STOCK MARKET OUTLOOK

2026: Part II

Independent Research & Analysis

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2026 STOCK MARKET OUTLOOK – PART II

April 24, 2026

Executive Summary

2026's bullish start gave way to March's negative volatility, as the Iran war soured sentiment and delivered a near-correction from late February's all-time highs. At quarter-end, the MSCI World Index was down -3.6%.[1] Perhaps the downturn ended on March 30. World stocks rebounded swiftly to new all-time highs by April 15.[2] But no one can know when volatility or corrections (sentiment-driven -10% to -20% pullbacks) will strike or abate, which can happen for any or no reason. Trying to time their short-term swings is folly. We see little that alters our forecast for continued bull market driven heavily later this year by the "Midterm Miracle"—the tendency for US stocks to post above-average gains starting late in midterm election years. (Appendix I)

Investors and pundits have a strong tendency to focus on daily market moves, with the war hogging headlines. This is understandable, but we encourage you to zoom out: To us, this downturn looks like the market's typical, relatively fleeting response to regional conflict, which routinely gives way to a rebound much faster and sooner than most expect—if it hasn't already.

Specifics vary, but sharp shocks like March's are correction-like and typical of the increased volatility we normally see ahead of midterms. Corrections come and go during bull markets, but don't impede stocks for long. While we are always looking for risks to our forecast, a real bear market now remains quite unlikely.

The war and its effect on energy prices have hit sentiment hard, rebuilding the wall of worry bull markets love to climb. Non-US sentiment is even more pessimistic. Pundits cast news or data reflecting the still-growing global economy and solid corporate earnings as outdated, undermined by war. The gap between sentiment and fundamentals grows. Meanwhile, stocks are pre-pricing worst-case scenarios, priming a recovery when those prove excessive. Stocks have abundant positives to price when war fears fade. The rally since March 30 illustrates just this.

Yet few fathom a brighter future—in part because the war, like everything these days, is so politicized. People now filter almost all news through a partisan lens. While this may be fine in some areas, when investing, it is vital to shut off bias and partisanship. Markets are politically agnostic. Giving your biases control creates blind spots, inviting error. In this light, please keep in mind that our commentary is always *intentionally nonpartisan*. That is vital to accurately analyze most issues, including the war, tariffs and more.

Relative to past conflicts, there is little detailed reporting, leaving an opinion-vulnerable vacuum for pundits to fill. Headlines hype urgency, claiming disaster awaits if the war isn't over and the Strait of Hormuz reopened very soon. Economic forecasts project indefinite $150 or even $200 crude oil prices, warning disaster ensues. This is likely overwrought, according to our research, and we doubt it takes that long to reopen the Strait, which would likely leave the region and oil transit more stable in the longer run. Yes, *more* stable. It could mean vast reserves from Iran and Venezuela become increasingly accessible in time, undermining the long-range interests of nations like Russia.

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While stocks' sharp decline may feel unsettling, they are following the standard three-step playbook for energy-centric conflicts Fisher Investments founder and Executive Chairman Ken Fisher described in his recent *New York Post* column. Step one: Volatility arrives and oil prices rise during pre-conflict saber rattling. Step two: Initial fighting exacerbates both as markets price worst-case scenarios—that was March. Finally, step three: Markets fathom the conflict's limited, temporary economic footprint, realize long before war ends that global growth should persist and rally while oil prices fall. In the meantime, today's elevated oil prices around $100 aren't nearly as problematic as widely cast. For one, we saw oil prices this high throughout most of 2011 – 2014 with no identifiable, deleterious economic consequences. Furthermore, $100 oil today is partly a money illusion. Recent years' inflation means today's $100 oil is more like $75 in 2019. Appendix II details this, showing markets' repeated swift recoveries.

Looking beyond the war, stocks have lots to like. Economic data reflect continued growth. The global economy and energy markets are quietly adapting to oil bottlenecks. The global yield curve is steep, and central banks don't look poised to kill this with big rate hikes. The Fed quietly proposed easing banks' capital requirements, which would enable more lending and investment. Europe's political calendar looks quiet, with gridlock entrenched. US midterms remain in the noisy phase but should crystallize late this summer, helping markets price more gridlock—the Midterm Miracle. (Despite fears in some corners, there is effectively zero chance those elections don't happen on time.) Tariff uncertainty lingers as the administration adapts to the Supreme Court's ruling against blanket and reciprocal tariffs, but markets moved on long ago. Tariff news has little power to sway stocks now, for good or ill. The war stirs many emotions, but these wildly underappreciated positives likely keep stocks on course for the good year we forecast in January.

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Appendix I: A Back-and-Forth Quarter and Beyond

2026's first two months extended global stocks' 2025 trends. The MSCI World closed February up 3.0%, led by non-US stocks' strong 9.8%.[3] Hamstrung by high expectations, US stocks languished, up just 0.7% as Tech floundered.[4]

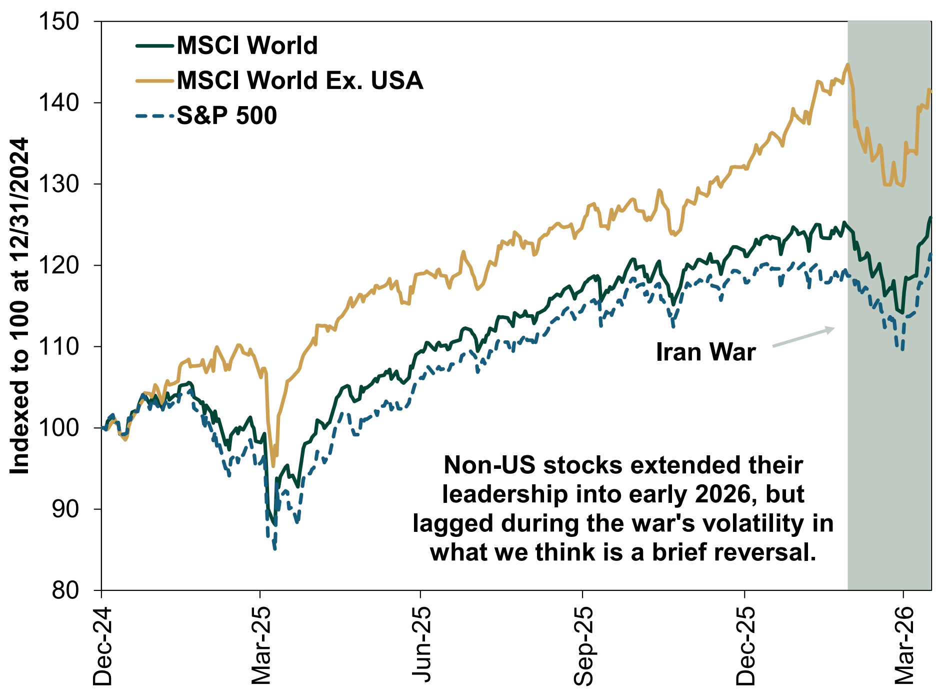
Then the war began—bringing sharp volatility. Global markets' March slide rendered a -3.6% Q1 decline, stirring bear market fears.[5] The downturn looked correction-like throughout to us—typical of regional conflicts. These often hit sentiment hard but fade fast, defanged by ubiquitous media attention. Hence, we counseled a longer-term focus, a mindset rewarded by the rally since March 30.

