MY BUTTERFLIES, YOUR EFFECT

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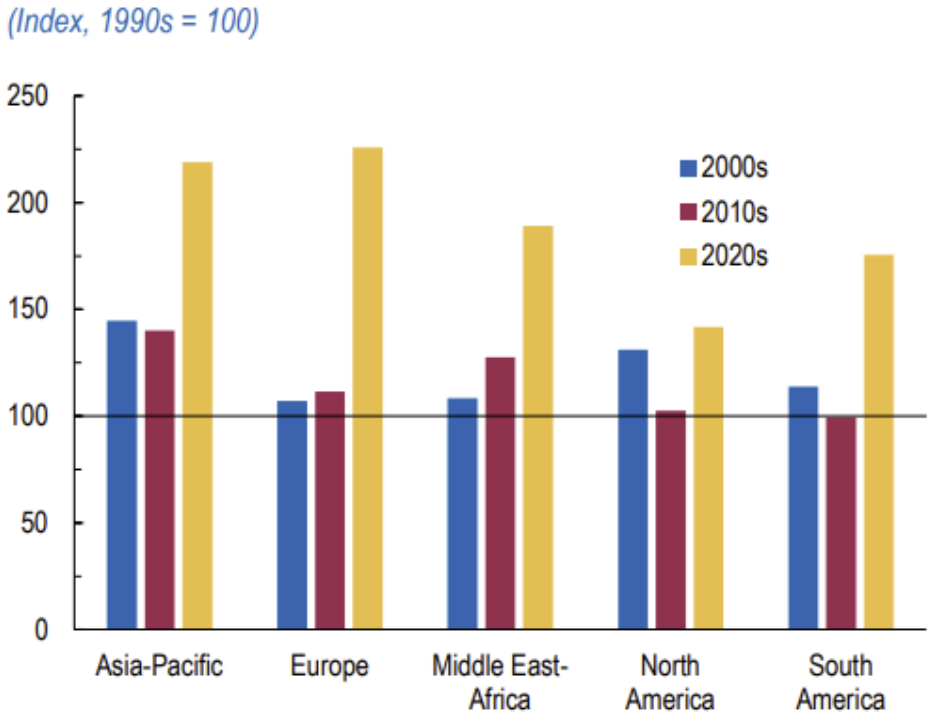
The Butterfly Effect

- According to Britannica, this is an idea in chaos theory that describes how small changes to a complex system's initial conditions can produce dramatically different outcomes. The term "butterfly effect" has gained prominence in popular culture and is used to discuss how seemingly small actions or decisions can have large effects.
- The original justification provided by Israel and the U.S. on February 28, 2026, for taking military action was of "preemptive necessity" to neutralize an imminent nuclear and regional threat. Trump told CNN's Jake Tapper on March 2: "*I don't want to see it go on too long. I always thought it would be four weeks. And we're a little ahead of schedule.*"
- At least 10–11 additional countries or territories have been directly attacked by Iran: Saudi Arabia, Kuwait, Qatar, Bahrain, UAE, Oman, Iraq, Lebanon, Yemen (Houthis), and the waters off Sri Lanka.
- Starting on March 4, 2026, Iranian forces formally declared the strait "closed," threatening and carrying out attacks on ships attempting to transit.
- The infrastructure damaged in the Middle East energy sector and the restriction of exports to the rest of the world have significant short- and long-term secondary effects. Even though it is impossible to quantify the financial and economic damage that would cost globally, it is without a doubt that the "butterfly effects" downstream will increasingly become more significant and damaging the longer the war continues. This event will bring inflation and global economic slowdown at the same time. This is another supply shock to the world.
- The World Economic Forum: "When war strikes one of the world's most critical trade nodes, secondary and tertiary effects compound in ways no model fully captures in real time. Insurance premiums rise, investment decisions are deferred, supply chains are rerouted, and trust in Gulf stability erodes. What begins as a battlefield shock hardens into a geoeconomic one."

