The Blockade's Economic Ripples

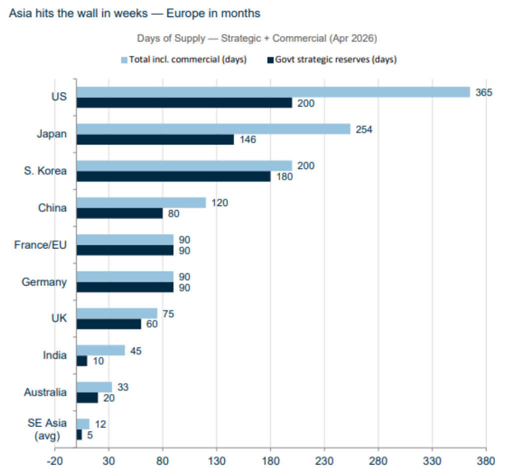
WEEKLY VIEW FROM THE DESK | April 13, 2026

LINK TO WEEKLY RETURNS TABLE

MACRO

- The U.S. blockade of Iranian trade through the Strait of Hormuz underscores the delineation between U.S./Israeli tactical accomplishments and the strategic results. The latter category includes unresolved issues and unintended consequences, such as those pertaining to Iranian leadership, its nuclear program, the use of asymmetric force, U.S. military over extension, economic costs of the war, and shifts in the geopolitical state of play.
- Despite the lingering issues, we continue to see a ~70% probability that some form of negotiated settlement or repeated extension of the ceasefire plays out given the economic and political ramifications facing each side.
- From an economic perspective, the trade interruption through the Strait maintains the squeeze on global strategic reserves of crude oil and derivatives (see the accompanying chart). At this point, Southeast Asia and India may only have 7-15 days of coverage, and Philippines has already declared a national energy emergency. India is thought to have about 10 days of coverage from its government strategic reserves. Japan, South Korea, China, and Australia are in the middle cohort with an estimated 4-10 weeks of coverage, while coverage in the UK and Europe is estimated at 2-4 months with the UK being at the shorter end of that timeframe.
- The war and its effects have reduced global growth estimates for 2026 by about 50 bps with U.S. growth appearing particularly resilient amongst the major economies. Similarly, the war and its effects have added about 1 percentage point to global inflation estimates for 2026 with post-war CPI forecasts for the UK and the U.S. leading the way for developed market economies at 5.1% and 3.3%, respectively.

Strategic Reserves: Who Runs Out First?



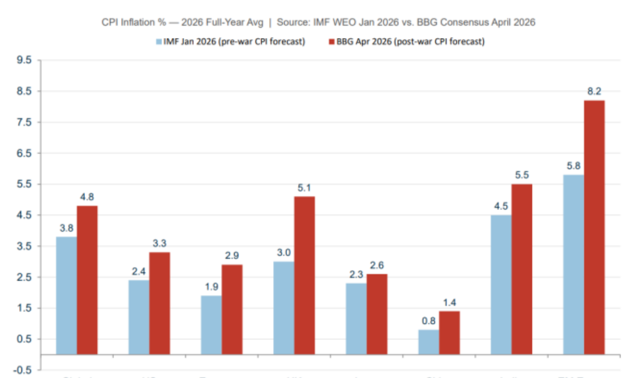
Source: IEA, Al Jazeera, Atlas Institute, Nikkei, JOGMEC

- U.S. inflation is likely to peak near 3.5% this summer before receding to about 3% by the end of the year. Given that dynamic, we believe the Fed will likely look through the supply shock and potentially resume cuts as early as Q4 2026. This may reinforce monetary policy divergence—with FX implications—as oil-importing regions and some emerging markets are more likely to hike rates in response to inflation pressures. Indeed, conditions may point to a weaker outlook for the U.S. dollar given the twin deficits of deteriorating fiscal deficit and the trade imbalance that may worsen given the resiliency of the U.S. economy.

DEVELOPED MARKET RATES

- From a market perspective, recent shocks, such as last April's tariff announcements or the war in Iran, have yet to trigger forced selling or deleveraging as investors continue considering whether to buy the next dip (see the credit sections for more). With that context, credit spreads were compressed heading into the conflict and remain tight—raising the question of what it would actually take to move spreads materially wider, particularly considering the resiliency of fundamentals.
- In general and as indicated above, supply disruptions that do not lead to demand destruction tend to be inflationary. As such, current conditions could lead to a somewhat higher-for-longer interest rate environment, albeit not much higher than current levels.
- In MBS, recent performance benefited from the sharp decline in rate volatility. Normalized volatility fell by ~7 bps, a key positive given mortgages' strong convexity. As rates stabilized and volatility came down, convexity-related selling slowed materially, improving performance versus late March. The meaningful tightening in MBS option-adjusted spreads may limit the upside from here, and we're reducing our tactical exposure. Our long-term view remains constructive, but with lower target weights.