Like most sentiment-driven declines or corrections, world markets fell sharply from February 25's all-time high. Leadership flip-flopped, with non-US stocks lagging—also normal. (Exhibit 1) Headlines pumped worst-case scenarios, casting all good news as fleeting, irrelevant or outdated.

This looked nothing like bear markets. Those usually involve long, gradual declines with no "scare story." So analysts counsel readers to "buy dips." Bear markets begin with a whimper, not a bang.

This was a bang. Reacting to these sucker punches by avoiding stocks is usually wrong—they knock the wind out with no warning but end fast. Big up days follow big down days. Look at the rapid rebound from 2025's tariff terror. The rally since March 30 looks little different, with global and US stocks back to new all-time highs already.

Exhibit 1: Prevailing Trend and Correction-Like Countertrend



Source: FactSet, as of 4/15/2026. MSCI World Index and MSCI World Ex. USA Index with net dividends, S&P 500 total return, 12/31/2024 – 4/15/2026. War period is 2/27/2026 – 4/15/2026.

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Appendix II covers this war and oil in great detail. But there is a long history of regional conflict and stocks. None caused a bear market—and we doubt today is different. The market action thus far hints at that.

When markets focus on one thing—as they have since bombings began—it forces stocks to pre-price worst-case scenarios and speculation swiftly. Stocks take their lumps, then move on well before people see improvement. This is why we think investors must look past daily developments. Markets price news faster than you can fathom it—often *in anticipation* of headlines.

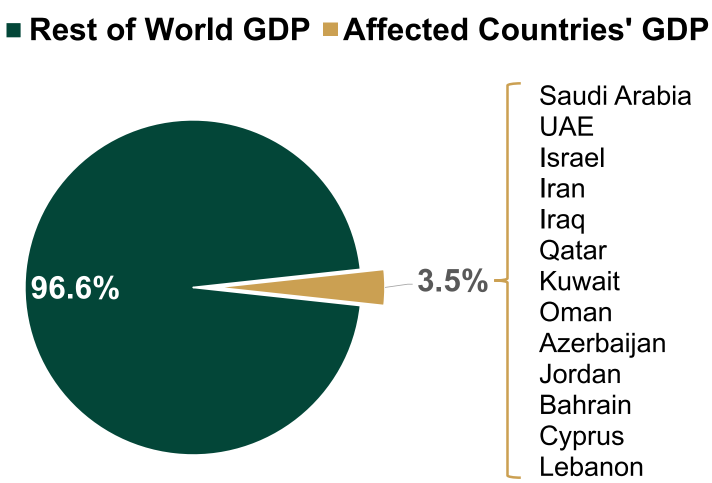
Forecast Update

The war's outbreak doesn't change our views. We expected a rocky grind early in keeping with midterm trends—before a late-year rally to good returns. A back-and-forth Q1 (or forth-and-back if you prefer) fits well.

Pullbacks bullishly lower sentiment—rebuilding a wall of worry. Today's has many bricks: fears of energy price spikes whacking European industry; fuel rationing roiling Asian economies reliant on Middle Eastern energy; inflation inundating Britain. Many sweat a 1973 – 1974-style "oil shock" hammering stocks. It all goes too far.

Markets should soon look past the war and see a resilient global economy. They should see economic conditions didn't suddenly change for the worse, given combat directly affects 3.5% of world GDP.[6]

Exhibit 2: Scaling the War



Source: World Bank, as of 3/13/2026. Share of World GDP in 2023, latest full dataset available. Does not sum due to rounding.

White-hot US political rhetoric soon gives way to midterms. The most bullish part of the US political calendar—the three quarters starting in Q4 of the midterm year—should take the wheel. (Exhibit 3)

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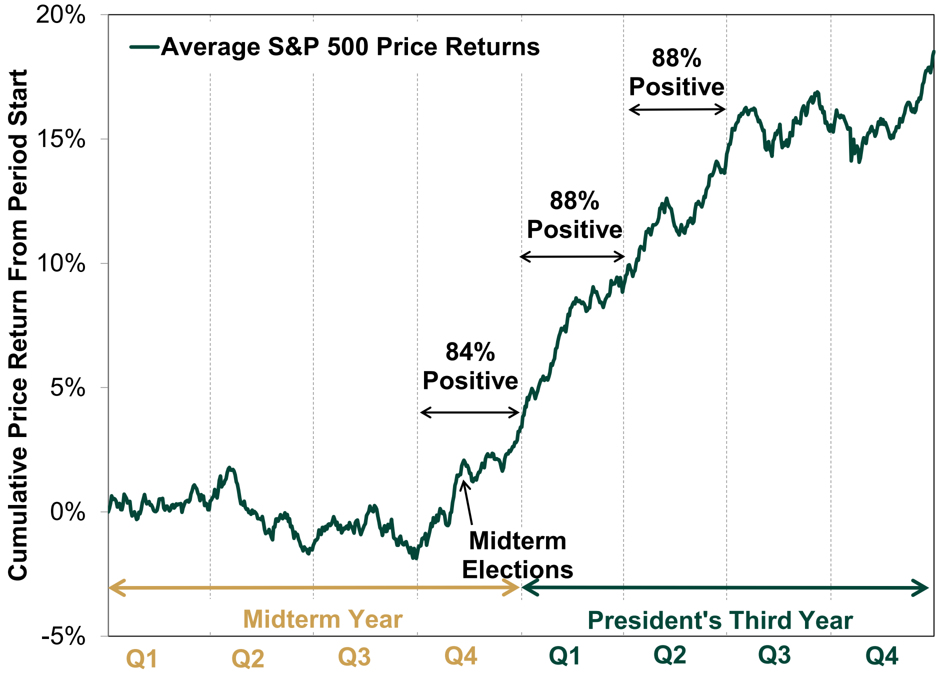
On the Midterms

It remains premature to discuss midterms in detail. But we can say two things now: One, we expect the elections to happen. Two, gridlock should result, with the degree to be determined.

Many express fear of President Donald Trump canceling or postponing midterms on emergency grounds (possibly the war), with some citing comments he made at an annual Republican gathering in January.[7] This is *extraordinarily* unlikely.

Exhibit 3: Grinding Then Glorious—The Midterm Miracle



Source: FactSet, as of 8/4/2024. S&P 500 average midterm and third year price return, 12/31/1925 – 12/31/2023.

The president has no power to declare an emergency affecting election timing. Only Congress can. There is zero chance this do-little Congress can overcome gridlock and members' own re-election incentives to pass such legislation. It has never happened. Not during COVID. Not in World War II, a much greater conflict than today's Iran war. Not during America's *Civil War!* Partisanship often makes people fear things that aren't rational, including rumors of election delays or cancelation. Extremists left and right floated such theories before every US election since at least 2008—probably longer.

