



Capital Markets Commentary – April 2026

Heading into the year, the topics dominating our conversations centered on trade policy, the trajectory of Federal Reserve rate cuts, and whether the AI spending boom could justify its own ambitions. Those concerns remain very much alive, but March arrived with a new, unexpected guest. Here in Charleston, much of the early conversations centered around who could win the Graystone Foundation March Madness Tournament and earn the ability to select the charity that would ultimately receive the donation. That was somewhat short-lived. As our brackets busted, attention shifted quickly to a different kind of bracket-buster. Unless you lived under a rock for the past month, you are aware that in a coordinated operation, U.S. and Israeli forces launched strikes against Iran targeting its leadership, ballistic missile infrastructure, and Iranian energy infrastructure, among other strategic sites. Iran retaliated by launching missiles and drones at military bases throughout the region. As the situation developed, Iran closed the Strait of Hormuz and introduced an oil shock into the global economy. The market did not take it well with Brent Crude Oil Futures surging over 60% in March.ⁱ Energy shocks can ripple into inflation, affect consumer spending, and fall most heavily on net oil importers. This month we will spend some time on the Iran war and what it means beyond the headlines, and a labor market that is beginning to soften.

Before we dig in, let's take a look at the numbers. In the U.S., March made no apologies. The S&P 500 fell approximately 5.0%, its steepest monthly decline in some time, while the NASDAQ fell 4.7%, and the Dow, falling 5.2%. Overseas, there was also little comfort to be found. Europe's STOXX 50 fell 11.3% for the month, while Hong Kong's Hang Seng declined 6.9%, and Japan's Nikkei 225 dropped 14.3%.ⁱⁱ On the fixed income side, the U.S. ten-year Treasury finished the month at 4.32%, up sharply from the 3.94% where it closed February, touching its highest level since last summer (Figure 1).ⁱⁱⁱ It was, in short, a month that left few places to hide.

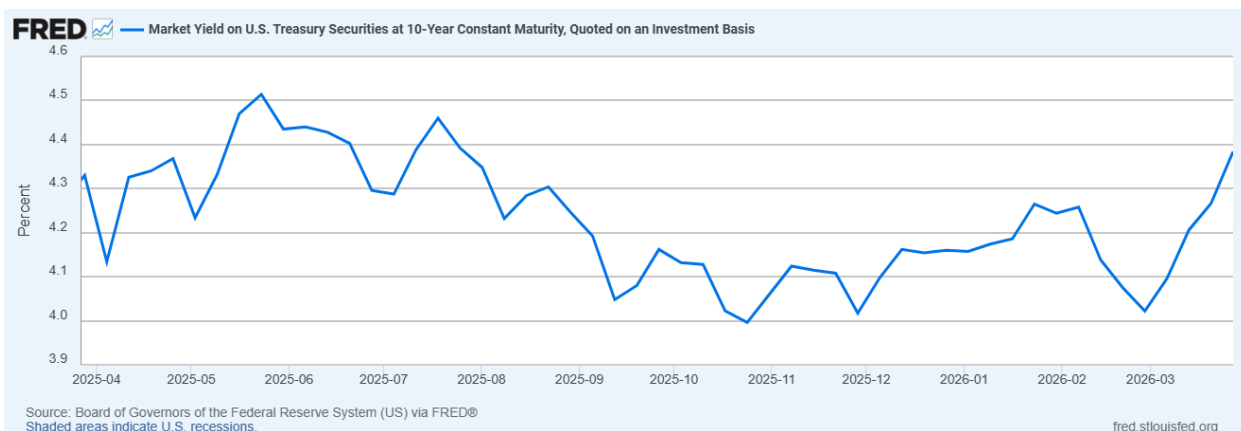


Figure 1

We'll start with the Iran War and how it can impact the global markets. The Strait of Hormuz is a narrow waterway connecting the Persian Gulf to global markets, responsible for the transit of roughly 20% of global oil trade, along with enormous volumes of liquefied natural gas and refined products. When traffic through it grinds to a halt, as it effectively did in early March, the consequences extend well beyond what consumers see at the pump. Energy costs feed into transportation, manufacturing, agriculture, and virtually every consumer good that moves through a supply chain. As Morgan Stanley Research noted at the outset of the conflict, Iran is not immune to the economic consequences of its own actions, should the strait remain closed. The country exports approximately 1.6 million barrels per day of crude oil, almost 50% of their total production. The overwhelming majority of which flows to China.^{iv}