Inflation Forecasts: Generally Higher by About 1pp+



Source: IMF, OECD, Capital Economics, BLS

IG CORPORATES

- Earnings season gets underway this week, with banks among the early reporters. Consensus EPS estimates for the S&P 500 are up about 12% y/y for the first quarter. Much attention will focus on what the sector has to say about private credit, with the message likely being that the backdrop is manageable. For reference, Moody's last week lowered its outlook on the BDC sector.
- Supply has been heavy thus far in 2026, which has been met with solid inflows. Ratings trends continue to be positive, but concerns linger over private credit and software as well as the ongoing uncertainty surrounding the Iran conflict.
- In Europe, IG cash spreads ended 8bps tighter, reversing all of March's widening. Spreads were driven by the Middle East ceasefire announcements as uncertainty lingers about how the ceasefire will turn into a longer-term peace.

LEVERAGED FINANCE

- U.S. HY bonds rallied last week and spreads tightened to levels not seen since February, with high-quality, rate-sensitive paper and heavily shorted names rallying following the announcement of a two-week ceasefire. Although technicals remain strong and high yield cash bonds remain well bid, the tone remains somewhat cautious and vulnerable to news flow. As such, investors are focused on trading opportunities rather than adding incremental risk.
- Last week saw all credit tiers post positive returns, with lower quality outperforming. Total returns were mixed across sectors, with air transportation (+1.55%), consumer products (+1.40%), and cable (+1.26%) performing the best. Paper, technology, and food & drug retail underperformed. HY mutual funds reported their first inflow in nine weeks ($808M) following a stretch that saw $9.4B in outflows. However, technicals remain strong, in part, due to calls, tenders, maturities, and coupon payments, which returned roughly $9B to investors last week alone. The primary market saw three deals totaling $4.1B price, bringing April's supply total to $7.2B.
- Including distressed exchanges, the par-weighted U.S. HY bond default rate rose 1 bp to end March at 2.07%, according to J.P. Morgan. This compares to a 25-year average of 3.2% and a post-GFC average of 2.3%. Barring some unforeseen tail risk, we expect default rates to remain near current levels throughout the remainder of the year.
- U.S. bank loans were modestly higher last week but remain slightly negative for the year. By dollar price, bank loans are down about 1.5 points so far this year, reflecting some technical pressures from bank loan mutual fund outflows of approximately $5B YTD. The primary market remains slow, with just two deals launching and two deals pricing for $600M and $1B, respectively, last week.
- European high yield bond spreads tightened last week amid a strong "buy-the-dip" bias. European loan spreads also tightened but continued to underperform bonds. Primary issuance remains light, with just €4B in bonds and €1B in loans pricing so far in April.

EMERGING MARKETS

- We continue to see dispersion in performance across EMs, including between oil importers and exporters as an example. News of a temporary ceasefire last week reversed risk sentiment in a positive direction. This reflects positioning and broader global liquidity and reach for yield, as well as what appears to be a supportive fundamental backdrop for risk, even as uncertainty around the conflict persists. Last week saw spread compression with all credit buckets moving tighter. Outperformers included names most stressed from the Iran conflict, including Lebanon, Ukraine and Egypt.
- EMFX rebounded last week, led by Latin America. Europe also gained, led by HUF as market anticipation over a Tisha election victory in Hungary grew. EGP bounced strongly after the ceasefire, being the best performing currency last week with a 5.27% return. Having turned cautiously optimistic that escalation by the U.S. is a low probability, we added a bit of USD short risk; after the ceasefire announcement, we added more USD short risk. Elsewhere, should the worst of market impact from the conflict be behind us, TRY stands to see renewed inflows from carry investors, which began to happen after the ceasefire. Going forward, if in fact the worst of the market reaction to the conflict is behind us, we think select high-carry currencies are going to do well, and broadly, the USD is likely to weaken.
- Looking at EM rates, the two-week ceasefire led to a strong rally across all local markets. The biggest movers were Turkey, South Africa, Hungary, Peru and Brazil. In the 5-year swap space, India and Hungary were 54 bps lower. In general, the belly of the curve led the rally. Price action seemed to suggest that positioning was quite underweight (paid) in high yielders.
- A strong relief rally led EM corporate spreads to tighten 9 bps last week. Underperforming sectors, like UAE real estate and airlines, bounced back sharply. Turkey, which had been under stress, was 30 bps tighter, while sectors like financial and oil and gas lagged. This was a shorter week for many regional markets, and companies are in a quiet period ahead of the quarterly earnings cycle. We were looking to buy some top ideas for multi-sector accounts but tactically held off given high offers. We are running EM corporate accounts at 15-20% of risk budgets.