So midterms will happen, likely boosting gridlock. The presidents' party lost House seats in 22 of 25 midterms since 1926.[8] In the Senate, where only a third of seats are up, election structure matters more. Yet the president's party lost seats in 18 of 25 midterms.[9] Following California Rep. Kevin Kiley's shift from Republican to Independent and several resignations, the GOP has a 217-212-1 House majority (5 seats are vacant).[10] Republicans hold just 53 of 100 Senate seats.[11] Such slim majorities flip easily, potentially handing the Democrats one or both chambers—deepening bullish gridlock.

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Appendix II: Assessing the Iran War's Effects

The war continues monopolizing sentiment. This is understandable—war is a terrible tragedy. Our hearts go out to all affected by loss of life and property as well as disruption throughout the Persian Gulf. Yet markets routinely deal with regional war faster than people fathom.

Initially, stocks raced to price the economic effects, including feared global energy shortages erupting from the closed Strait of Hormuz and attacks on Qatar's liquefied natural gas (LNG) infrastructure. Worst-case scenarios dominate economic forecasts, but stocks are already pricing a better-than-feared future.

Clearing the Fog of War

The fog of war is always thick as warring parties race to control the narrative. But this time, there seems to be less detailed, factual reporting than in other conflicts, as partisanship influences coverage. Opinions and bias therefore feed panic, defeatism and a false sense of urgency. Pundits insist everything must resolve fast, or economic and market catastrophe awaits.

Many dive into the daily headlines detailing every twist and turn in conflict and peace talks. But as the rally since March 30 illustrates, markets don't sweat tactical details—they assess broader economic implications, which we cover here.

Markets' Three-Step Reaction

Markets' reaction to regional conflicts—even wide-ranging quagmires—is typically fleeting. Saber rattling and initial fighting hit sentiment, but stocks usually bounce fast. Stocks realize the conflict lacks the multitrillion dollar wallop necessary to derail a bull market.

No regional war alone drove a bear market. In 100 years, only WWII was big enough to end a bull market. Even then, the downturn ended *three years* before peace arrived. 2022's Ukraine war was one of many fears stinging investors during a rare sentiment-induced bear market. That fighting rages now, over three years into the bull market beginning that October. In 1973 – 1974, an example many cite today, the bear market started 10 months *before* the Yom Kippur War, which sparked the Arab oil embargo. It also coincided with white-hot inflation (turbocharged by ill-conceived price controls' relaxation) and Watergate's huge political uncertainty.

Since then, markets endured several regional wars in energy hubs. They follow a three-step process. Step one: Stocks stumble and oil rises as saber-rattling sparks fear. Step two: Initial fighting worsens stocks' volatility and oil spikes as markets price worst-case scenarios. Finally, step three: Markets gain perspective, realizing global energy markets are adaptable. Long before the war ends, markets foresee persistent global growth and rally while oil prices fall.
January and February brought step one. Global markets climbed, but fitfully. Brent crude oil prices crept from $61.35 per barrel at yearend to $71.32 on February 27, the last pre-war trading day.[12] March brought step two as oil jumped and stocks dropped.

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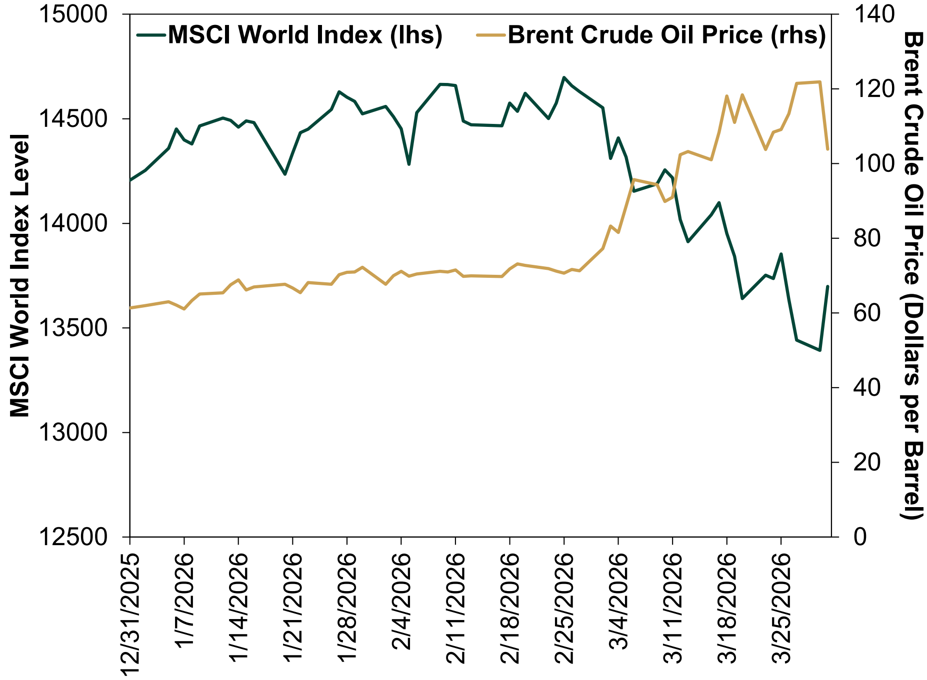
Exhibit 4: Oil, Stocks and the War



Source: FactSet, as of 4/6/2026. Brent crude oil price and MSCI World Index with net dividends, 12/31/2025 – 3/31/2026.

Stocks' return to all-time highs April 15 looks like step three's dawn, although this doesn't rule out further volatility. Short-term swings are impossible to time. But the fast bounce shows volatility cuts both ways. If you try to skirt it, you risk getting whipsawed. So look beyond headlines, like markets do. Reacting is inherently backward looking.

Oil's spike caused particular angst. It shouldn't. Crude regularly falls soon after energy-centric conflicts break out. This time, it eased even before peace talk rumblings picked up.

Exhibit 5: Oil Prices and Energy-Centric Conflicts

	Months After Start		
Event	**1**	**6**	**12**
Iran–Iraq War (1980)	13.5%	14.8%	7.5%
Iraq-Kuwait Invasion (1990)	24.9%	-6.5%	-12.8%
Desert Storm (Gulf War) (1991)	-13.0%	-3.9%	-12.4%
Iraq Invasion (2003)	-8.0%	-8.9%	22.6%
Israel–Hezbollah War (2006)	2.9%	-29.2%	7.0%
NATO-Libya Conflict (2011)	6.6%	1.9%	10.2%
Crimea Annexation (2014)	-2.0%	-8.5%	-44.3%
Russia-Ukraine War (2022)	21.1%	-0.2%	-18.7%
Israel-Hamas War (2023)	-0.6%	5.6%	-7.0%
Median	**2.9%**	**-3.9%**	**-7.0%**
Average	**5.0%**	**-3.9%**	**-5.3%**

Source: FactSet, as of 3/13/2026. Brent crude oil price following selected conflicts feared to have potential oil implications since 1980.

