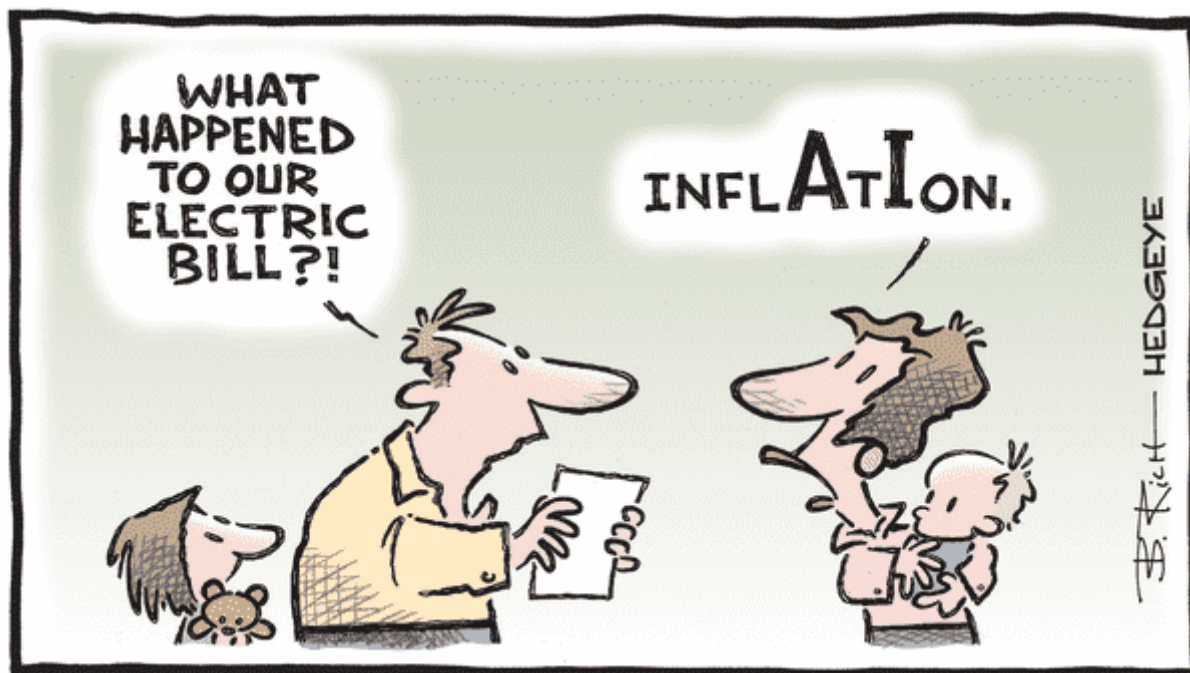


Market Review - May 2026



Three Doors at Hormuz

The world entered week 9 of the Iran conflict, and despite all the noise and presidential truths on his social network, the Strait of Hormuz remains “more or less” closed. According to BCA, the number of ships crossing the Strait is less than 10% of what it was before the war. It is time to make scenarios. As highlighted last week, there is an asymmetrical risk for the world economy

One useful framework for thinking about the next phase of the conflict belongs to Rory Johnston, the energy analyst behind *Commodity Context* and a recent guest on the *Geopolitical Cousins* podcast.¹ He frames the path forward as three doors, three distinct timing scenarios for when meaningful tanker traffic resumes through the Strait. The first is an immediate reopening, in which a credible ceasefire holds, and shipping insurers return to the market within days. The second is a one-month scenario in which a partial de-escalation allows traffic to resume in trickles, but with sharply higher war-risk premiums and longer routing detours. The third, and increasingly the one that energy desks are stress-testing, is a three-month scenario in which the Strait remains effectively closed or radically constrained until the summer.