SECURITIZED PRODUCTS

- CMBS conduit AAA spreads were 1-2 bps tighter in the secondary market last week. Subordinate tranches were marginally tighter, with single-As in the low- to mid- +200's and BBB-'s approaching +500. SASB spreads were tighter in the secondary market. Top-tier AAA floaters are pricing in the +130-140 area. Fixed-rate seniors are trading in the +90s to low +100s amid increased dispersion by property type and sponsor. CRE CLO spreads were little changed, with AAA new issue in the +150 area, while tier-two issuers were 5-25 bps wider. Three deals priced-two SASB and one agency.
- In RMBS, Non-QM spreads tightened meaningfully last week, with top-tier new issue AAAs clearing at T+125. Despite the strong AAA rally relative to AA and mezzanine tranches, the term structure remains flat and we continue to favor the top of the capital structure. Second-lien spreads tightened on solid investor demand amid a lack of new issue supply. After last week's post-quarter-end tightening, CRT spreads continued to firm—helped by last Tuesday's two-week cease-fire announcement and in line with HY spread compression.
- U.S. CLO spreads softened broadly across tranches. Primary spreads were largely unchanged across the capital structure. Notably, the term curve has inverted at the AAA level as dealers support the longer end of the term curve. Mezz tranches are finding support as buyers step in, particularly for clean portfolios. Dispersion across mezzanine tranches widened as investors increasingly differentiate based on underlying collateral quality. European CLOs were largely unchanged across the capital structure as issuance slowed.
- ABS spreads tightened by 5-10 bps for investment grade securities. New issuance activity increased, with most deals pricing tighter than initial guidance. This week, we expect $6B in issuance inclusive of auto, equipment, consumer loan, and fiber transactions. This year's $96B in supply is 8% ahead of last year's pace.

MUNICIPALS

- Munis outperformed over the last week with 1.14% MTD return vs. 0.14% MTD for U.S. Treasuries and 0.65% for corporates. Technicals continue to drive outperformance amid persistent inflows, manageable supply, and abundant cash amongst SMAs. Inflows have returned (19 of the last 20 weeks). YTD inflows (+$28.3B) are now the second highest on record, concentrated among IG/ intermediate funds.
- Supply of $15.7B+ was an increase from prior weeks (which was closer to $10-12B). However, that should be easily digested as $4B+ is comprised of taxable muni issuance. Technicals are expected to be softer until mid-year as there's still potential for tax-related outflows.
- Several states, including South Carolina, New York, Maryland, and Connecticut, are debating temporary gas tax holidays due to the increase in fuel prices. These taxes could have broader implications on funding for transit systems and state highways based on their duration. Georgia, Utah, and Indiana have implemented gas tax holidays in recent weeks.

