"Oil Shock"

Market Commentary – April 2026

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The second estimate of Gross Domestic Product (GDP) shows that the output of goods and services produced by labor and property located in the U.S. grew at an annual rate of 0.7% in the fourth quarter of 2025. This is lower than the advance estimate of 1.4% and the 4.4% reading in 2025 Q3. On March 18, the Federal Reserve updated its economic projections that were last released in December. It now sees GDP growth of 2.4% in 2026, 2.3% in 2027, 2.1% in 2028, and 2.0% in the "longer run" (beyond 2028). The Fed sees unemployment at 4.4% in 2026, 4.3% in 2027, 4.2% in 2028, and 4.2% in the longer run, while it forecasts inflation at 2.7% in 2026, 2.2% in 2027, 2.0% in 2028, and 2.0% in the longer run. The price of crude oil spiked from about $67 per barrel at the end of February to about $100 per barrel today given the military conflict that erupted in March between the U.S./Israel and Iran. Economists seem torn on whether the effects of this oil shock will prove transitory or lasting. The longer that oil stays at an elevated price, the greater the impact that it will have on the economy.

As expected, the Federal Open Market Committee (FOMC) maintained its target range for the federal funds rate at 3.5% to 3.75%. The Fed itself is telegraphing one 0.25% cut in 2026 and an additional 0.25% cut in 2027. Futures markets are less convinced, with CME FedWatch indicating a 70.4% probability that the federal funds rate will still be 3.5% to 3.75% by the Fed meeting on December 9, 2026. Furthermore, CME FedWatch sees one 0.25% cut by July 2027 as a coin toss. The next FOMC decision on monetary policy is scheduled to be announced on April 29. Meanwhile, a shakeup in the Fed's leadership lies ahead, with President Trump's nomination for Fed Chair, Kevin Warsh, to possibly be approved by the Senate. Current Fed Chair Jerome Powell is scheduled to step down as Chair on May 15.

Technical factors of the market are bearish (more supply than demand), while fundamentals are fairly priced – therefore, we are mildly bearish on the market. YCharts reports $294.00 as a forecast for S&P 500 earnings per share (EPS) through December 31, 2026, which implies a price-to-earnings (P/E) ratio of 22.2 with the S&P 500 at 6,529. The earnings yield (E/P) of 4.50% represents fair value relative to the 10-year U.S. Treasury note yield of 4.30% (a yield spread of 0.20%). The eight largest companies in the S&P 500 make up $21.1 trillion of the $58.4 trillion index market capitalization with a weighted P/E of 33.6. If 36.1% of the index has a P/E of 33.6, then 63.9% of the index has a P/E of 15.8 for the overall P/E to be 22.2. A P/E of 15.8 is an E/P of 6.34%, which is attractively priced compared to the 10-year Treasury note yield of 4.30% (a yield spread of 2.04%).

The S&P 500 finally broke out of its trading range to the downside. Interestingly, the declines in March were generally on light volume, other than on March 20 when the index definitively fell below its 200-day moving average. Today's +2.9% rally in the S&P 500 was on higher than average volume (albeit only one day). Market technicians view volume as a tool to assess conviction in market moves. The light volume in March suggests that investors are taking a "wait and see" approach with respect to recent news headlines. Resistance should be found overhead around 6,640 (200-day moving average) and 6,800 (50-day moving average). Support should be strong at 6,100 (February 2025 high) and 5,800 (March 2025 high).

At any moment, President Trump may declare victory over Iran and that military operations are over. The stock market would likely soar on that news. Also, if the Strait of Hormuz opens to oil tanker traffic, the price of oil may come back to earth (bullish for stocks in general). Meanwhile, companies are scheduled to announce quarterly earnings in April and May. Analysts will be watching carefully for indications from CEOs in various sectors and industries about the effect of the spike in oil prices on their businesses. Will CEOs express caution with respect to softer consumer demand and higher costs? The shock of high oil prices needs to work its way through the global economy. The economic story is not yet fully told. An important tool for investors to deal with such uncertainty is to be balanced between stocks and cash. If a portfolio is 100% invested in either stocks or cash, the investor had better be right.