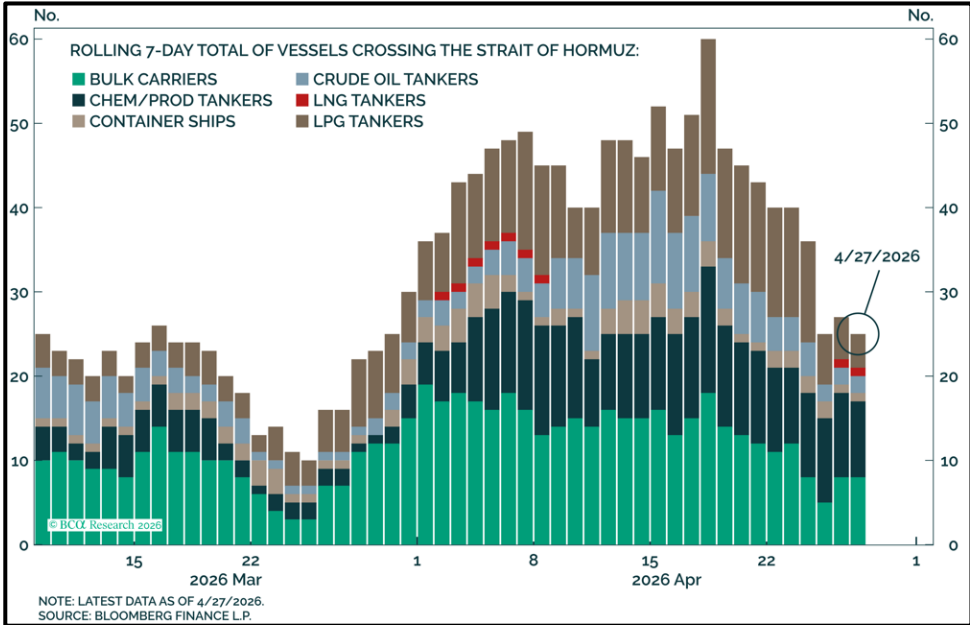
The math is not lying here. Roughly thirteen million barrels per day of crude and condensate, plus the world's largest LNG flows, cannot transit through Hormuz. Eight weeks of disruption already represent more than *half a billion barrels* of unproduced or unmoved output. In his immediate-reopening scenario, Brent prices could move down by 20% on the back of speculative long-position unwinds. But, in the “still three months to go closed” scenario, Brent prices could approach two hundred dollars by the end of June,

¹Rory Johnston, "The Supply Hole," Geopolitical Cousins podcast, <https://geopolitical-cousins.captive.fm/episode/the-supply-hole>. The full quantitative framing of the three scenarios is also discussed on the Commodity Context substack.



a number that sounds extreme until one remembers that it would imply replacing more than 60% of Persian Gulf production.

Rolling 7-Day Total Of Vessels Crossing The Strait Of Hormuz



Source: BCA

The market is currently priced somewhere between door one and door two; Door three is essentially not something investors believe in. This is not a forecast that lends itself to high conviction either way. The point worth making is that the optionality is asymmetric. If the Strait reopens in the next few days, the worst is already behind us. If it does not, the entire second-half growth-and-

inflation forecast in the developed world must be rewritten. Donald Trump said that the Strait could be closed for months². Markets are currently shifting to “door 3”, oil prices are grinding higher every day the Strait is closed.

Interesting to note that the UAE has decided to leave OPEC+ as of May 1st. They had already threatened to do so in the past, because they have the feeling that the oil cartel doesn’t serve their interests well. It is also a way to strengthen its partnership with the USA and Israël. *“It came as a result of some deep thinking, in light of the 40 days of drones and missiles,”* said Abdulkhaleq Abdulla, a prominent Emirati political scientist. The UAE will be able to take advantage of high oil prices. Production quotas have bottled up around 30% of its output capacity.

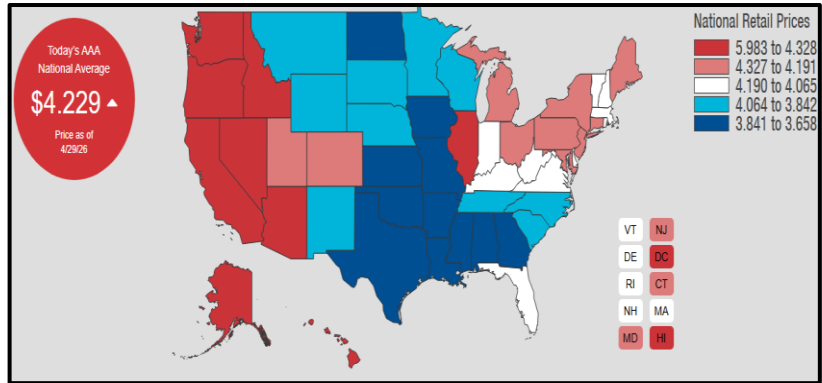
² https://www.wsj.com/world/middle-east/trump-tells-aides-to-prepare-for-extended-blockade-of-iran-da3be7a4?mod=article_inline



Growth and inflation: the asymmetric shock

In April, the IMF cut its 2026 global growth forecast by 0.2 points to 3.1% in its mid-month update, leaving 2027 unchanged at 3.2%.³ The cut is modest in the headline but matters in the composition: emerging Asia and Europe bear most of the downgrade, as they are more exposed to the war in Iran. The United States was barely revised. But this optimism about Uncle Sam’s economy may be premature. Gasoline prices are on the rise; the average national price for a gallon of gas is well over 4 USD, from less than 3 USD before the war.

