe-haven premium, combined with the structural overhang of US fiscal deficits and a potentially dovish Warsh at the Fed, points to material dollar weakness. We expect that USD/CHF will drift meaningfully lower and EUR/USD higher once the dust settles.

Dollar Index (DXY) Barely Stronger



Not Yet Time to Add Risk

The current environment does not reward aggression. Equity markets have corrected, but have not capitulated: earnings expectations remain heroically optimistic, positioning is still far from max-bearish, and credit has not yet priced a recession. Adding risk to a market where the physical commodity shock has not yet been fully transmitted into earnings models, and where the resolution timeline is genuinely uncertain, is a game of patience, not opportunity.

If the conflict does not resolve within the next 10 to 15 days, the consequences shift from a market correction into a genuine economic disruption: industries that depend on oil derivatives will begin to curtail production. Central banks, squeezed between inflation and recession, will be unable to provide the classic policy backstop that equity markets have been conditioned to expect over the past 15 years. Governments, running elevated deficits, will have limited fiscal space to compensate. The downside, in that scenario, is substantially larger than current market pricing implies. This is a low-probability scenario with significant downside potential.

We maintain a cautious stance: commodities remain an important allocation; gold consolidation is a pause within a bull market; bonds are to be approached with care, given the inflation repricing underway; and equities require sector discipline, energy, healthcare, quality earnings, and inflation pass-through names, rather than broad index exposure. Volatility will remain elevated until the Hormuz crisis is over.

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