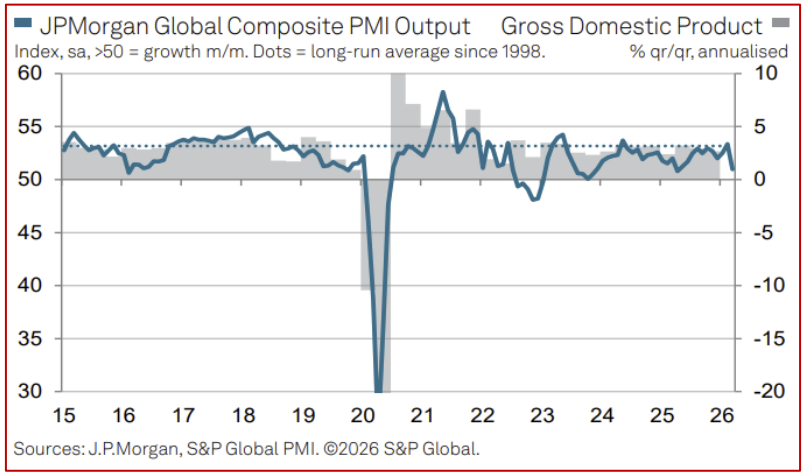
IMF World Economic Outlook, April 2026 - Global Economy Tested Again

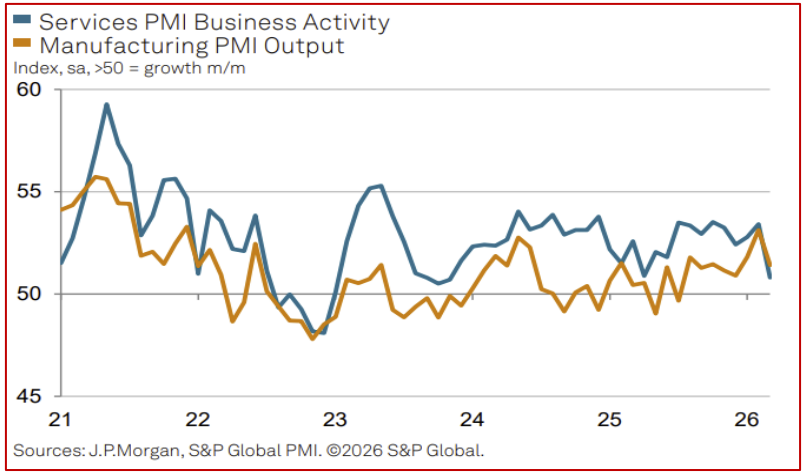
The global economy has, to date, withstood a series of shocks, yet another one—this time a military conflict engulfing the Middle East since the end of February—is testing this resilience. This is the latest culmination in a series of events that have been reshaping international relations and raising geopolitical tensions markedly across all regions in recent years. The conflict has already inflicted humanitarian costs, damaged critical infrastructure, and severely disrupted maritime and air traffic in the affected region. Economies around the world face repercussions through the direct impact of higher commodity prices, indirect second order effects on inflation expectations—which tend to be especially sensitive to energy and food prices—and amplification effects coming from risk-off sentiment in financial markets. Commodity importing emerging market and developing economies are at risk of being hit harder, with a depreciation of their currencies exacerbating the impact of higher energy and food prices. The global economic impact will crucially depend on the conflict's duration, intensity, and scope, which are inherently unpredictable.



Sources: Caldara and Iacoviello 2026; and IMF staff calculations.
Note: This figure presents the country-specific geopolitical risk index of Caldara and Iacoviello (2026), a news-based measure of adverse geopolitical events that covers 10 major newspapers in Canada, the United Kingdom, and the United States. The country-level data were downloaded from https://www.matteoiacoviello.com/gpr.htm and averaged at the regional and decadal levels and normalized to 100 for the 1990s.