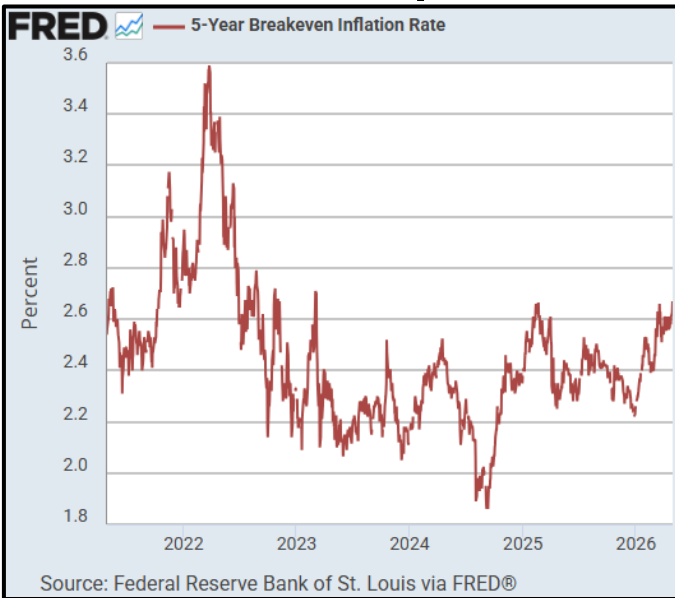
US National Gas Price Comparison (28.4)



Source: gasprices.aaa.com

The US consumer data is starting to bend. The University of Michigan consumer sentiment survey printed 47.6 in April, a record low going back to the 1970s, *below* the 2008 trough and below the COVID lows. Headline retail sales were strong at +1.7% month-on-month, but ex-autos and gasoline slowed to +0.6%, and the auto component was almost entirely a pre-tariff pull-forward. Strip out the noise, and the picture is one of an anxious US consumer paying more for fuel and beginning to reduce the marginal discretionary purchase. That is the textbook setup for a stagflationary environment.

US 5-Year Inflation Expectations



The inflation picture is the other half. US headline CPI rose 3.3% year-on-year in March and accelerated 0.9% on the month, the hottest monthly print in two years, with gasoline up 21.2% year-on-year. The March core PCE rose to 4.3%, the highest figure in three years. The first estimation for Q1 GDP was released at 2%. Therefore, the nominal GDP growth stood around 6%.

In this context, 5-year Inflation expectations rose by 40 basis points from February to 2.67%. This is close to a high since the Covid crisis, but it remains in a reasonable range. Tariffs are adding to that mix; recent estimates put the pass-through at roughly 0.8% of additional goods inflation, while

³International Monetary Fund, World Economic Outlook update, mid-April 2026. Global GDP cut 0.2pp to 3.1% for 2026; 2027 unchanged at 3.2%. The downgrade was concentrated in Europe and emerging Asia.



tariff revenues themselves are running about 25% below the initial administration projections, partly because the largest US importers have been actively managing volumes down.

In Europe, Mrs. Lagarde signaled at the April press conference that the ECB is more likely to hike than cut into the summer, and inflation expectations from the European Commission are drifting higher. But there are a few signs of pass-through to services *yet*. Even the Swiss National Bank is broadly expected to follow with a rate hike next year. The Reserve Bank of Australia has already begun its hiking cycle. The era of synchronized easing that dominated expectations for late 2025 is over.

Bond market's worries

Yield curves rose in the US and Europe through March and stayed elevated in April; the term premium is growing.

Calling tops in long rates is premature so long as the front end remains noisy, but it is striking that the market is pricing in more risk, not less, despite an April compression in credit spreads. The two are not contradictory. Spreads have tightened because the immediate war-induced growth scare has dissipated; rates remain high because investors are demanding compensation for inflation, supply, and policy uncertainty. That is a textbook late-cycle bond market.