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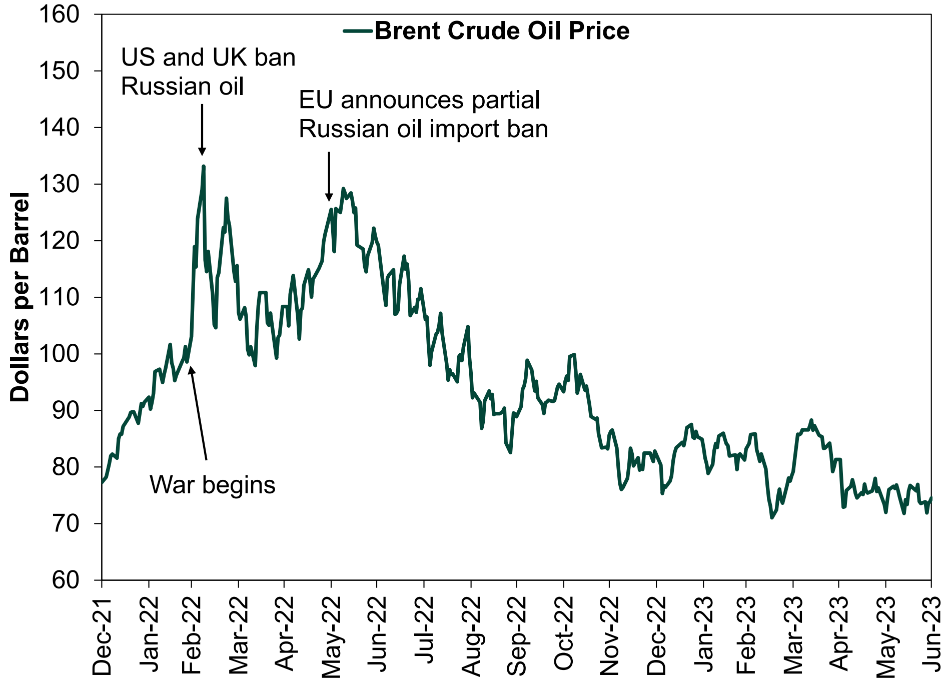
Oil's 2022 journey is instructive. In the Ukraine war's first month, Brent crude jumped 21.1%, crossing $130 per barrel as investors feared losing Russian oil.[13] But markets soon adjusted. Russia's Western-world clients found new oil sources, while its "shadow fleet" continued supplying countries willing to skirt sanctions. Other oil producers pumped more to meet higher demand, and crude was at pre-war prices by mid-August. Sidelining a major oil supplier didn't roil markets for long.

Exhibit 6: Oil's Lessons From 2022



Source: FactSet, as of 4/6/2026. Brent crude oil price, 12/31/2021 – 6/30/2023.

European natural gas prices also had a rollercoaster 2022, jumping from about €80 per megawatt-hour at the year's start to €350 that August as Russia cut European gas flows.[14] While global gas was abundant, the eurozone lacked import infrastructure. Yet the surge proved temporary. Gas eased as Europe built LNG import infrastructure and secured new suppliers. By June 2023, European gas prices were down in the €20s.[15]

Those measures continue bearing fruit: While European gas jumped as Asia's supply scramble fanned fears of competition for American gas, their high was just €71.21 on March 19. In mid-April, with global supply adjusting, prices are down below €50.[16]

Stocks' Long History of Resilience

Markets get over regional conflict quickly. Stocks quickly scale the conflict's limited economic footprint. As life and commerce continue elsewhere, world markets rally, pricing continued global growth. Even "forever wars" like the second Iraq war, which started in 2003, had fleeting market effects. This one looks little different.

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Exhibit 7: S&P 500 Returns During Selected Regional Conflicts

		Months After Start		
Global Events	**Full Conflict**	**1**	**6**	**12**
Suez Crisis (1956)	1.6%	-3.9%	0.5%	-8.1%
Six-Day War (1967)	3.6%	3.6%	9.4%	16.6%
Yom Kippur War (1973)	0.8%	-3.7%	-13.8%	-38.4%
Iran–Iraq War (1980)	180.0%	1.6%	5.7%	-6.9%
Iraq-Kuwait Invasion (1990)	6.8%	-7.8%	-0.6%	14.1%
Desert Storm (Gulf War) (1991)	12.5%	13.0%	19.1%	31.9%
Iraq Invasion (2003)	65.4%	2.2%	19.4%	29.0%
Israel–Hezbollah War (2006)	0.9%	0.8%	14.2%	25.7%
NATO-Libya Conflict (2011)	-0.8%	2.2%	-4.0%	12.6%
Crimea Annexation (2014)	0.9%	1.6%	9.2%	17.1%
Russia-Ukraine War (2022)	?	6.1%	-4.6%	-5.9%
Israel-Hamas War (2023)	?	1.4%	21.7%	34.1%
US-Iran War (2026)	?	-7.7%	?	?
Median	-	**1.6%**	**7.5%**	**15.3%**
Average	-	**0.7%**	**6.3%**	**10.1%**

Source: Finaeon, Inc., as of 4/13/2026. S&P 500 total returns, 10/28/1959 – 4/12/2026. Daily total return figures pre-1988 are interpolated due to data availability.

Diving Deep on Energy

Today, investors' big fear is energy supply disruptions from the Strait of Hormuz's closure—shortages, rationing and high prices. March's slide hammered nations and regions hit hardest by high prices and potential supply disruptions. Big energy producers including the US (-5.0%) and Brazil (-1.9%) held up better, while import-reliant South Korea (-25.5%), India (-14.9%), Philippines (-14.0%) and Japan (-12.4%) got whacked.[17] Much of Europe suffered low double-digit falls.

Those drops were markets' pricing worst-case projections of oil soaring to $150 or $200 and staying there as Middle Eastern supply vanishes. They include the feared economic impact of Southeast Asian energy rationing. This set the stage for positive surprise to spark a relief rally as this resolves much faster than everyone expects.

As Ken's writings detailed, Strait handwringing overlooks important things. Yes, 20% of global supply passes through it. But about one-third of that goes *in* for refining—it goes elsewhere now. Of the remainder, producers rerouted substantial amounts via pipeline, bypassing the Strait. Saudi Arabia's East-West pipeline upped flows to the Yanbu port, where tanker traffic tripled.[18] The UAE upped pipeline transmissions to its Fujairah port.[19] The world is adjusting. The closure isn't fully negated, but give it time.

There are also unheralded additions: The US removed sanctions on Venezuelan oil and eased them on Russian shipments, enabling freer flow. This brings up one longer-range potential outcome: More abundant global supply.

Iran and Venezuela have some of the world's largest reserves, but with low production due to sanctions, mismanagement and antiquated infrastructure. The US has record-high production but low reserves, while Europe's mineral rights and restrictions hamstring production. In the long

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run, a more stable Iran that works better with the US (echoing Venezuela's new approach) would likely secure future supply for the West, perhaps boxing out Russia and China. Markets don't price such long-term factors today, but it shows the potential for good outcomes. Beyond this, Gulf nations will probably build more workarounds to mitigate the Strait's future influence.

As for natural gas, this isn't 2022. Europe now has multiple LNG import terminals and receives US gas regularly—very little from the Middle East. Folks fear Asian shortages will trouble Europe, but today's price spikes are nowhere close to then. Markets and are already finding workarounds. Japan is increasing coal-generated electricity production and restarting nuclear reactors that were offline since 2011's Fukushima disaster. Other nations are eyeing rapid solar buildouts. While some small markets have genuine fuel crises, these are less-developed Emerging and Frontier Markets. We don't dismiss their pain, but they are tiny slivers of global GDP and stocks.

