



First analysis of issues or topics that may affect investor portfolios

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Iran war update: hope for the war's end quickens

What's moving markets

- The U.S. blockade is pressuring the Iranian economy and is drawing both sides towards their red-line issues, Iran's nuclear weapons program and future control of the Strait of Hormuz (the Strait).
- Announcements are accelerating: An Israel-Lebanon ceasefire on April 16, and today (according to Reuters and the U.K. Telegraph): President Trump's claim that Iran will turn over its highly-enriched uranium, and Iran's announcement that it would allow all traffic in the Strait for the duration of the ceasefire (which ends April 21), and along Iran's prescribed route.
- Some key questions remain: Will the U.S. agree to Iran's conditions to surrender roughly 1,000 pounds of Iran's highly enriched uranium and centrifuges? What else will have to be resolved to continue the ceasefire and, presumably, the permanent and free flow of traffic through the Strait?
- Markets have been responding positively to the brightening war news: Between March 31 and April 16, the S&P 500 posted its fastest recovery to a new high (after a decline of at least 8%) since 1950.
- Other markets showed signs of resuming a positive economic outlook between April 1-16.
- Metals prices rebounded over that period, and industrial metals outperformed precious metals.
- Commodity currencies, Australian dollar and Brazilian real both helped lead the currency rebound against the U.S. dollar. The commodity focus suggests an improving global economic sentiment.
- U.S. Treasury yields fell across maturities of a year or longer, as one-year inflation swaps dropped to near their lowest since March 25, indicating easing inflation expectations in the swaps market.

Our perspective

- Potential stumbling blocks remain over the coming days. As we have seen, concessions during wartime can come and go, until the main issues are resolved. In this case, Iran has not yet announced its agreement to surrender its enriched uranium or to dismantle its enrichment program.
- Even if the war ends in the coming days, oil prices could continue to hover above pre-war levels. Minesweeping in the Strait may take weeks and limit the flow of tanker traffic, and shut-in production in all the Gulf countries likely will take weeks or months to restart. Oil prices could hover between \$75-\$85 per barrel and add inflation pressure to global supply chains for many goods.

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- 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

- We have remained tactically favorable on U.S. Large Cap Equities since before the war began but note that the rally so far has not been broad-based. In fact, as of April 15, fewer than 60% of S&P 500 Index constituents are above their 200-day moving average prices.
- Selectivity leads us to still prefer to focus new investments on asymmetries across capital markets — sharp moves (higher or lower) that we believe have outrun fundamentals.
- In our view, leaning against these moves could be an effective way to rebalance a portfolio, as we describe in detail below.

What to do now

Looking forward, the headlines give us caution, but we are focused on investments where we see earnings growth potential and relative value, and where we expect higher upside than downside potential, if the war circumstances turn more constructive. On April 6, we made guidance changes to anticipate such a reversal, specifically, reallocating from the S&P 500 Index Energy sector into the Information Technology (Tech) sector.¹ As oil prices spiked due to the war, the Energy sector gained over 27% year-to-date (YTD) through April 16. The S&P 500 Information Technology sector recovered from earlier losses and gained 3.25% YTD through April 16, in line with the S&P 500 Index. Based on 12-month ahead earnings estimates, the Tech sector traded as of April 16 at a price-to-earnings multiple similar to that of the S&P 500 Index. So, we see comparable value between the sector and the S&P composite index, implying that investors pay no premium for the Tech sector over the S&P 500 Index.

Meanwhile, the Bloomberg consensus 2026 earnings growth estimate for the Tech sector is 36% as of April 16, nearly twice that of the 20% 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 continue reversing the earlier gains should the war-related peace discussions hold. The West Texas Intermediate crude oil futures market declined sharply to the mid-\$80s intra-day today on the latest news of the Strait re-opening during the ceasefire.

Even though oil prices have declined, the Energy sector has not given back all the gains since the beginning of the year. We still see 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 that long-term yields will rise 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 almost 8% YTD as of April 16. As with the Tech sector and gold, we see a lot of 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 16, the spot gold price declined by over 10% from its January 28 peak (through April 16). International buyers figured prominently in the selloff, shedding gold and other assets to raise dollars to afford oil at rising dollar-denominated prices.² 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 the \$4700-\$4800 range.

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

2. 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

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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