Global PMI



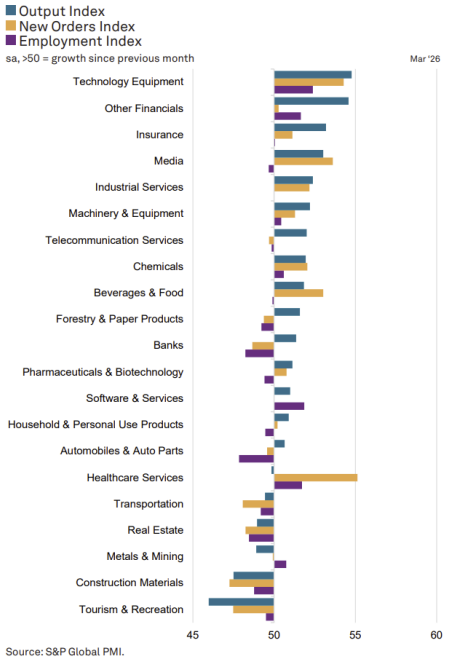


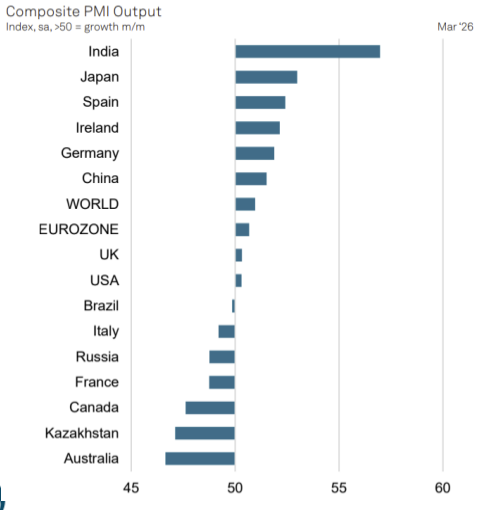
The J.P.Morgan Global Composite PMI Output Index fell to an 11-month low of 51.0 in March, down from February's 21-month high of 53.3, but remained above the neutral mark of 50.0 for the thirty-eighth consecutive month.
Rates of output expansion eased across the manufacturing and service sectors, hitting 3- and 28-month lows respectively. The Global Manufacturing Output Index posted 51.4 and the Global Services Business Activity Index 50.8. March was the first time since December 2022 that the output index reading for manufacturing was higher than its services equivalent.

Consumer-facing companies were the worst performers. Consumer service providers saw business activity contract at the quickest pace since November 2022, while consumer goods output rose only slightly and to the weakest extent of the sub-sectors seeing growth. Financial services was the strongest performer overall, despite seeing its rate of expansion ease sharply to a ten-month low.
Of the 15 nations for which combined Manufacturing & Services PMI data were available, almost half (seven) saw output decrease in March. These were Australia, Brazil, Canada, France, Italy, Kazakhstan and Russia. Only one of the nations covered (Spain) registered a faster rate of expansion than in February.

https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en

Global Composite and Global Sector PMI 03-2026





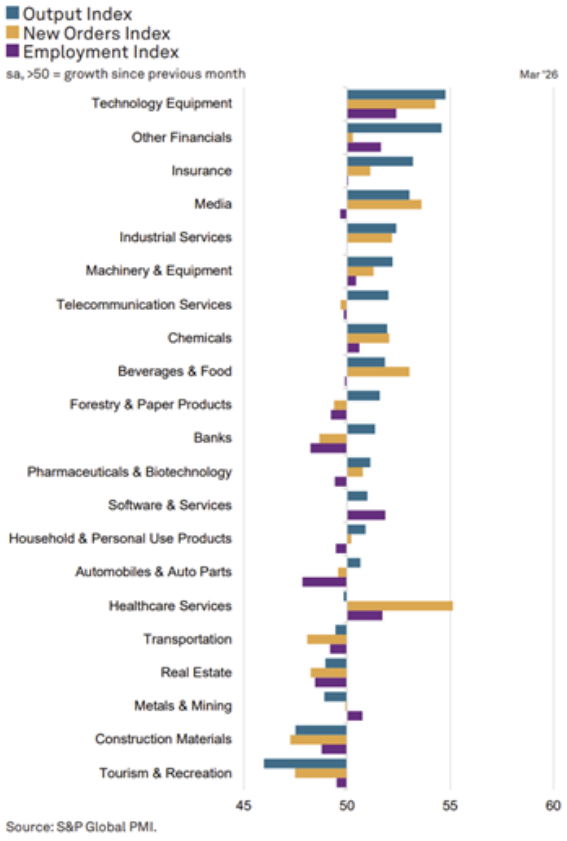
After having signaled widespread growth in February, six of the 21 monitored sectors dropped into contraction in March, the latest S&P Global Sector PMI data showed. This was the highest number of sectors to see a fall in output since July of last year. Of these six, Tourism & Recreation signaled the strongest decline in activity, with the rate of contraction the most pronounced in over five years and solid in nature. This was closely followed by Construction Materials, where production volumes fell at the fastest pace in almost a year-and-a-half. This sector led the decline in new orders, ahead of Tourism & Recreation. On the upside, of the 15 sectors to see an increase, the expansion was led by Technology Equipment, where growth picked up to its highest in seven months. Strong gains were also recorded in Other Financials (made up of Financial and Investment Services) and Insurance, though in both cases rates of expansion slowed from February.

