

US Capital Markets Perspectives

April 2026



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in collaboration with
**Federated
Hermes** 



Summary

Scenarios

Risk statement

Summary: Q2 2026 Outlook

- Geopolitical risk:** The US-Israeli-Iran war, which began on February 28, 2026, has sent shockwaves through the global economy with rising oil prices impacting growth expectations. A short-term conflict should bring lower inflation and allow for the Fed rate cutting cycle to continue, but a prolonged conflict may lead to higher inflation and lower economic growth.
- Inflation:** Energy inflation rose 12.9% year-over-year in March primarily from higher fuel costs. WTI Crude and Brent (Europe) oil have both surged over \$100 per barrel. Volatile oil prices highlight the significant risks to global energy infrastructure and supply.
- Employment:** Nonfarm payrolls have been volatile in the last three months, but the unemployment rate has been relatively stable, currently at 4.3% (March 2026). The present environment is best described as a “low-hire, low-fire” stagnant labor market.
- US GDP:** Current Q1 GDP forecasts are set at 1.3%, a moderate slowdown. Growth is expected to be lower in 2026 due to higher energy prices due to geopolitical risks, a slight cooling in consumer spending, and the impact of trade policies and tariff regulations.
- The Consumer:** Consumer spending has been resilient in light of the challenging global environment, but will inflation upend the status quo.
- The Federal Reserve:** The central bank is still expecting to lower interest rates in 2026. However, it must balance its dual mandate of inflation and employment with neither offering a clear path at present. Q2 should bring a new Fed chairman with the markets looking for reassurance of continued independence.
- Portfolio diversification:** Against a backdrop of geopolitical risks, diversification remains key.
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Federated Hermes: 2026-2027 US forecasts

As of April 15, 2026

Economic Measure	2026E	2027E
Real GDP	2.6%	3.0%
Core CPI	2.7%	2.4%
Core PCE	2.8%	2.4%
10 Year Treasury Yield	4.00%	4.30%
Fed Funds Rate (Upper Limit)	3.25%	3.00%
S&P 500 EPS	\$325	\$370
Target Forward P/E	20.3x	20.0x
S&P 500 Target Price	7,500	8,200

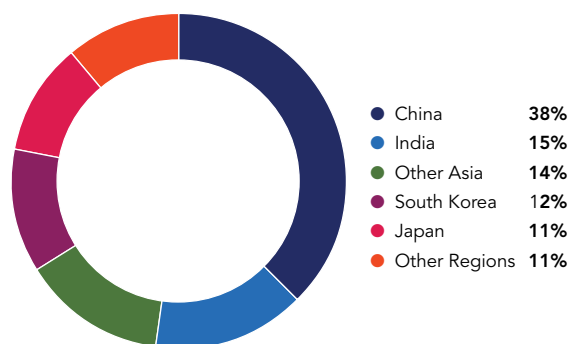
Federated Hermes, April 15, 2026.

Views are as of the date indicated and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Oil prices are driving the global economy

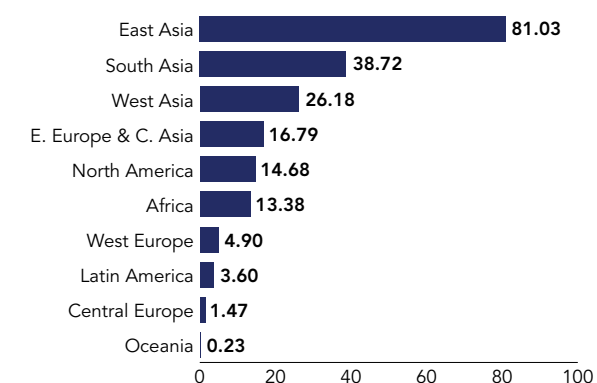
- Surging oil prices, driven by conflict-related supply disruptions and an eight million daily-barrel shortfall, are acting as a major shock to the global economy in early 2026, threatening to spark stagflation and potential recession.
- High energy costs increase inflation, slash transportation profits, and threaten supply chains, with import-dependent economies like the euro area and Japan suffering most.
- The Middle East is also a major production center for urea (fertilizer), helium, and sulfur.
- Beyond oil, helium, sulfur, and urea, the Strait of Hormuz is a critical artery for roughly 20% of global Liquefied Natural Gas (LNG), essential for energy, along with iron ore, petrochemicals, fertilizers, and critical industrial inputs.

Where does Hormuz oil go?