German 10Y Bond Yield



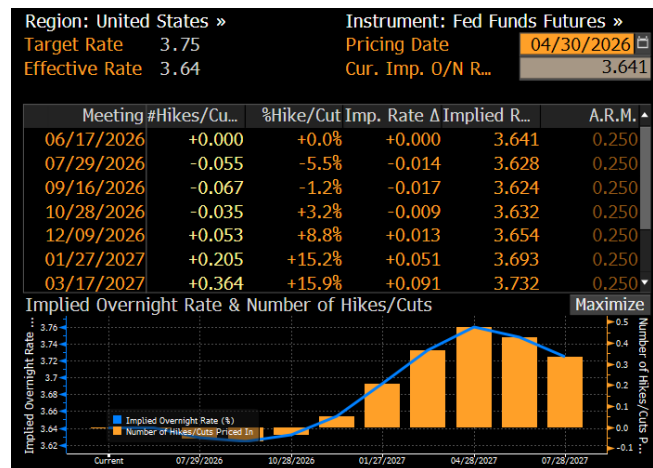
Two specific stories are worth flagging. The first is the tariff refund saga. Following the recent Supreme Court ruling, the Treasury is now in the early stages of processing refunds on tariff revenues collected since the beginning of the year. Numbers being floated by trade desks place the government's gross liability at \$166 billion, with \$127 billion already in the refund pipeline and roughly 330,000 importers eligible.⁴ The mechanical impact on the deficit is small relative to the total fiscal trajectory, but the political optics are significant: the administration is being forced to hand money back at exactly the moment it would prefer to claim that tariffs are working. It is also a reminder that the bond market's discomfort with US fiscal policy is structural, not cyclical. The amount of Federal debt is gigantic at 120% of GDP, which is 39 trillion. If one adds the current account deficit and the 7% budget deficit, any other country on the planet would already be bankrupt.

⁴Tariff refund figures cited from market commentary following the Court of International Trade ruling. Approximately \$166bn in gross tariff liabilities, \$127bn already in the refund pipeline, with roughly 330,000 importers eligible. Final processing timeline remains uncertain.



The second story is the Fed's leadership question. April marked the end of FED Powell's chairmanship. Rates were left unchanged as expected, with four dissenters, three for a hike and Miran for a cut. Following the quiet withdrawal of the DOJ probe against Jerome Powell earlier in April, nothing could prevent Warsh from being nominated as the new FED's chair. He should be confirmed on May 15. Warsh has spent the last decade arguing that the Fed should be more orthodox, that quantitative easing was misused, and that the institution should take inflation more seriously. The genuine puzzle for the coming months is whether, once confirmed, he delivers the cuts POTUS wants or maintains the status quo against a White House that is openly impatient. The risk is a monetary policy error in the form of cuts made amid rising inflation expectations, which would steepen the yield curve sharply and force repricing across all asset classes. Hopefully, there is a board of governors to convince to cut rates in the current environment. It has to be shown that these people are willing to risk their credibility to please the White House. Currently, the market is not expecting any rate cut.

US Federal Reserve Rate Cut Expectations



Credit spreads, as noted, tightened back through April. Investment grade is now within a few basis points of the levels seen at the start of the year, and high yield has retraced about two-thirds of the March widening. The fear that gripped private credit in March, and that this letter discussed last month in the context of business development company redemptions, has eased.⁵ Eased is not the same as resolved. Stress in the asset class remains; default rates among middle-market borrowers are still drifting higher, and the secondary market for the largest BDCs continues to trade at meaningful discounts to NAV. The credit market will remain under pressure, but there is no systemic risk, though.

