



BULLS VS. BEARS

Stocks stumbled in the first quarter of 2026 as the debate shifted from the effects of tariffs on the U.S. and world economies to one of war with Iran. In short order the S&P 500 declined nearly 20% and finished with a 4.3% quarterly loss. We should remember that at the start of the year the U.S. economy and global markets were looking at good economic growth and the prospect of falling interest rates while the market rally of three years was broadening. War, higher oil prices, and a Federal Reserve that has been reluctant to lower interest rates have put this outlook on hold.

While there has been a pessimistic shift in sentiment from where we were when 2026 started, both a bullish and bearish outcome deserve consideration. The bearish case primarily rests on the doubling of oil prices in less than two months and the crippling effect it can have on the world's economy. Any sustained closure of the Strait of Hormuz—through which 20% of the world's energy travels—will continue to elevate the price of oil, natural gas, and fertilizer, as well as global shipping costs. This in turn will affect consumer sentiment and spending, and corporate profit margins. The bears will also point to a rise in interest rates which, in part, has been caused by the deterioration in private credit with large sums of investor assets trapped in vehicles of uncertain quality and limited liquidity.

Underlying the bullish argument is that a lot of bad news is already in the market and discounted. Historically, higher oil shocks have ended the business cycle when earnings were decelerating, and that is not the case today. Data would suggest that GDP growth was running at approximately 4.5% in January while EPS growth was 14% year-over-year and accelerating. The bull case also relies heavily on the AI infrastructure buildout which shows no evidence of softening and may also be accelerating while consumers continue to spend.

In the short term, with Hormuz constraints easing, whether through diplomacy or something else, the markets could be underpricing a fairly significant snapback.

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