



First analysis of issues or topics that may affect investor portfolios

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Iran war update: as talks fail, war enters a new phase

What's moving markets

- The U.S.-Iran talks in Islamabad ended and the U.S. team left Pakistan on April 12. A principal stumbling block was the future of Iran's nuclear weapons program. There is no news of any new talks planned.
- President Trump announced on Truth Social that the U.S. and as-yet unnamed partner countries will immediately blockade the Strait in both directions, including ships that pay Iran a toll for passage.
- Such a move should pressure Iran's economy: The International Energy Agency reports that 90% of Iran's oil revenue traverses the Strait, and that oil revenue may now be 50% of Iran's government revenue.
- CBS reported that Iran had released photos of its navy special forces with the caption that they are heading to the Strait to counter possible U.S. troop landings.
- Reuters and Bloomberg reported that the U.S. Navy already has begun clearing mines in the Strait.
- Overnight market action suggests reversals to last week's movements: Global equities were mostly lower, as is gold's price; the U.S. 10-year Treasury note yield, and prices on the ICE U.S. Dollar Index and U.S. West Texas Intermediate crude oil futures prices for June delivery were higher as of 7:00 EST this morning.¹

Our perspective

- We see Iran's blockade as a tactic to increase pressure on the U.S. to leave the region.
- We also think a U.S. blockade might stop Iran's flow of oil revenue without destroying or capturing Iran's Kharg Island oil loading point, and so potentially avoid escalatory Iranian attacks on its Gulf neighbors.
- The U.S. blockade also could pressure China. Reuters reports China buys 80% of Iran's oil and at a discount from the world price. And CNN reported (April 11) that China has sold Iran a shoulder-fired air defense system. The U.S. blockade may block those trades with China.
- The two sides appear to have used the ceasefire to retool, rearm and repair. Following repairs, the U.S. should again have three carrier groups and more troops near the Strait. Iran's naval special forces deployment reinforces the likely next strategic focus there.

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1. The ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, composed of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

- A new phase of the war does not change our belief that both sides have the capability to disable the region's oil infrastructure by much more than the limited damage so far, but that both sides also have a strong incentive to resist that escalation.

Implications for investors

- On balance, we still see reasons for caution around the ceasefire announcement.
- Instead, our focus remains on asymmetries we see in some capital market sectors — that is, sharp market movements (both higher and lower) that we believe have outrun their respective fundamentals.
- We view leaning against these moves as potentially one way to rebalance a portfolio, as we describe next.

What to do now

Looking forward, the headlines give us caution, but we prefer to focus on investments where we see positive fundamentals (such as earnings growth potential) and where we see higher upside potential than downside risks, if the circumstances and the conditions reverse. We recently made guidance changes to anticipate such a reversal, specifically, reallocating from the S&P 500 Index Energy sector into the Information Technology (Tech) sector.² As oil prices spike due to the war, the Energy sector has gained over 29% year-to-date (YTD) through April 9 returns, while the S&P 500 Information Technology sector is down 4% and underperformed the S&P 500 Index by nearly 4% YTD.³ Based on 12-month ahead earnings estimates, the Tech sector is trading at the same price-to-earnings multiple as the composite S&P 500 Index. So, we see comparable value between the sector and the composite index, implying no premium in the Tech sector over the S&P 500 Index.

Meanwhile, the Bloomberg consensus 2026 earnings growth estimate for the Tech sector is 35% as of April 9, nearly twice that of the 18% for the S&P 500 Index. Thus, we see a Tech sector that is competitively priced against the S&P 500 but with roughly twice the projected earnings growth. By contrast, we expect the Energy sector to reverse at least some gains. The West Texas Intermediate crude oil futures market currently prices the peak oil price in May, which may be closer than many investors expect.

We also see now a possible opportunity to rotate from the Energy sector into other undervalued equity sectors that we favor, like Financials, Industrials, and Utilities, in addition to Information Technology. For example, in Financials, even though we removed our expectation of two Federal Reserve rate cuts by year end, we still anticipate higher long-term yields from current levels. This wider spread we expect between short-term yields (a cost that banks pay to depositors) and long-term yields (which banks earn on loans) should support the Financials sector, which has underperformed the S&P 500 Index by over 6% YTD as of April 9. As with the Tech sector and gold, we see fear priced into the selling of the Financials sector and maintain it as our most favored equity sector.

We see similar potential opportunities in commodities. Through April 9, the spot gold price declined by over 10% from its January 28 peak (through April 9). International buyers figured prominently in the selloff, shedding gold and other assets to raise dollars to afford oil at rising dollar-denominated prices.⁴ As we pointed out in a recent report, the forced selling of gold creates tighter cash positions internationally, as oil prices rise and the U.S. dollar strengthens. From this, we see a potential opportunity for investors to reallocate from crude oil into gold. Our fundamental view of precious metals is constructive: our year-end 2026 price target range midpoint is \$5900 per troy ounce, and we do not expect much downside price risk below \$4700.

2. Wells Fargo Investment Institute, "Adjusting targets, guidance and allocations," April 6, 2026.

3. Bloomberg. S&P500 index and S&P 500 information technology sector GICS level 1 index, as of April 9, 2026.

4. Wells Fargo Investment Institute, "Iran war update: Global impacts as U.S. deploys new assets," April 6, 2026.

Risks Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. Investments in **gold** and gold-related investments tend to be more volatile than investments in traditional equity or debt securities. Such investments increase their vulnerability to international economic, monetary and political developments.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Definitions

ICE U.S. Dollar Index is a weighted average of the value of the U.S. dollar relative to a basket of U.S. trade partner currencies, comprised of the euro, Japanese yen, pound sterling, Canadian dollar, Swedish krona, and Swiss franc. A higher index value indicates dollar appreciation.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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