THE RETURNS TABLE AS OF APRIL 10, 2026

	Duration	YTM	OAS	Yield / OAS change (bps) WTD	MTD	QTD	YTD	Prior year	Total return (%) WTD	MTD	QTD	YTD	Prior year
Sovereign rates													
U.S. 2-Year	1.87	3.80	---	-4	0	0	32	-7	0.15	0.08	0.08	0.31	3.37
U.S. 5-Year	4.47	3.94	---	-4	0	0	22	-13	0.29	0.11	0.11	0.11	4.21
U.S. 10-Year	7.95	4.32	---	-3	0	0	15	-11	0.30	0.13	0.13	0.02	5.13
U.S. 10-Year Breakeven	--	2.39	---	2	8	8	14	22	---	---	---	---	---
U.S. 10-Year TIPS	4.41	1.93	---	-4	-9	-9	3	-33	0.49	0.94	0.94	0.86	7.71
U.S. 20-Year	12.65	4.90	---	-2	-1	-1	11	-1	0.37	0.24	0.24	-0.03	4.44
U.S. 30-Year	15.55	4.91	---	0	0	0	7	4	0.09	0.07	0.07	0.37	3.78
U.S. SOFR	---	---	---	-5	-7	-7	-26	-76	0.07	0.10	0.10	1.02	4.20
UK 10-Year	7.58	4.83	---	0	-8	-8	36	19	0.07	0.69	0.69	-0.81	3.64
Germany 10-Year	8.37	3.06	---	6	5	5	20	48	-0.39	-0.25	-0.25	-0.59	-0.58
Switzerland 10-Year	8.94	0.41	---	5	7	7	13	-2	-0.41	-0.55	-0.55	-0.75	0.64
Japan 10-Year	7.97	2.43	---	5	8	8	37	109	-0.27	-0.52	-0.52	-1.91	-6.11
Australia 10-Year	7.92	4.97	---	-7	-1	-1	23	64	0.59	0.18	0.18	-0.43	-0.19
Canada 10-Year	8.09	3.47	---	-1	0	0	4	23	0.15	0.15	0.15	0.66	1.99
Major fixed income multi-sector indices		**YTW**											
Global Aggregate Unhedged	6.33	3.74	28	-1	-4	-4	0	-12	0.88	1.14	1.14	0.06	4.73
Global Aggregate Hedged	6.33	3.74	28	-1	-4	-4	0	-12	0.23	0.36	0.36	0.20	4.27
U.S. Aggregate	5.99	4.54	26	0	-4	-4	-1	-16	0.33	0.33	0.33	0.29	6.25
Euro-Aggregate (Unhedged)	6.28	3.28	45	-4	-6	-6	2	-19	0.04	0.30	0.30	-0.35	1.20
Japanese Aggregate	8.12	2.21	1	0	0	0	0	0	-0.38	-0.27	-0.27	-1.86	-5.86
Major fixed income credit indices		**YTW**											
Mortgage-Backed (Agency)	5.42	4.78	19	0	-5	-5	-3	-26	0.35	0.40	0.40	0.80	7.91
Global IG Corporate Bonds	6.01	4.65	83	-4	-9	-9	4	-33	0.91	1.24	1.24	-0.05	7.82
U.S. IG Corporate Bonds	6.96	5.07	80	-2	-8	-8	3	-34	0.46	0.65	0.65	0.11	7.99
European IG Corporate	4.60	3.57	84	-9	-14	-14	5	-33	0.37	0.75	0.75	-0.25	2.78
U.S. High Yield Bonds	3.22	6.98	278	-21	-39	-39	12	-156	0.90	1.31	1.31	0.80	11.21
European High Yield Bonds	3.18	6.02	312	-24	-36	-36	30	-96	0.94	1.41	1.41	-0.11	5.89
U.S. Leveraged Loans	0.3	8.77	507	-6	-7	-7	52	-46	0.30	0.35	0.35	-0.13	6.72
European Leveraged Loans	0.3	8.16	515	-9	-22	-22	41	-12	0.34	0.51	0.51	-0.31	3.88
EM Hard Currency Sovereigns	6.43	6.97	254	-26	-35	-35	0	-125	1.83	2.34	2.34	0.70	16.07
EM Corporates	4.39	6.52	234	-9	-15	-15	-3	-63	0.78	0.99	0.99	0.78	9.19
EM Currencies	---	6.26	---	-1	-1	-1	1	-1	1.86	2.65	2.65	1.88	11.58
EM Local Rates	5.31	6.14	6	0	0	0	0	0	1.04	1.45	1.45	0.31	6.54
CMBS	3.76	4.64	69	-1	-2	-2	-6	-30	0.33	0.18	0.18	0.49	6.27
ABS	2.82	4.43	53	2	1	1	1	-14	0.19	0.14	0.14	0.46	5.06
CLOs	3.98	4.95	133	0	0	0	2	-23	0.11	0.16	0.16	1.17	5.89
Municipal Bonds	6.17	3.62	---	-12	-16	-16	2	-41	0.82	1.14	1.14	0.97	6.48

	Level	Total return (%) WTD	MTD	QTD	YTD	Prior year
Equity / volatility indices						
S&P 500 Index	6,817	3.6	4.5	4.5	-0.1	31.0
DAX	23,804	2.7	5.0	5.0	-2.8	15.8
Stoxx 600	615	3.2	5.6	5.6	4.8	30.5
Nikkei 225	55,895	7.2	11.5	11.5	13.9	67.3
Shanghai Composite	3,986	2.7	2.4	2.4	0.6	26.9
MSCI ACWI Index	1,035	4.1	5.8	5.8	2.5	35.2
FTSE 100	10,601	1.7	4.3	4.3	7.9	38.4
MOVE Index	72	-11.8	-24.9	-24.9	12.8	-43.8
VIX Index	19	-19.4	-23.8	-23.8	28.6	-52.8

	Spot	Change (%) WTD	MTD	QTD	YTD	Prior year
FX / commodities						
EUR / USD	1.2	1.8	1.5	1.5	-0.2	4.7
USD / JPY	159.3	-0.3	0.3	0.3	1.6	10.3
GBP / USD	1.3	2.0	1.8	1.8	-0.1	3.8
EUR / CHF	0.9	0.3	0.1	0.1	-0.7	0.2
USD / CHF	0.8	-1.4	-1.4	-1.4	-0.5	-4.3
USD (DXY)	98.7	-1.4	-1.3	-1.3	0.3	-2.2
Oil	96.6	-13.4	-4.7	-4.7	68.2	60.8
Gold	4749.8	1.6	1.8	1.8	10.0	49.5

Past performance is not a guarantee or a reliable indicator of future results. Sources: Bloomberg except EMD (J.P. Morgan), HY (ICE BofAML), Bank Loans (S&P), and CLOs (Palmer Square). European returns are unhedged in euros unless otherwise indicated. An investment cannot be made directly in an index.

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