High Oil's Diminishing Economic Effect

For those who lived through the 1970s, oil looms large. Yet the world has come a long way: High energy prices have far less economic effect than people think.

Today, oil barely factors in electricity generation. Natural gas generated 43.1% of America's in 2023 (the latest data available), but that is a *minority* of US power.[20] Headlines hype data centers' increasing energy needs, portraying higher natural gas prices as a threat, but Tech firms are pursuing nuclear power instead.

Oil's importance lies in transportation (gasoline, diesel and jet fuel) as well as being a feedstock for plastics, polyester and mineral oil (e.g., cosmetics). Natural gas is a feedstock for fertilizer, helium (critical to semiconductor production) and much else. These building blocks matter.

But not hugely. The US and other developed economies consume far less oil to generate equivalent GDP. This severely limits high prices' ability to curtail output. (Exhibit 8) As for high oil risking hot inflation, this isn't possible without fast money supply growth—which we don't have. (Appendix IV) In 2022, COVID lockdowns' red-hot money supply growth left excess money as oil and gas jumped. This, not oil, kindled hot inflation. Without it, pricey oil and gas prompt substitution, reducing demand for other goods and services—weighing on their prices.

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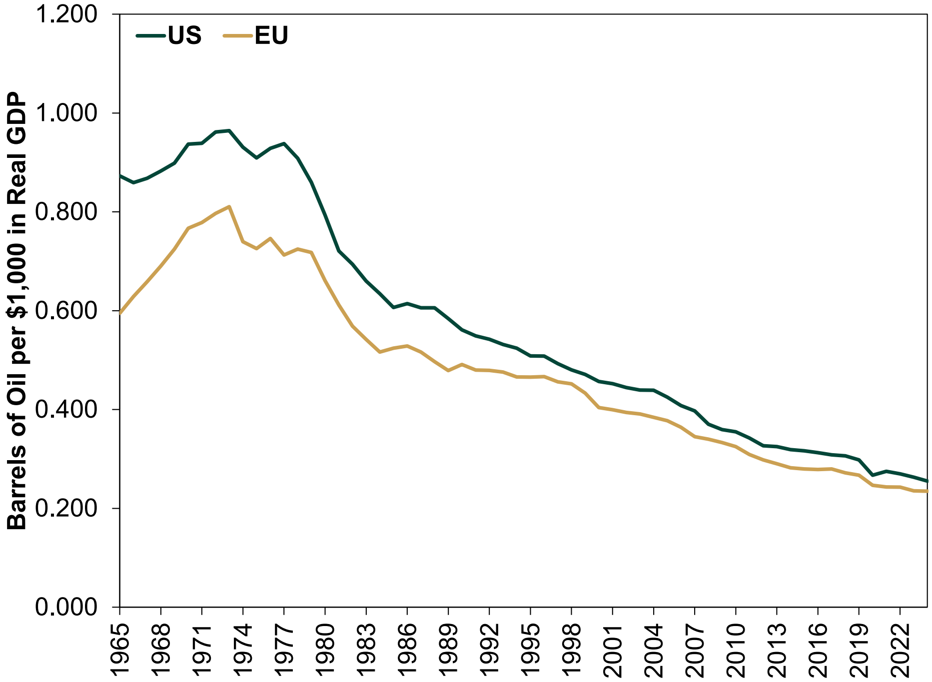
Exhibit 8: GDP's Energy Intensity Is Waning



Source: FactSet, as of 4/6/2026. Annual oil consumption and GDP, 1965 – 2024 (latest available).

Oil isn't really even high today. Ignore round numbers like $100 oil. They aren't a tipping point. Much of today's $100+ oil is a "money illusion" from recent hot inflation. With the US consumer price index up almost 27% since 2019's end, today's $100 oil is more like $75 oil then. That wasn't a problem. Nor was oil's topping $100 from 2011 through much of 2014. Better still, Exhibit 9 shows Brent crude oil prices since 1969, adjusted for inflation. Today's prices look pedestrian when you strip out inflation's impact. And that was before the pullback in early April.

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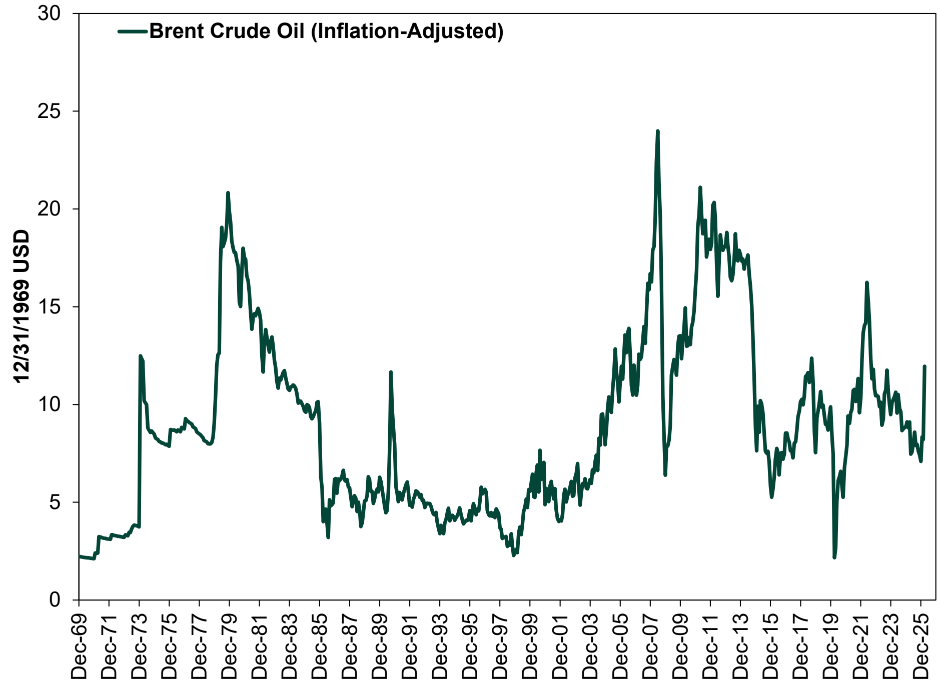
Exhibit 9: Deflating Oil Prices



Source: FactSet, as of 4/6/2026. Month-end Brent crude oil price and monthly US consumer price index, December 1969 – March 2026. October 2025 and March 2026 readings are imputed from the prior months' cumulative inflation due to data availability.

Where We Go From Here

Oil and natural gas move on supply and demand. There are real supply curtailments. Some Gulf nations reduced oil production as storage facilities maxed out. Idled wells can be difficult to restart. Some regional natural gas assets were also damaged and will take time to repair.

Yet the world can adapt much faster than people realize. Again, remember the Ukraine war's lessons. The US and Europe adapted to losing Russian oil and natural gas. The crisis sparked big investments in energy infrastructure. The same happens now: Gulf nations are planning new pipelines. Canada is investing to boost oil and gas exports. Argentina's shale fields ramped up bigtime. Offshore production from Guyana and other South American fields nicely adds to world supply.