March saw the rate of increase in new business slow to a 28-month low, in part reflecting a mild reduction in international trade flows. The decline in total new work intakes was focused on the consumer services and financial services sub-sectors. Although new business rose in the remaining four sectors, rates of expansion eased across the board. Business optimism fell to a five-month low in March, and to one of its weakest levels since the global pandemic in 2020. Only four of the nations covered - Canada, India, Kazakhstan and Russia - reported higher optimism than in the prior survey month.

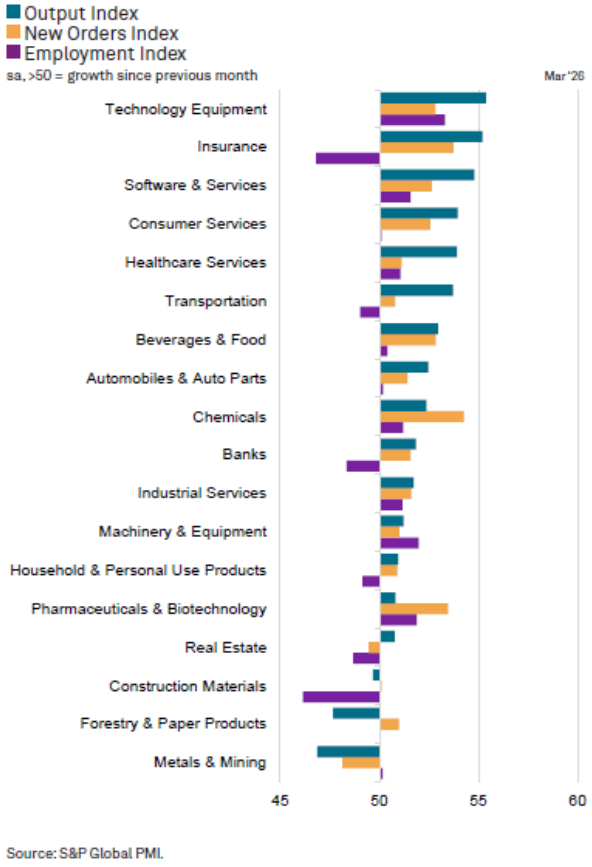
Input price inflation accelerated to a 38-month high in March, as commodity, energy and other costs all increased. Supply chain factors also played a role, as highlighted by the Global Manufacturing PMI Suppliers' Delivery Times Index, signaling the steepest lengthening of vendor lead times in almost 3½ years. Average output charges rose to the greatest extent since April 2023.

