

April 2026

Quarterly Market Strategy Report

Middle East Turmoil

Exactly a year ago this quarterly report was analyzing the problems related to the administration's newly announced tariff policy and the risk this posed to the equity market. We argued against the consensus view that tariffs would result in a significant jump in inflation and a weakening of the economy. Still, the S&P 500 Composite responded by dropping to 4982.77 on April 8, 2025 -- a quick six-week decline of 19%. Looking back on the aftermath of the tariffs, inflation remained stable and GDP rose 3.8%, 4.4%, and 1.4% in the last three quarters of the year. These nine months proved to be the best three consecutive quarters of economic activity since December 2023. In short, consensus opinions do not always prove accurate.

Fast forward to April 2026 and the risk has turned from tariffs to Iran. In March, President Donald J. Trump initiated military operations against Iran, in what the administration has described as a "short term excursion" to thwart the threat the regime poses to world safety. This "war" may be beneficial to world wellbeing in the longer term, but in the short-to-intermediate term, the military and economic problems that a wounded, and perhaps leaderless, Iran creates are likely to be more difficult to manage, or resolve, than last year's tariff concerns.

To the financial markets the primary risk of this war is how long Iran can restrict the supply of crude oil; and more importantly, how long will oil prices remain high. This is tied to how long Iran can control the Strait of Hormuz and disrupt the supply of oil. A secondary, but very important risk is that the conflict could escalate and result in further destruction of energy infrastructure in the Middle East. An Iranian attack on Qatar's liquefied natural gas (LNG) facilities already knocked out 17% of the country's LNG export capacity and it is estimated that it will take two to three years for Qatar to recover from this damage. More impairment to energy infrastructure means energy prices could remain higher for longer and fuel inflation globally. Higher fuel prices will hurt economic growth, and this is particularly true for Europe and other non-fuel producing nations. But even for the US, which is not only energy efficient, but energy independent, there is risk that economic activity could be hurt if oil prices remain high.

Summary

On March 30, 2026, the S&P 500 index was trading at 19.7 times the IBES 2026 estimate and 16.8 times the 2027 estimate. These were the lowest multiples seen since April 2025.

In sum, the risk of another round of inflation is real in the near term, but it is also creating a long-term buying opportunity in equities.

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One aspect of this war that has not been reported by the media is how this war may be shifting geopolitical power. At present, the Gulf Arab States are moving closer in line with President Trump (and Israel) and are pressing the US to continue the war. Meanwhile, most of Europe stands stoically in distant disagreement with the conflict. In our view, a broad coalition between the US, Israel, and the six Gulf States would create a powerful alliance in terms of energy production, military power, and economic strength. In the longer run, this could shift global dynamics in favor of the US, and weaken not just Iran, but Russia and China as well.

TECHNICALS ARE BREAKING DOWN

At the end of March, the Dow Jones Industrial Average was down 7.7% from its first quarter record high, the S&P 500 is nearly 6.5% lower, and the Nasdaq Composite index 9.9% below its record high. The Dow Jones Industrial Average and the Nasdaq Composite reached “correction territory” with losses of 10% or more earlier in the month but remained well above bear market range of a decline of 20% or more. However, the Dow Jones Industrial Average, the S&P, and the Nasdaq have all broken below their 200-day moving averages and the Dow Jones Industrial Average has been trading for 19 consecutive trading sessions below this support level. This is the longest break since the 49 days seen in April and May 2025. The longer the indices remain below these moving averages, the more likely the March weakness is more than a simple correction. Moving averages can shift from being significant support levels to significant resistance levels. On the positive side, the broader Russell 2000 index is up 0.6% year-to-date, versus the 6.5% decline in the S&P 500 or 7.7% loss in the Dow Jones Industrial Average. This indicates that the underlying market is more solid than the large capitalization indices and it is a sign of longer-term strength.

As the first quarter ends and the war enters its second month, the Middle East turmoil is approaching a pivotal juncture. Ministers from Pakistan, Saudi Arabia, Turkey and Egypt are meeting in Islamabad to come up with a plan to de-escalate the war or at least to open the Strait of Hormuz; however, Yemen’s Houthis recent attack on Israel heightens the risk of a wider conflict. Iran is denying rumors that its president is prepared to discuss a process to end the conflict and both the US and Iran are issuing threats. Given these conflicting actions and the uncertainty of what may happen next in the Middle East, we would be cautious in the near term.

FUNDAMENTALS REMAIN STRONG

At the end of the first quarter, there were signs of continuing stress in the private credit markets with a growing number of funds restricting redemptions. However, while risk in private equity funds increases, it appears to be well contained within the private sector. This is significant since it lowers the likelihood of systemic risk to the broader banking system. But there are more signs of softness in the residential housing market with sales and home prices both decelerating in February. Higher

The Dow Jones Industrial Average, the S&P, and the Nasdaq indices have all been trading below their 200-day moving averages for 19 consecutive trading sessions. This is the longest break since the 49 days seen in April and May 2025.

Trading below the 200-day moving average can point to weakness in the longer-term uptrend.

The longer the indices remain below these moving averages, the more likely they shift from being support levels to resistance levels.

On the positive side, the broader Russell 2000 index is up 0.6% year-to-date versus the 6.5% decline in the S&P 500 or the 7.7% decline in the Dow Jones Industrial Average. This shows that the underlying market is stronger than the large capitalization indices which is a sign of longer-term strength.



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inflation and higher interest rates would add pressure to the housing market and the economy and could undermine economic activity. The employment report for the month of March will therefore be an important data point since 70% of the US economy is consumer driven.

Nevertheless, we remain bullish for the longer term because the underlying fundamentals of the equity market remain strong. As fourth quarter earnings season ends, the two main surveys of analysts' earnings estimates point to a significant, and very positive reassessment of 2026 and 2027 earnings growth. The LSEG IBES consensus earnings estimate for 2026 recently rose \$2.83 to \$320.46 and the 2027 forecast rose \$2.08 to \$372.50. The S&P Dow Jones consensus forecast for 2026 jumped \$5.16 to \$319.59 and the estimate for 2027 rose \$7.34 to \$373.50. These estimates represent earnings growth rates for the S&P 500 index in excess of 16% year-over-year, or twice the long-term average of 8% year-over-year.

Given the increases in LSEG IBES earnings estimates and the pull back in equity prices, on March 30, 2026, the S&P 500 index was trading at 19.7 times the IBES 2026 estimate and 16.8 times the 2027 estimate. These were the lowest multiples seen since April 2025. In sum, the risk of another round of inflation is real in the near term, but it also appears to be creating a long-term buying opportunity in US equities.

*Stock prices are as of March 31, 2026 close

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