The futures market appears to view the current spike as a short-term event, and not the new normal. Brent Crude Oil Futures are currently in "backwardation", a condition where near-term contracts trade at a significant premium over longer-dated ones. Brent futures for December delivery are currently priced meaningfully below spot prices. As this war prolongs and becomes more extreme, the cost to rebuild infrastructure that has been damaged climbs. Even if a ceasefire agreement is reached, supply chain disruptions can take weeks to clear and damaged facilities cannot come back online overnight. We hope the market is right. But energy shocks have a way of traveling well beyond their origin, and this one has already found its way into inflation expectations and the calculus of every central banker trying to decide what to do next.

The Federal Reserve finds itself at the center of that calculus. Inflation says "hold", the softening labor market says "cut", and the Fed's response is to wait and see. They held rates steady at their March meeting, leaving the target range at 3.50% to 3.75%.^v

Markets briefly priced in a meaningful probability of a rate hike by year-end, which struck us as an overreaction, but it reflects just how dramatically sentiment has shifted since January. The March meeting showed that the dot plot still projects one rate cut in 2026, even though some futures markets project the first cut to come in 2027.

To understand why the Fed’s hands are tied, it helps to look more closely at the labor market. In his March press conference, Chair Powell stated that the committee is concerned about the “very, very low level of job creation”. He goes on to state that if you adjust for “overstatement due to overcounting [in payroll data over the past six months], effectively there’s zero net job creation in the private sector”.^{vi} Powell also mentioned that we’ve never had, in our history, this level of “nonexistent” growth in the labor force. Figure 2 illustrates just how dramatically private sector job creation has slowed.^{vii} With March CPI data due in early April, the Iran situation still unresolved, and the Senate Banking Committee scheduled to hold Kevin Warsh’s confirmation hearing, just weeks before Powell’s term expires, the next FOMC meeting in late April arrives at a particularly consequential moment. We’ll be watching closely.