Global PMI by Sector

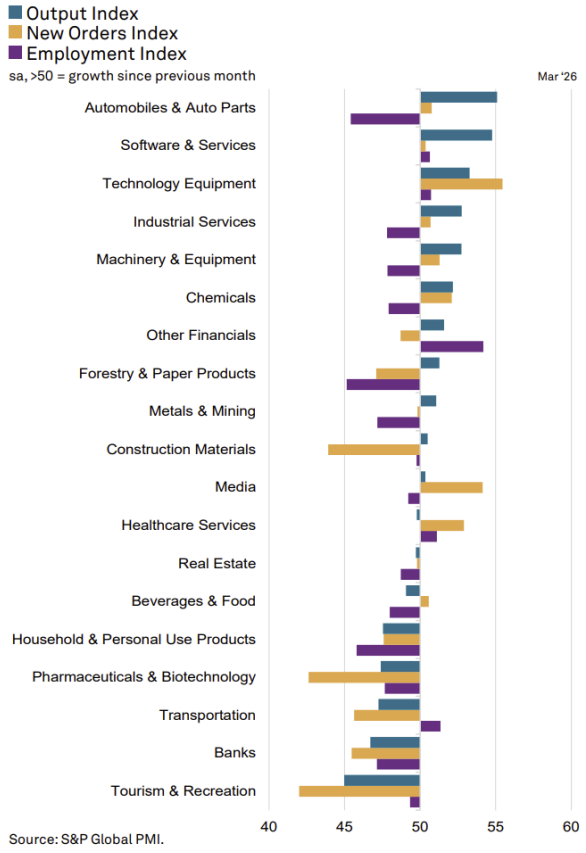
S&P Global Sector PMI



S&P Global Asia Sector PMI



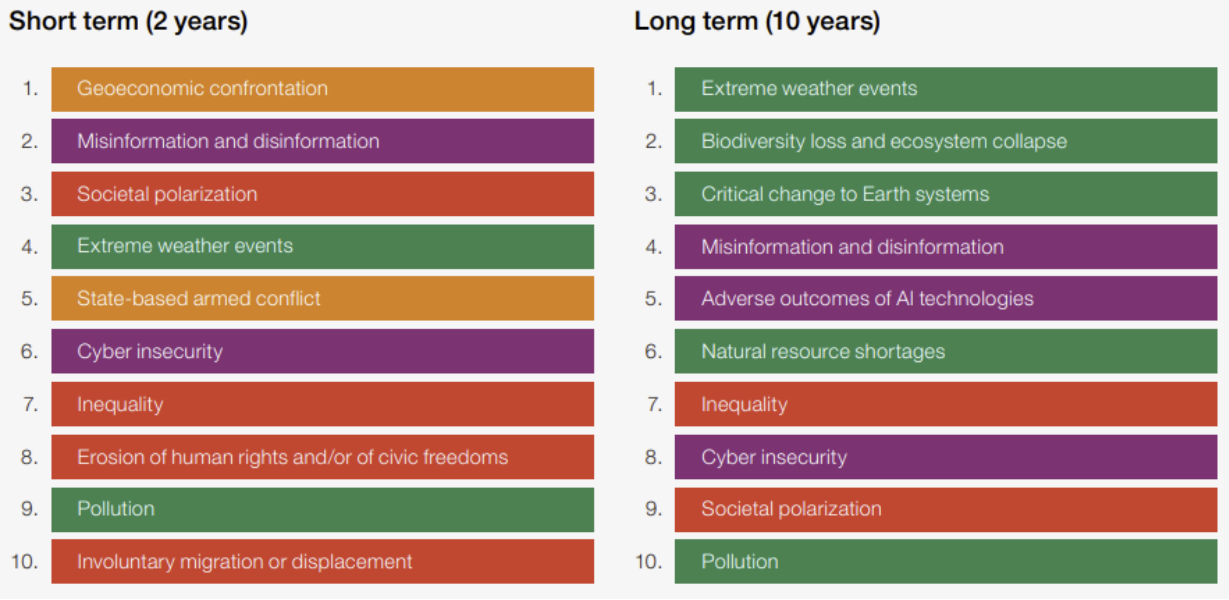
S&P Global Europe Sector PMI



For Asia, Slowdowns in activity and new business coincided with a universal rise in cost burdens, with pressures intensifying across 13 of the 18 monitored sectors in March. The steepest increase in expenses was observed for Chemicals. At the same time, output charges rose across all monitored sectors except Banks and Pharmaceuticals & Biotechnology. For Europe, on the price front, all 19 sectors registered an increase in cost burdens at the end of the first quarter. This has been a consistent trend throughout 2026 to date.

Global risks ranked by severity, short- and long-term
World Economic Forum Global Risks Perception Survey (GRPS based on 2025 data)

Uncertainty is the defining theme of the global risks outlook in 2026. GRPS respondents viewed both the short- and long-term global outlook negatively, with 50% of respondents anticipating either a turbulent or stormy outlook over the next two years, deteriorating to 57% of respondents over the next 10 years. A further 40% and 32%, respectively, view the global outlook as unsettled over the 2- and 10-year timeframes, with only 1% anticipating a calm outlook across each time horizon. As global risks continue to spiral in scale, interconnectivity, and velocity, 2026 marks an age of competition. As cooperative mechanisms crumble and with governments retreating from multilateral frameworks, stability is under siege. A contested multipolar landscape is emerging where confrontation is replacing collaboration and trust.