Higher prices are an incentive to drill and pump more, and the market is responding. It won't surprise if oil and natural gas prices ultimately end up *below* pre-war levels faster than most fathom today.

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Appendix III: Overlooked Positives

Economic cheer is scarce. Even before war fear took over, many hyped tariffs' risks, a wobbly US job market and perceived European "weakness." Rampant focus on "negatives" contributed to souring sentiment, which blinded many investors to healthy economic fundamentals. This disconnect between perception and reality is bullish, a factor holding even more true today.

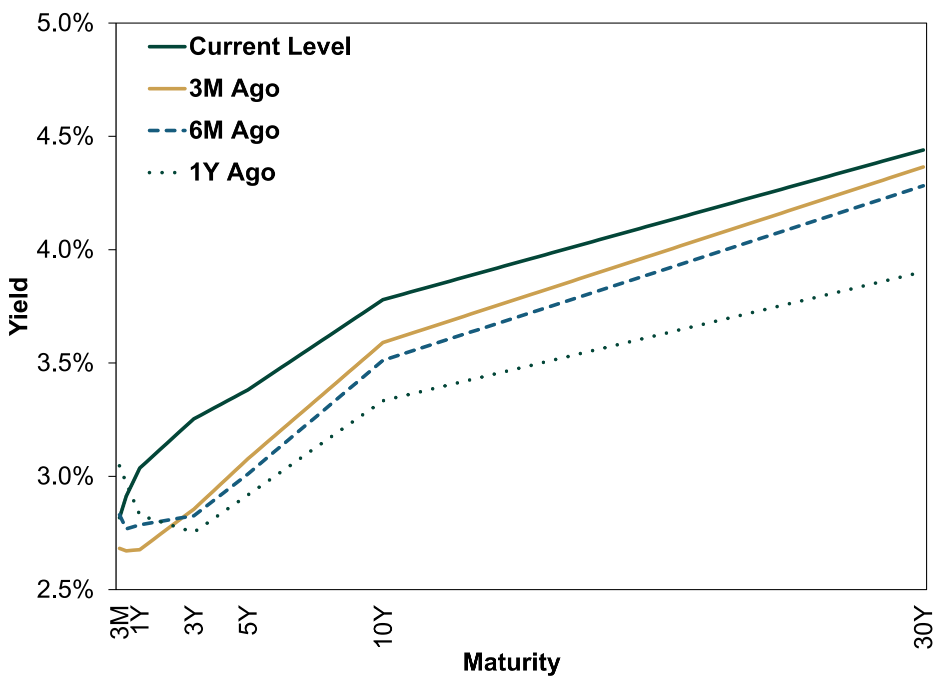
Despite headwinds, corporate earnings and the global economy continued growing—reflecting strong fundamentals entering the Iran war. As sentiment moves on, the fundamentals detailed here should come more into focus.

The Unseen Yield Curve

As Ken highlighted in January, the global yield curve steepened over the past year, a vastly underappreciated forward-looking economic positive.

Yield curves plot an issuer's interest rates across maturities, from short to long. When upward sloping, like today, it generally indicates future economic growth. When inverted (short rates above long), it is often a warning for forthcoming recession. Capital crosses borders easily in the developed world, so we have long used a GDP-weighted global yield curve. Unseen, it has steepened over the past three months, six months and year. This suggests growth should persist.

Exhibit 10: The Steeper Global Yield Curve



Source: FactSet, as of 4/6/2026.

Why this works is critical. Sovereign yield curves matter because they influence banks' future lending. Banks borrow short term to fund long-term loans, and government bond rates are good,

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credit-risk-free baselines for both. So when short rates are below long (again, like today) bank lending is profitable. When the spread between them grows—as it has over the past year—lending becomes *more profitable*, which encourages more lending. At a lag, steeper yield curves encourage faster loan growth, which delivers more capital to households and businesses to spend and invest—driving economic growth. Exhibits 11 and 12 show lending is growing at healthy rates worldwide—and businesses are investing.

Exhibit 11: Lending Is Accelerating

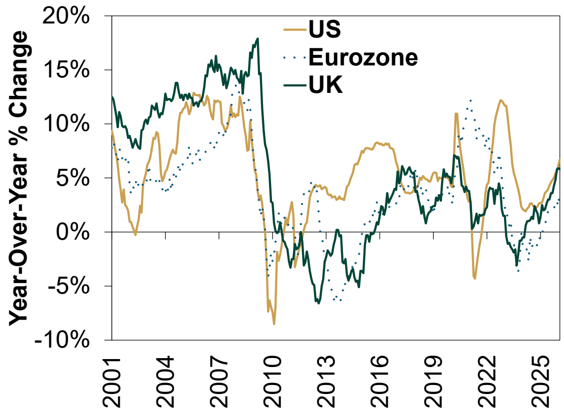
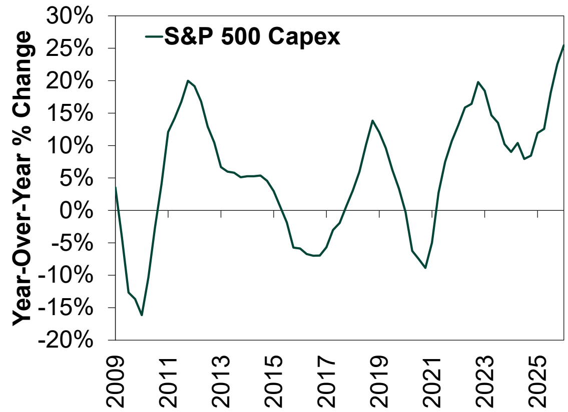


Exhibit 12: US Firms Are Investing



Sources: FactSet and Macrobond, as of 4/8/2026. Loan growth is January 2001 – February 2026 (latest available). Capex is Q1 2009 – Q1 2026.

A Minor Regulatory Boost to Bank Lending

Beyond the yield curve, there is another lending tailwind: The Fed's proposals to lower bank capital requirements.

After 2008, anti-bank backlash swept the world, with governments issuing a bevy of rules forcing firms to carry ever-more excess capital. One set of rules was a framework called Basel III—an effort to coordinate international bank capital rules, ostensibly to strengthen the financial system and end "too big to fail." The rules passed in 2010. But implementation underwent years of fits and starts, with the Basel committee issuing further rules in 2023. After regional bank failures that spring, US regulators under the Biden administration pushed for aggressive implementation and globally high capital requirements. But the rules never took effect.