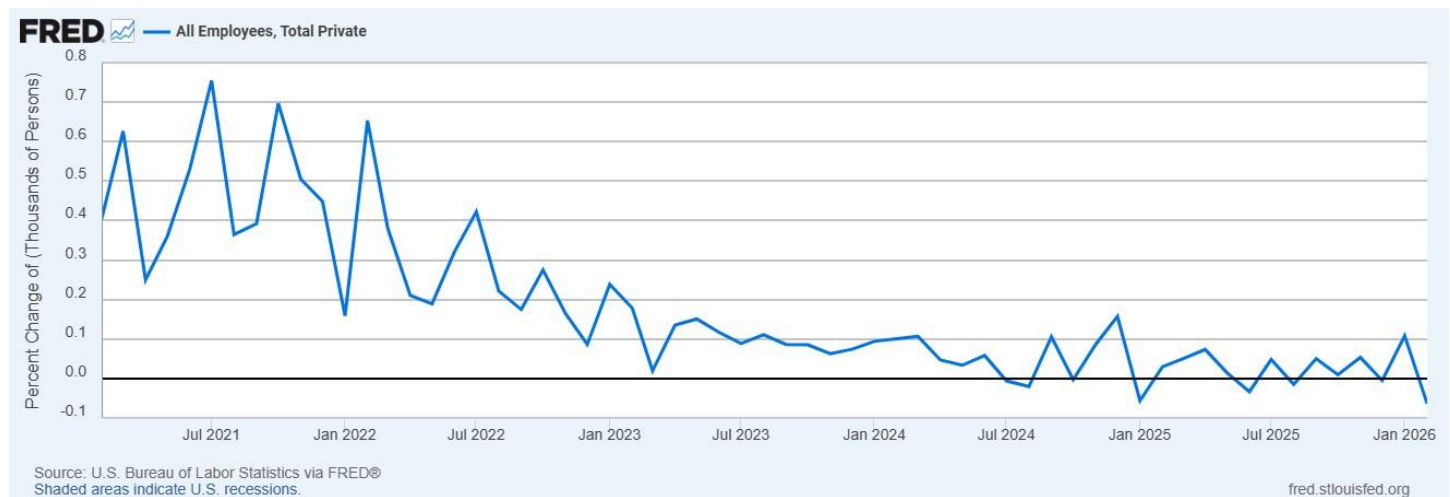


Figure 2

Where the labor market goes, the consumer tends to follow, and that is precisely where we’ll turn next. Consumer spending accounts for roughly 70% of U.S. GDP, and so far, that consumer has held up admirably.^{viii} Wages continue to outpace inflation in nominal terms, and household debt burdens remain well below pre-2008 levels. Although the consumer appears to be holding on well, one data point from Vanguard’s How America Saves report caught our eye: approximately 6% of their 401(k) plan participants took hardship withdrawals in 2025, the highest level on record.^{ix} That is not, on its own, a sign of crisis. However, it does suggest that some households are increasingly leaning on long-term savings to navigate higher day-to-day costs, which is not a habit we want to see become entrenched. Retirement accounts are meant to be used as long-term investment vehicles and when individuals feel pressed to use them in urgent situations, future economic status or wealth preservation/purchasing power may suffer.

Putting it all together, we’ll be direct: this is an environment where the risks deserve more respect than they were receiving a few months ago. The bull case for 2026 hasn’t disappeared. If the Iran situation stabilizes and the Strait reopens, the inflationary overhang from energy could dissipate faster than many anticipate. A normalization of trade relationships would remove one of the larger

overhangs on business investment. Any of these developments resolving favorably would be meaningful for markets.

That said, we believe the current environment may warrant a more defensive posture for some investors. Our conviction around quality has not changed; balance sheet strength, earnings resilience, and credit quality remain important considerations. We are cautious about chasing momentum in sectors priced for perfection, and equally cautious about reaching for yield in credit markets where spreads may not fully reflect the risks embedded in some of the AI-linked leverage we discussed last month. Diversification across both geographies and sectors remains as relevant as it has ever been, perhaps more so given how much of the past two years' returns have been concentrated in a handful of names. It is also worth noting, as Andrew Slimmon of Morgan Stanley Investment Management recently reminded us, citing Dan Clifton at Strategas research, that “the midterm year of the four-year election cycle is on average the most volatile year for equities, until the actual election in November. After the midterms, the market has been up over the following 12 months every time since 1938.^{x, xi} Volatility, in other words, has historically been a feature of this part of the cycle, not a verdict on where markets ultimately go.

We realize we have been preaching from this particular hymnal for several months running, and we make no apologies for it. The market has a way of making the cautious look foolish right up until the moment it doesn't. Are you comfortable with the level of risk currently in your portfolio? If markets were to move meaningfully lower from here, would your plan hold? If those questions give you pause, we would very much like to have that conversation now rather than later. That is, after all, precisely why we're here.

As always, should you have specific questions or concerns, please never hesitate to reach out.

We look forward to hearing from you.

Graystone Consulting | Charleston, WV

ⁱ Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet

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ⁱⁱⁱ Source: Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury at 10-year Constant Maturity, Quoted on an Investment Basis, retrieved from FRED.

^{iv} Source: Morgan Stanley Research. Iran conflict escalation: Global market impact. Morgan Stanley Insights.

^v Source: Federal Reserve Board, “Federal Reserve Issues FOMC Statement,” Press Release. March 18, 2026.

^{vi} Source: Federal Reserve Bank of St. Louis, FRED. Jerome Powell, Chair, Federal Open Market Committee Press Conference Transcript, March 18, 2026.

^{vii} Source: U.S. Bureau of Labor Statistics, All Employees, Total Private [USPRIV], Federal Reserve Bank of St. Louis, FRED.

^{viii} Source: Federal Reserve Bank of St. Louis, FRED. U.S. Bureau of Economic Analysis, Shares of Gross Domestic Product: Personal Consumption Expenditures [DPCERE1Q156NBEA].

^{ix} Source: Vanguard. “Previewing How America Saves 2026”, March 2026.

^x Source: Strategas. February 18th, 2026. As measured, the S&P 500 back to 1950 and the Dow Jones Prior to 1950.

^{xi} Source: Morgan Stanley Investment Research. Andrew Slimmon, “Equity Market Commentary” – March 2026.

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