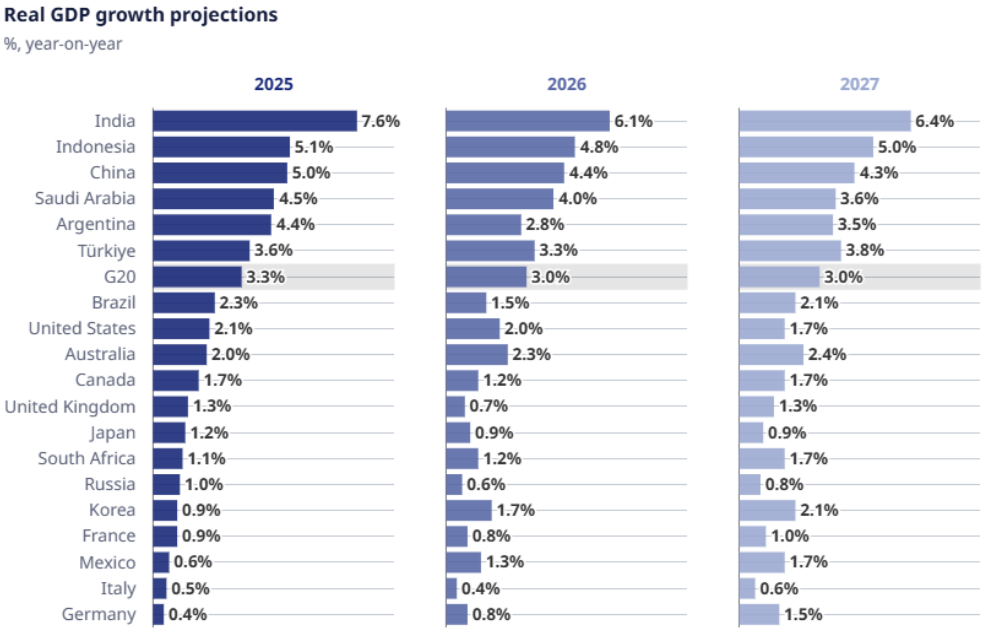
- "Global risk" is defined as the possibility of the occurrence of an event or condition that, if it occurs, would negatively impact a significant proportion of global GDP, population or natural resources.
- This survey is based on pre-U.S./Israel-Iran conflict started February 28, 2026.

Source: https://reports.weforum.org/docs/WEF_Global_Risks_Report_2026.pdf

OECD Economic Outlook, Interim Report, 2026-03

- The outlook is surrounded by high uncertainty and reflects the interaction of two opposing forces:
  - On the upside, growth is supported by strong momentum in technology-related investment and production, lower tariff rates than previously assumed, and carry-over from robust outcomes in 2025.
  - On the downside, the halt in shipments through the Strait of Hormuz and the closure and damage of some energy infrastructure has generated a surge in energy prices and disrupted the global supply of energy and other important commodities, such as fertilizers. This is raising costs, weighing on demand and adding to inflationary pressures.

- Global GDP growth is projected to remain broadly stable at 2.9% in 2026 before edging up to 3.0% in 2027, sustained by robust technology-related investment and gradually lower effective tariff rates. However, the evolving conflict in the Middle East weighs on growth and generates significant uncertainty around global demand. These projections assume that the current energy market disruption is temporary, with prices easing from mid 2026 onward.