Equity markets: the great disconnect

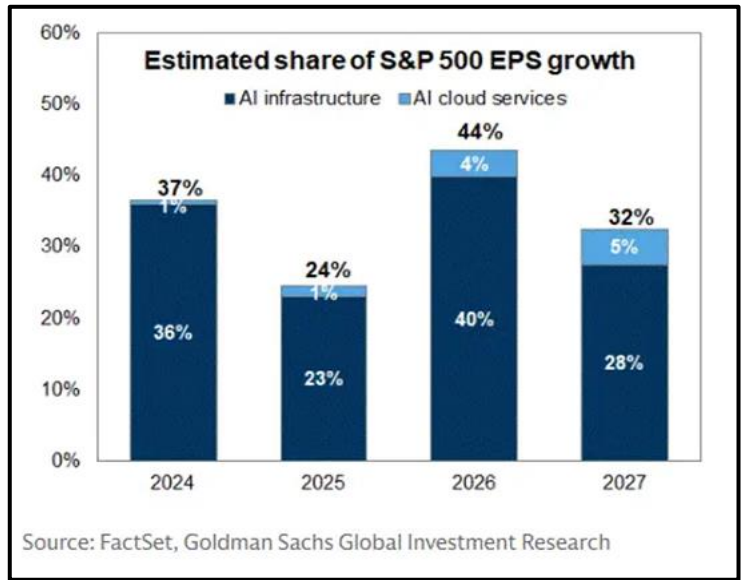
US equities have done something genuinely unusual: they have made new all-time highs while the breadth (number of stocks making new highs) of the rally has narrowed to a handful of names. The S&P 500 finished April near its highs, with the SOX semiconductor index up roughly 50% from its March lows in one of its strongest single months on record. By contrast, the equal-weight S&P 500, the small-cap Russell 2000, and the median European stock are all below their February peaks. This is once again a market in which the index is a poor description of what most stocks are doing.

⁵See the April 2026 commentary, "Fear in the Strait," for the BDC redemption discussion. Spread compression in April has not reversed the underlying trajectory of middle-market default rates.



The earnings story explains the headline but underlines the fragility. Earnings revisions have been positive since the beginning of the war in the Middle East. Micron alone accounts for 51% of S&P 500 EPS revisions since February, and the Micron-Broadcom-SanDisk trio together accounts for 64%. The Q1 EPS contribution from Nvidia is on track to be roughly a quarter of total S&P 500 year-on-year EPS growth, and Goldman Sachs estimates that AI infrastructure spending alone will drive about 44% of S&P 500 EPS growth in 2026 (graph). Concentration of that order is historically rare and rarely durable. Hyperscaler capex appears to have peaked in Q1 at around 94% year-on-year, a growth rate that historically precedes a digestion phase rather than a re-acceleration.

Estimated Share Of AI Infrastructure In SP500 EPS Growth



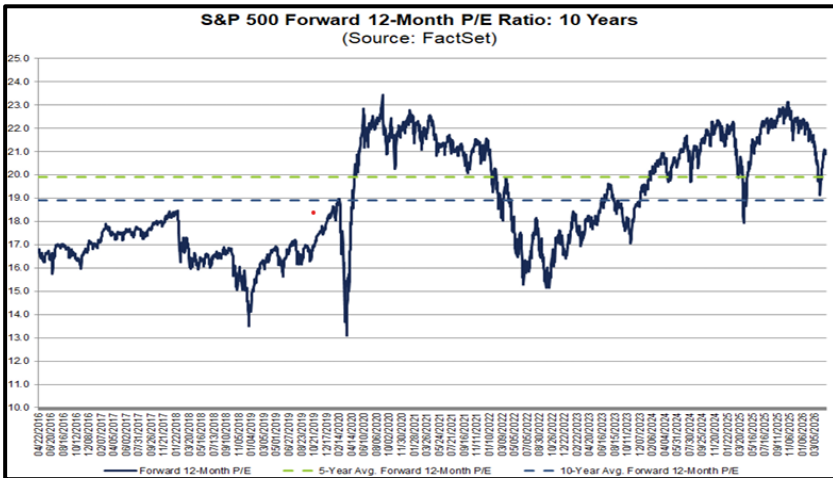
For the first time since September 2025, respondents to the BofA FMS survey (April 10) now expect global profits to fall over the year ahead. Roughly 70% of them expect stagflation to be the base case for 2026. Put differently, the same investors who are buying the index are simultaneously telling pollsters that they expect earnings to disappoint. That kind of cognitive split rarely resolves through a slow grind. It is possible that the survey leans more toward caution, because benchmarking and industry pressure for performance don't bode well for professionals not invested in a bull market.

Outside the US, the picture is more interesting than the headline indices suggest. Emerging Asia is being driven by the same semis story as the US, with Taiwan posting 8.6% real GDP growth in 2025 and Korea reporting record exports of \$86 billion in March 2026, including a +134% year-on-year jump in semiconductor exports.