Source: Investing.com and Bloomberg, 4/9/26

Urea production by region



Sources: Statista, 4/9/26

Past performance is no guarantee of future results.

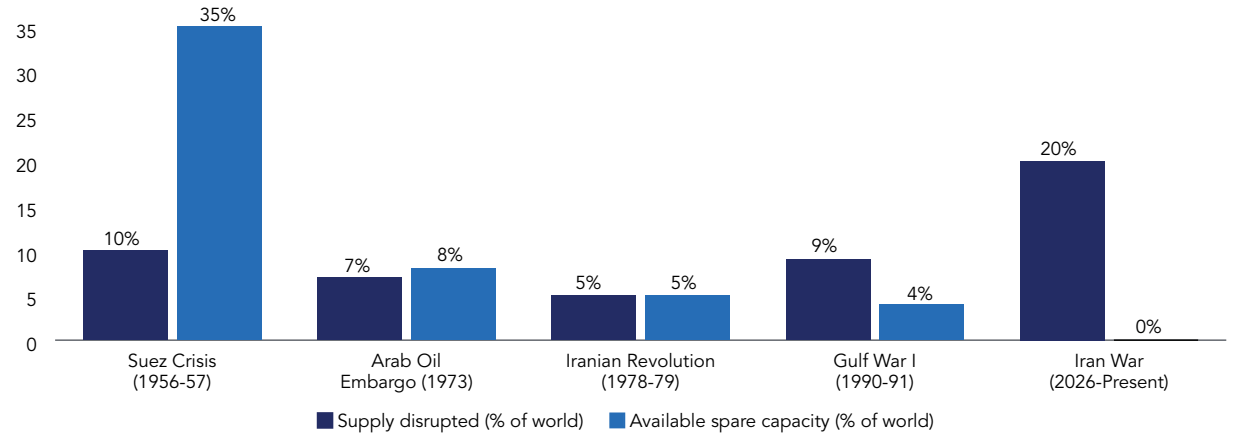


Featured charts

Historical shocks to the global oil market

- The 2026 Iran war constitutes a more significant global oil shock than past events—including the 1973 Arab oil embargo, the 1979 Iranian Revolution, and the 2022 Ukraine crisis—because it has triggered the largest supply disruption in history, with up to 20% of global oil supplies (approx. 20 million barrels per day) directly threatened by the closure of the Strait of Hormuz.
- While previous shocks involved, at most, a 6% removal of global supply, the current conflict is three to five times larger in magnitude.

Size of global oil shocks

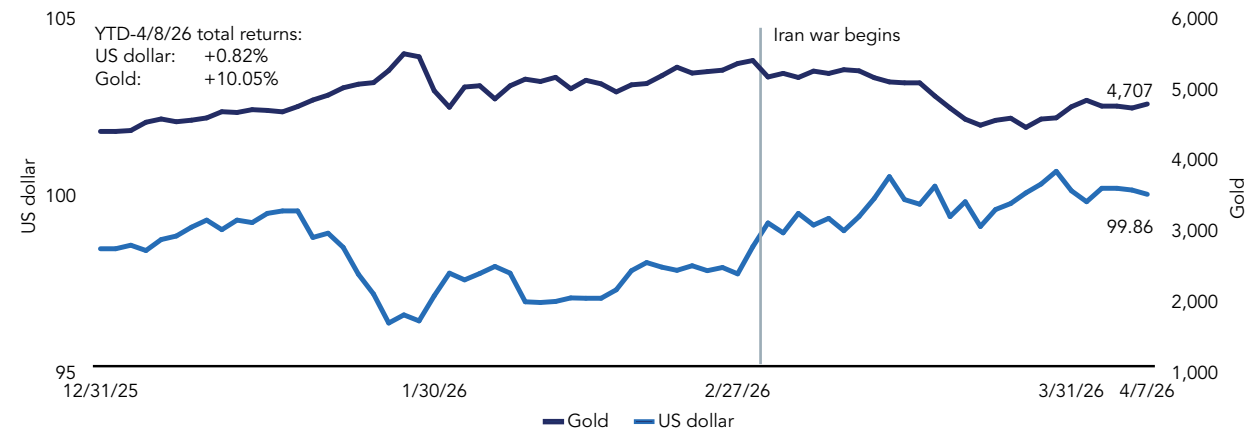


Source: Rapidan Energy Group, 3/9/26

US dollar stabilizes, then falters as ceasefire seen as fragile

- The 2026 Iran war initially strengthened the US dollar, reversing a decline in its global dominance by reinforcing its safe-haven status amidst high energy prices.
- The dollar's strength was directly tied to the conflict, with temporary retreats occurring during ceasefire hopes.
- Gold prices have experienced significant volatility, initially falling despite the 2026 Iran war as investors prioritized liquidating assets, reversing previous highs, and dropping roughly 10-13% since late February. While traditionally a safe haven, gold faced downward pressure from a strengthened US dollar and rising bond yields.