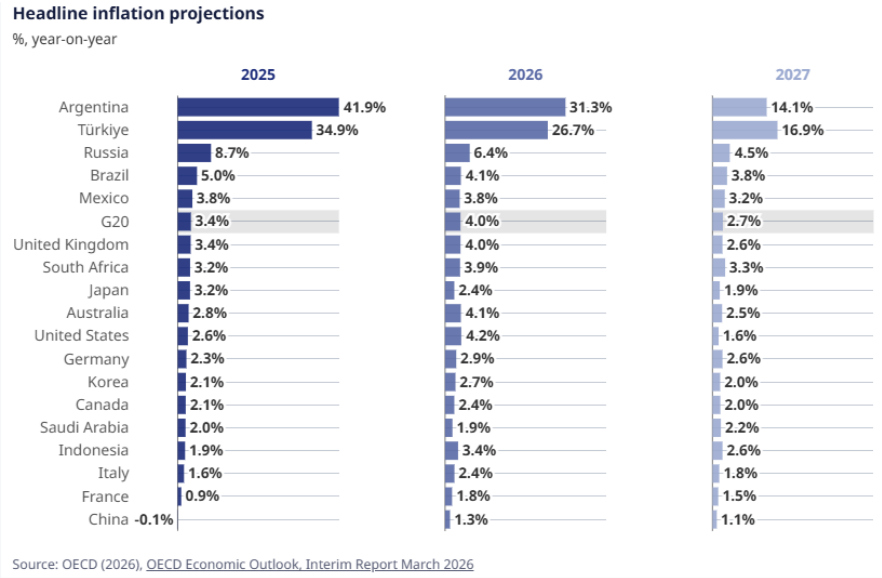


Source: OECD (2026), OECD Economic Outlook, Interim Report March 2026

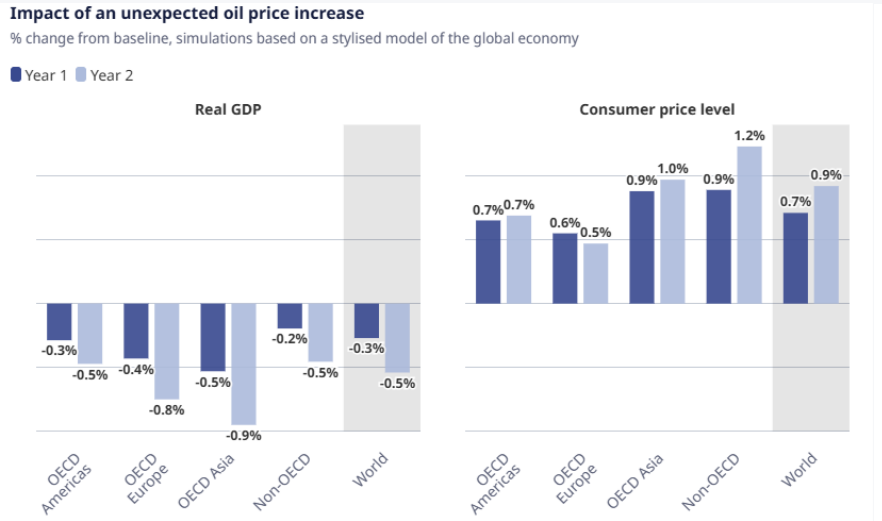
OECD Economic Outlook, Interim Report 2026 03

Inflation pressures will persist for longer with G20 inflation now expected to be higher in 2026 than previously projected, reflecting the surge in global energy prices. G20 inflation is projected to be 1.2 percentage points higher than previously expected in 2026 at 4.0%, before easing to 2.7% in 2027 with an assumed fading of energy price pressures. Core inflation in advanced G20 economies is expected to weaken, from 2.6% in 2026 to 2.3% in 2027.

Market expectations point to a gradual decline in energy prices, an assumption underpinning current projections. However, a prolonged disruption to shipments through the Strait of Hormuz or sustained closures of oil and gas facilities could lead to significantly worse outcomes. Simulations in the report explore a scenario where oil and gas prices rise well above baseline projections – by around a quarter in the first year and remaining elevated thereafter – combined with tighter global financial conditions. In this case, global GDP could be around 0.5% lower by the second year, while consumer prices would be higher by about 0.7 percentage points in the first year and 0.9 percentage points in the second.



Source: OECD (2026), OECD Economic Outlook, Interim Report March 2026



The scenario assumes a shock in which oil prices rise to USD 135 in 2026 Q2 and TTF prices to EUR 77/MWh, before gradually declining while remaining above baseline levels. It further incorporates a temporary increase in investment risk premia of 50 basis points over 2026 Q2-Q4, which fade gradually thereafter.
Source: OECD (2026), OECD Economic Outlook, Interim Report March 2026