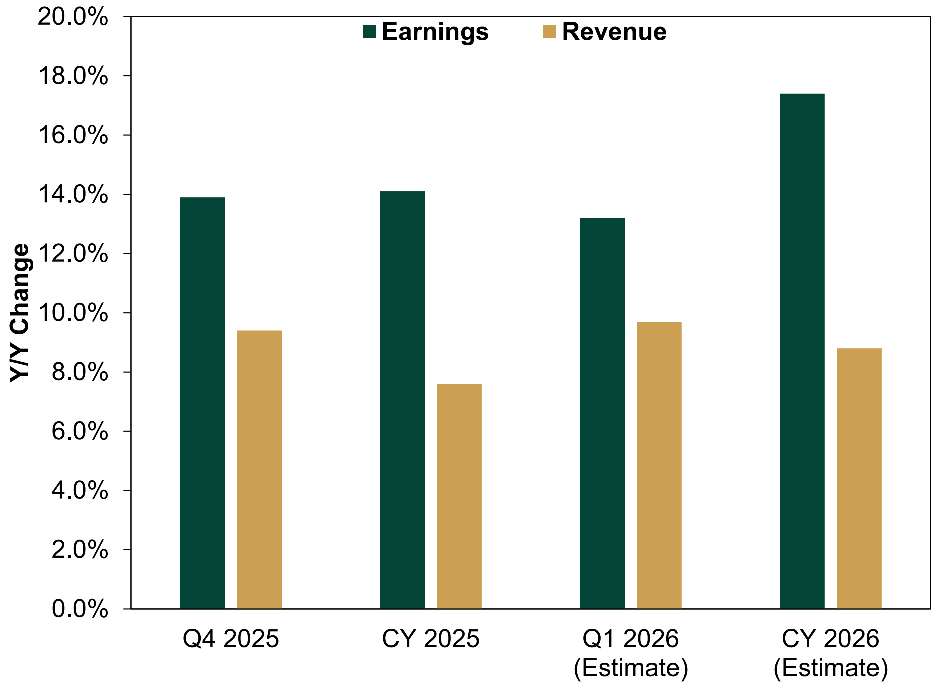
Now the proposals are being rolled back. The Fed proposed lowering capital requirements (the rule is in a temporary comment period before finalization), which some pundits suggest will free up to $200 billion in capital, potentially underpinning even faster loan growth. Now, our estimates of the effect are smaller, but this still presents a tailwind to lending. It remains unclear how much banks would deploy, considering the volatility and fluctuation in capital requirements these past 15 years. They may hold excess capital in case regulatory winds shift again after 2028's election.

Regardless, this helps lending in general and Financials stocks specifically. And it may be a way regulators are trying to rein in private credit's growth, as letting banks allocate less to buffer against loan losses may enable them to grow their loan books more and regain market share. (We discuss private credit more in Appendix IV.) Non-US banks may benefit, too, as America's regulatory recalibration puts competitive pressure on EU and UK regulators. The upshot: Banks are flush with capital and have been for years and years. Relaxing strict rules should help them serve the public better through lending.

Solid Corporate Earnings

Corporate America entered 2026 in fine fettle. In 2025, S&P 500 companies notched 14.1% full-year earnings growth, powered by sales' 7.6% rise. And they weren't weakening as the year closed: Q4 earnings grew 13.9% y/y, powered by even stronger, 9.4% sales growth. Firms are churning out profits and it isn't about cost-cutting. It is about sales.

Exhibit 13: Corporate America Is on Solid Ground



Source: FactSet Earnings Insight, as of 4/2/2026.

Now, all that is pre-war—easy for pessimists to dismiss, particularly when some high-profile CEOs warn the war will lift costs and inflation. We don't dismiss higher prices, but in our experience, CEOs never met an external boogeyman they wouldn't blame for unpopular decisions. (Blaming layoffs on "AI" is another example.) More telling: Entering 2026, analysts projected 12.8% y/y Q1 earnings growth.[21] That was *before* the war. On April 2, analysts projected 13.1% y/y—*faster!*[22] Underpinning this, an above-average number of firms issued positive guidance for profits in the quarter, leading analysts to dial expectations up.

Economic Trends Persist

Most economic data confirm long-running trends persisted before the war. For one, employment data continue to reveal a low-hire, low-fire environment, perhaps best illustrated by payrolls' choppy growth. When employers shed jobs in February (-133,000), it triggered myriad fears of

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an economy weakening ahead of the fighting. But this figure was sandwiched by growth in January (160,000) and March (178,000), extending a long-running back-and-forth.[23]

Regardless, jobs data are late-lagging and say next to nothing about current or even very recent economic activity. GDP is more recent, and here again extant trends persist. Q4 2025 US GDP grew 0.5% annualized, which may seem markedly slower than Q3's 4.4% and Q2's 3.8%.[24] But focusing on headline growth can yield erroneous conclusions, as tumbling imports skewed earlier growth upward in the wake of America's tariffs.

To see past that, consider the sum of consumer spending, business investment and residential real estate investment. In Q4 2025, these combined grew 1.6% annualized. This isn't far off Q3's 2.5% or Q2's 2.4% and matches Q1 2025's rate.[25]

Across the pond, UK monthly GDP flatlined to start the year, but the three-month trend showed output rose 0.2% in the three months to January.[26] Data aren't available for Q1 yet, but eurozone GDP grew throughout 2025, rebuking fears of tariff-driven recession. Chinese data improved in the January-February period (combined to account for the Lunar New Year holiday), with industrial production and retail sales both beating expectations.

Lastly, in the limited data reflecting the war, like S&P Global's March purchasing managers' indexes, there are few signs of contraction. These surveys tally the breadth of growth, with readings above 50 indicating more responding firms saw growth than contraction. Across major economies, composite gauges combining manufacturing and services topped 50 for the US, UK, eurozone and Japan.[27] Pockets of contraction exist, but they are the exception, not the rule.

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Appendix IV: Assessing Headline Risks Outside the War

Aside from the war, tariffs, the Fed and private credit continue drawing some media attention. There are factors worth considering among these, but none appear to present risks to the bull market at this time. Here is an update on each to help illustrate why.

Tariffs Are Old News

One year since Trump unveiled his surprisingly far-reaching, steep and curiously structured "Liberation Day" tariffs, trade news continues spurring headlines. Yet the shock factor—for good or ill—has largely evaporated, as all the attention priced them into stocks. To be clear, we still think tariffs are an economic negative, but initial fears exaggerated their scope, as exemptions, deals, collection difficulties and legal challenges eroded them.

Q1 featured more legal news, with the Supreme Court overturning most of Trump's tariffs February 20. Upholding lower court rulings, the Justices ruled 6 – 3 that 1977's International Emergency Economic Powers Act (IEEPA)—the legal basis for most of Trump's Liberation Day actions—doesn't grant the president discretion to levy tariffs (or any tax). They found the law doesn't specifically mention tax authority, which the Constitution delegates solely to Congress. Absent explicit mention, the Court determined the White House lacked this power. Thus, 60% of all $224 billion in tariffs collected over the last year are potentially subject to reimbursement.[28]

You might think this is bullish, as it reverses tariffs' negative influence. And there are positives: The Court's ruling reins in some executive authority to act arbitrarily under "emergency" declarations, a long-term plus. But the effect over the next 3 – 30 months, the window stocks weigh most, is minimal. Refunds will likely take a long time to play out. Meanwhile, Trump can replace the tariffs under more established legal means. He partially did so already, enacting 10% global tariffs under Section 122 of the Trade Act of 1974, which permits them for six months. While that is also subject to court challenge, he also launched studies that would authorize more permanent tariffs on other, already-tested legal grounds.

So while the Supreme Court ruling is significant, the status quo effectively remains. Higher trade barriers aren't great, but stocks pre-priced and moved on from them long ago.