US dollar and gold prices: YTD 2026



Source: Bloomberg, 4/10/26

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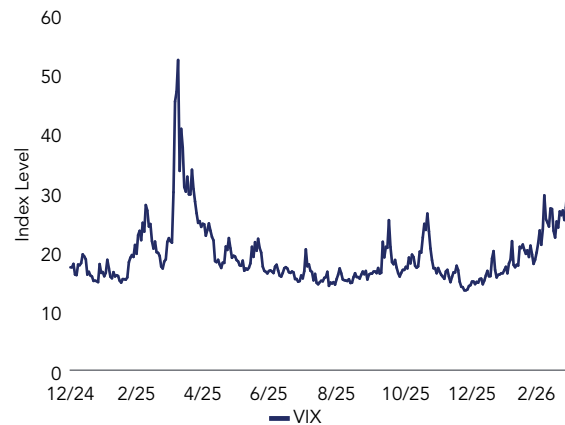


Featured charts

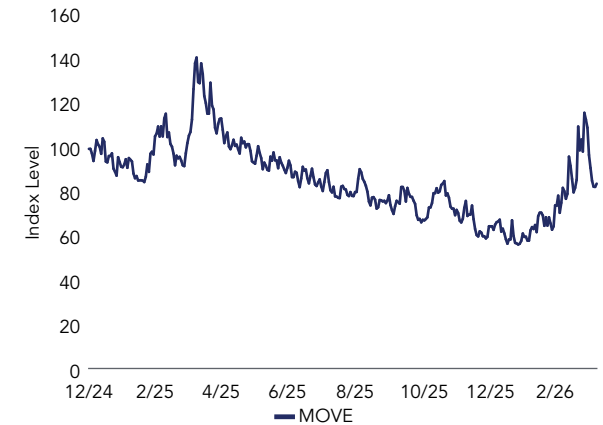
Volatility remains muted

- Market volatility in the VIX (equities) and MOVE (bonds) indexes has been surprisingly muted amid the 2026 Iran conflict, largely due to an announced ceasefire, allowing markets to focus on earnings rather than panic selling.
- While energy prices spiked, the broader “sell-off playbook” has evolved towards more orderly hedging rather than severe, sustained spikes in volatility, often holding near pre-war levels.

CBOE Volatility Index (VIX)



ICE BofA MOVE Index

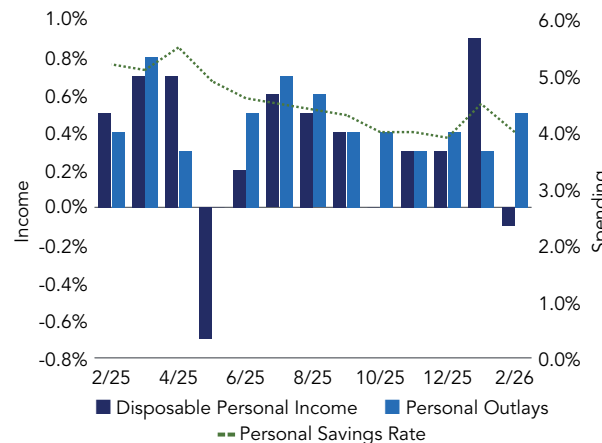


Source: Bloomberg, 4/10/26

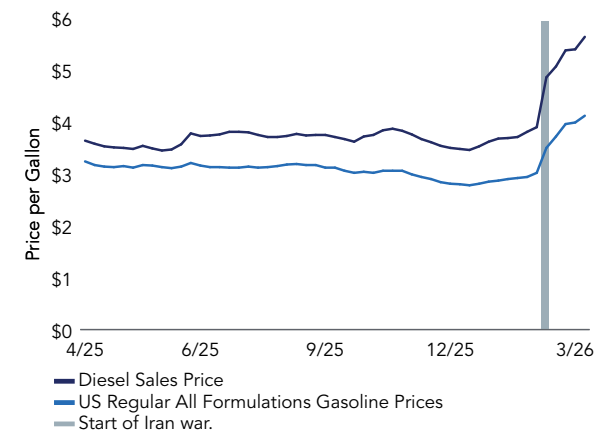
The consumer: Early 2026 spending resilient, but prices are under pressure