Stoxx 600 Q1 EPS growth is expected to be 4%, with Financials and Energy doing the heavy lifting. Europe underperformed the USA in April. Main indexes are below their February highs but stay close, indicating the bull trend remains strong. The S&P 500 forward P/E stands at 20.9x, up from 19.4x at the end of March. This is higher than the 10-year average but remains below the beginning-of-the-year top.



SP500 Forward 12-Month P/E Ratio



Source: Factset

The geopolitical backdrop is the part that no one wants to price. Policy unpredictability emanating from Washington has been the dominant feature of the past two months, on tariffs, on the Strait, on the Fed, on everything, and yet capital continues to flow into US assets. "America", which was in charge of ensuring peace and Security under the shield of the UN, is today the agent of chaos; It doesn't currently matter, but it is not a sustainable equilibrium. Risk premiums should widen and the

appetite for US dollar should go down, as it is when an empire is becoming weaker.

Commodities, gold, and the dollar

Oil refuses to come down. Brent traded firm through April. Each passing day without a resolution to the Hormuz conflict is adding pressure on the economy. As mentioned earlier, the Brent barrel could reach 150 USD in May and 200 USD in July if the Strait remains closed till then. A classic signature of a physically tight market that is paying a premium for prompt barrels, and therefore, the forward curve is in sharp backwardation.

Brent Oil Front Month Price





There is also the question of refined products like Diesel and Kerosene, because they are even more dependent on the Hormuz opening. Market participants are slowly realizing that the disruption in the Strait of Hormuz could last longer. Each passing day will drive oil prices and their derivatives higher. Soft commodities markets have been notably calm as of the end of April, despite well-publicized fertilizer-availability fears earlier in the year, with grains broadly flat year-to-date.

Gold, which spent much of last winter in a parabolic move, is consolidating. It is doing what it tends to do after a violent move: digesting and waiting for the next catalyst. Consolidation will most probably continue for a few months. The yellow metal belongs in portfolios both as an inflation hedge and as a hedge against the policy error described above. It is too early to add to the existing position.

The dollar finished April marginally stronger. The view remains that the next big move in the greenback is lower, not higher. The US fiscal trajectory, the commercial deficit (still at a record), the political pressure on the Fed, and the international mistrust of the US government will lead to a declining currency. But given the low quality of the Japanese Yen and the Euro, the fall will be easily bearable for trading partners. The Swiss Franc will continue to appreciate, with the Swiss National Bank trying to ease the pace of appreciation. The Us dollar is not a safe haven anymore.

Climbing a wall of worries

Two months and more into the war, and there is no hint of an agreement between the US and Iran. It is the second time in six years that the flow through Hormuz has been interrupted. This time, it is likely that traffic in the region will never return to its prewar levels. Because markets adjust and evolve. Nevertheless, all the “rerouting” to avoid Hormuz and long-term solutions to the bottleneck will add to costs for years to come. Energy is critical, and the crisis highlights once again the necessity for the government to ensure access to energy sources and inventories. One should expect demand for commodities to remain elevated for an extended period.

Growth forecasts are being trimmed, but only at the margin, because most market participants believe the disruption will be short-lived, given that the price pressures from higher shipping and energy costs should recede once the crisis is over. Inflation is showing its ugly head. The belief is that AI is deflationary because it improves productivity. This is true, but it doesn’t mean it will necessarily replace humans or shorten work processes; it could also be used alongside existing infrastructure to improve quality and content. On top of that, AI is using a lot of energy; its deflationary effect is not straightforward.

These beliefs about a short disruption and magic AI lead CEOs and Investors to think it is better to just “look through” the noise and ride the positive economic wave. If it is true, we should know quickly.



Wait and see, and don't chase

In such an environment, there is no reason to rush to add risk, but it is also worth remembering the importance of staying invested. Time is the engine of performance, not timing.

The AI narrative remains well alive. The large amount of capex has pleased investors, as they expect profitability won't be negatively affected. Credit markets are now reluctant to finance debt because the amounts borrowed are huge.

The temptation in a market that keeps making new highs is to chase the index. That should be resisted for three reasons. First, the breadth picture is unhealthy, and the FMS positioning data confirms that the marginal buyer is reluctant. Second, the Hormuz situation remains unresolved, and the asymmetry is still tilted toward an unpriced negative scenario. Third, the macro path requires either lower inflation or lower rates over a short period. It won't happen.

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