Why Inflation Isn't a Tightening Noose for Markets

With crude oil and energy prices jumping, many fear a 2022 inflation reprise looms, seeing rising oil prices as a broad-based inflation driver. But this is flawed logic. Rising oil prices force substitution. Perhaps consumers shift from higher- to lower-priced goods or delay some discretionary purchases. But oil price rises don't lift prices *economywide*, which is what inflation is.

As Milton Friedman taught, inflation is always and everywhere a monetary phenomenon caused by too much money chasing too few goods and services. So it was in 2022. In 2020, at the pandemic's height, the Fed boomed broad M4 money supply by 30% y/y.[29] Other central banks followed. Meanwhile, lockdowns curtailed both goods and services businesses. Hence, much

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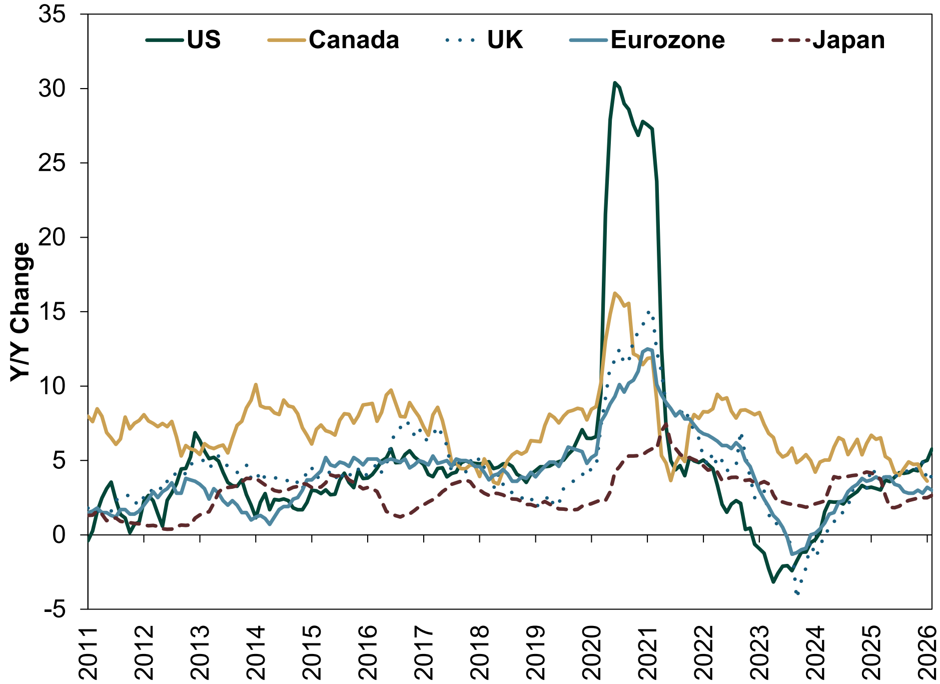
more money chased fewer goods and services, with hot inflation resulting at a lag. Today, US M4 money supply's 5.8% y/y growth matches pre-pandemic rates. Other nations' are similarly cool. There isn't tinder for hot inflation.

Exhibit 14: Select Developed Markets' Broad Money Supply Growth



Source: Center for Financial Stability, FactSet and Bank of England, as of 4/8/2026.

Inflation fear does raise one risk: Monetary policy error. If the Fed and other central banks were to yank rates markedly higher, it *could* flatten or invert the yield curve (push short rates atop long), leading banks to rein in lending. Such fast hikes *could* turn an oil price spike into a credit crunch. Currently, the Fed and other central banks mostly appear poised to look through the rise. But you can't rule it out since central bankers' word isn't exactly their bond, as 2022 demonstrated (among other episodes).

As we wrote last quarter, the Fed will also likely get a new chair in Q2, after Trump nominated former Fed Governor Kevin Warsh. Many parse his history for clues about policy amid lingering worries over Trump trying to influence monetary policy. Study Warsh's background if you wish, but as we wrote last quarter, it likely won't reveal how he will act once in charge. Fed heads are famous for taking Martin's Little Pill—shorthand for forgetting everything they once espoused when they take office.

They also don't dictate policy. The Federal Open Market Committee (FOMC) decides it, and its makeup likely won't change much. Interestingly, as we hinted last quarter, current Fed head Jerome Powell has alluded to staying on the FOMC even after his term as chair technically ends in May. While he didn't state anything specific, his membership doesn't expire until January 2028. If he stays, it would dilute Trump's potential influence over policy even further.

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False Private Credit Fears

Private credit is another fear simmering on the backburner, with some drawing comparisons to 2008. We think this is vastly overrated, a false fear conflating liquidity issues and actual credit market woes. Last year, fears percolated after two firms—Tricolor and First Brands—defaulted on private loans. Fears receded as headlines moved on, but a third default in the UK this winter rekindled the concern. Following this, many retail investors sought to yank money from private credit funds and firms (a *Financial Times* estimate puts the sum at $20 billion in Q1), which were forced on several occasions to block or limit withdrawals.[30]

Three small borrowers defaulting on private loans doesn't a contagion make. In the 12 months through February, Fitch estimates the US's private credit default rate at 5.4%, above the roughly 2.5% historical average.[31] But the average implies it is sometimes higher and sometimes lower. And with February's rate off January's 5.8% peak, stress may be beginning to ease.[32]

Besides, private credit lacks the scale and links to the broader economy to cause a full-blown financial crisis. America's amounts to around $1.8 trillion, which may seem large, but it is puny next to its more than $100 trillion in total loans and debt securities outstanding, the vast majority of which hasn't defaulted and likely won't.[33] Some claim banks funding private credit firms could transmit their problems to the wider financial system, but at $348 billion it is only 2.6% of all commercial banks' loans and leases ($13.7 trillion).[34] And banks hold vastly increased capital, as Appendix III noted.

The real issue here is a liquidity mismatch. Individual investors plowing into private credit may require more access to their cash than these firms are set to provide. Private credit firms try to match their funding to the maturity of loans, limiting withdrawals to set percentages of committed money. This is a problem for retail investors wanting to pull their funds suddenly from fear or need. But it is also a core difference between this industry and 2008, when runs on banks and money markets caused great stress across the financial system.

There are some ancillary risks here we are watching. For example, if private assets come under pressure or funds were blocking withdrawals broadly, it could lead investors to fire sell liquid assets like stocks or bonds to raise cash. That isn't today, though, and doesn't seem near to us.

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[6] Source: World Bank, as of 4/7/2026.
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[8] Source: US House of Representatives, History, Art & Archives, as of 4/23/2026.
[9] Source: US Senate, Party Division, as of 4/23/2026.
[10] Source: US House of Representatives Press Gallery, Party Breakdown as of 4/22/2026. Figure is adjusted to reflect the Georgia special election that handed former Rep. Marjorie Taylor Greene's seat back to the Republicans, three resignations and one death since.
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[23] Source: US Bureau of Labor Statistics, as of 4/8/2026.
[24] Source: Bureau of Economic Analysis, as of 4/9/2026.
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[26] Source: Office for National Statistics, as of 3/13/2026.
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