- Consumer spending in early 2026 is showing surprising resilience, with February PCE rising 0.5% despite high prices, though growth is projected to moderate to 2.1% for the year due to tight credit and slowing labor markets. Spending is increasingly driven by higher-income households, with a K-shaped pattern.
- Daily transportation costs, mortgages rates, and vacations (jet fuel) have risen since the Iran war began.
- The conflict in Iran is driving significant inflation as of April 2026, causing a 0.9% jump in U.S. consumer prices in March and a 4% surge in wholesale prices. Soaring energy costs, fueled by disruptions to the Strait of Hormuz, are escalating prices for gasoline, transport, food, and manufacturing.

Monthly consumer income and spending



Weekly US gasoline & diesel prices



Sources: Bloomberg and Federal Reserve Bank, St. Louis, 4/8/26

Past performance is no guarantee of future results.



Scenario-specific investments

Investors with differing views on the direction of the economy may consider entry points for new investments or seek to re-allocate across existing portfolios based on their particular economic outlooks. The asset categories below have shown the potential to add to portfolio performance under these respective scenarios.



Growth stabilization with broader leadership (soft landing plus):

Inflation moderates gradually, growth remains positive, and markets broaden beyond mega-caps.

- Equity US all capitalizations
- International developed large-cap equity
- International small-mid cap
- Intermediate-term bonds
- Corporate bonds
- Municipal bonds

Prolonged inflation volatility (higher for longer):

Inflation remains sticky, energy prices stay elevated, and policy easing is delayed.

- Dividend investing
- Value Equity
- Asset allocation
- Short-term bonds < 1-year durations
- Short-term bonds
- Floating rate bonds
- Inflation-protected bonds

Risk-on re-acceleration:

Geopolitical tensions ease quickly, inflation expectations fall, and markets price aggressive rate cuts.

- Large growth
- Mid-cap growth
- Small-cap growth
- International developed growth
- Emerging markets equity
- High yield
- Emerging markets bond

Downside shock/hard landing (tail risk) (economic recession):

Growth deteriorates and financial conditions tighten.

- Alternatives
- Money market instruments
- Short-term bonds <1-year durations
- Government bonds

As of March 31, 2026.

Information is solely for informational purposes, does not represent specific investment advice, and should not be construed as an investment recommendation.

Past performance is no guarantee of future results.



Scenario-specific investments

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Although the information provided in this document has been obtained from sources which Federated Hermes believes to be reliable, it does not guarantee accuracy of such information, and such information may be incomplete or condensed.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Investments are subject to risk and fluctuate in value.

Certain information contained herein may constitute "forward-looking statements". Due to various risks and uncertainties, actual events, results or performance may differ materially from those reflected or contemplated in these statements. Nothing contained herein may be relied upon as a guarantee or representation as to the future.

Price-to-earnings ratio (P/E): A ratio comparing the company's current share price, as compared to its earnings-per-share, for the last twelve months (LTM), or estimated for the next 12 months (NTM), current fiscal year (FY1), or next (forward) fiscal year.

Earnings per shares (EPS) measures a company's profitability per share of common stock. It is the company's net income divided by the number of shares outstanding.

The data contained in this presentation is for informational purposes only and should not be relied upon to make investment decisions.

Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed countries and currency risk and political risks are accentuated in emerging markets.

Alternative investments may engage in short sales and other strategies that involve additional risks, such as increased volatility.

Value stocks may lag growth stocks in performance, particularly in late stages of a market advance.

Due to their relatively high valuations, growth stocks are typically more volatile than value stocks.

Small company stocks may be less liquid and subject to greater price volatility than large company stocks.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

There are no guarantees that dividend paying stocks will continue to pay dividends. In addition, dividend paying stocks may not experience the same capital appreciation potential as non-dividend paying stocks.

Index and other financial benchmark data is for illustrative purposes only. Indexes are unmanaged and cannot be invested in directly.

Price Consumption Index (PCE): is the primary measure of consumer spending on goods and services in the US economy. It accounts for about two-thirds of domestic final spending, and thus it is the primary engine that drives future economic growth. PCE shows how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption.

VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

ICE BofA U.S. Bond Market Option Volatility Estimate Index (MOVE) measures US bond market yield volatility by tracking a basket of over-the counter options on US interest rate swaps.

Investments in gold and precious metals may be subject to additional risks.

Consumer Price Index (CPI): A measure of inflation at the retail level.

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