

Right Back At It | 04.20.2026

Over the last two weeks, stocks ripped higher as the Iran conflict moved toward resolution. It took only 11 days for the market to climb from its conflict-related lows to new all-time highs, a reminder of how quickly markets can adjust as uncertainty begins to fade.

While peace talks have yet to officially end the conflict, ceasefire agreements involving Iran and Lebanon, combined with a U.S. blockade of Iranian shipping, helped reopen the Strait of Hormuz to commercial traffic, easing fears of a broader energy disruption. Although weekend developments have reintroduced uncertainty around shipping flows, oil prices remain well off their highs of the conflict, alternative routes are operating at full capacity, and markets appear to be learning to live with the war. This has helped lower a key source of headline inflation pressure and fuel a strong rebound in stocks and other growth-oriented investments.

Coming into 2026, we thought economic growth could accelerate as fiscal and monetary stimulus began to hit together in the first quarter. Geopolitical uncertainty may have briefly overshadowed the broader outlook, but the relatively quick resolution should allow attention to shift back toward these drivers of economic growth. Unemployment remains low, inflation is manageable, and earnings expectations have held up remarkably well. Based on our analysis, we continue to see few economic red flags in the broader economy. Overall, this suggests that conditions for stocks and other growth-oriented investments are more favorable than recent headlines may have implied.

The market has begun to reflect this narrative. Industries like banks and transportation, some of the most economically sensitive pockets of the market, have rebounded sharply. At the same time, the artificial intelligence (AI) story has regained momentum, with many semiconductor and equipment stocks breaking out to new highs and lagging areas like software beginning to find support. Which sectors and companies lead the market will be especially important to watch in the weeks ahead. We would like to see gains spread across more parts of the market, building on the progress that was underway before the war. That would be an encouraging sign that the traditional parts of the economy are strengthening alongside AI-related investments.

While the economic foundation remains intact, we also know we are entering a stretch of the calendar that has often been weak. Midterm election years are notoriously choppy, and since 1990, the average return for the S&P 500 in the second and third quarters of such years has been -4.2%. With that in mind, we believe it makes sense to remain cautious and have increased exposure to more defensive areas of the market. At the same time, the outlook beyond the election has historically been much more constructive. Since 1990, the S&P 500 has returned an average of 12.3% in the fourth quarter and first quarter following midterm elections.

In our view, the right approach is to stay mindful of potential risks while remaining positioned to benefit from further gains. While short-term risks remain, the overall environment continues to support a generally positive outlook.

Thanks,
Preston May, CBE® | Macro & Policy Strategist

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