Short- and Long-Term Shocks and Uncertainties

The Iran War	An open-ended, geographically expanding conflict with no defined objectives, closing the world's most critical energy chokepoint and consuming ~$1 billion/day for just the first 6 days, according to the Pentagon briefing to Congress
The Tariff Chaos	On February 20, 2026, the Supreme Court ruled 6-3 that IEEPA does not authorize tariffs. Trump responded by imposing a 10% tariff on nearly all countries under Section 122, applying to an estimated $1.2 trillion of annual imports. This is the largest U.S. tax increase as a percentage of GDP since 1993, amounting to an average increase of $1,500 per household in 2026.
The K-Shaped Economy	Income inequality now stands at a 60-year peak. The top 20% of incomes account for 59% of total consumer spending. The share of GDP going to workers in compensation has tumbled to its lowest level in its more than 75-year history. The economy is being carried by a narrow base.
AI Labor Dis-placement	Layoffs surged more than 50% in 2025 compared to a year prior. AI-driven job displacement is hollowing out service workers, affecting customer service, software development, and programming roles creating a splinter between growth and full employment.
Ballooning Deficit	The structural fiscal deficit is the silent threat at $1.9 trillion in FY2026 with the government borrowing $7 billion per day. There is no fiscal room to safeguard from future crises and interest rates shooting up. Financial health and reserve currency status are unsustainable.

The Iran War

The Drumbeat of War began in 2025

- On June 22, 2025, Trump authorized "Operation Midnight Hammer," a coordinated onslaught on three of Iran's most critical nuclear sites — Fordow, Natanz, and Isfahan — carried out by B-2 Stealth bombers in what officials described as the largest such mission in American history. General Dan Caine, chairman of the Joint Chiefs, said the attacks were designed "to severely degrade Iran's nuclear weapons capability" but declined to comment on what nuclear capability remained. Israeli military officials told The New York Times that the Fordow nuclear site was substantially damaged. IAEA Director General Rafael Grossi warned Tehran could "in a matter of months" have "a few cascades of centrifuges spinning and producing enriched uranium" because Iran still had the "industrial and technological" means to recommence the process. An initial U.S. assessment after the June operation found that only one nuclear enrichment site had been mostly destroyed, while the other two targeted were likely degraded, setting progress back several months. White House Press Secretary Leavitt insisted, as late as February 24, 2026, that the 2025 strike was an "overwhelmingly successful mission" that "did, in fact, obliterate Iran's nuclear facilities." But just that same weekend, Trump's own envoy Steve Witkoff suggested Iran was close to having enough material to build a nuclear weapon — directly contradicting Leavitt's claim.
- The Trump administration's path to war was built on a series of escalating actions and rationales stretching back over a year before the first strikes on February 28, 2026. In February 2025, Trump reinstated the "maximum pressure" campaign to push Iran into a new nuclear deal, prevent its development of nuclear weapons, and counter its regional influence. He said he would not tolerate an "Iranian nuclear weapons capability" and did not rule out supporting military action if diplomacy failed, with his team stating that "all options are on the table." Tensions intensified sharply in January 2026 amid Iran's ongoing massacres of civilians following large-scale nationwide protests. The United States began amassing air and naval assets in the region at a level not seen since the outset of the 2003 invasion of Iraq.

The U.S.-Israel War Against Iran: Fluid Objective

Date	Day #	Who	Category	Statement / objective	Source
Jan-26	Pre-war	Trump	Objective	Threatened military action if Iran continued **killing protesters**; told demonstrators 'Help is on its way.'	NPR
24-Feb	Pre-war	Trump	Objective	State of the Union: Iran is 'world's #1 s**ponsor of terror**,' reviving **nuclear program**, building missiles that 'will soon **reach the United States**.'	Wikipedia / NBC
28-Feb	Day 1	Trump	Objective	**Defend the American people** by eliminating imminent threats.' **Destroy missile silos**, **prevent nuclear weapon**, destroy proxy network, sink navy. Also called on Iranians to **topple their government**.	CNBC / NPR
28-Feb	Day 1	Rubio	Objective	Launched strikes **preemptively** because US knew Israel would strike Iran, which would trigger Iranian attack on US forces — so US acted first defensively.	NBC / CNBC
2-Mar	Day 3	Hegseth	Objective	For 47 long years the expansionist regime in Tehran has waged a savage **one-sided war against America**.' Iran refused to negotiate after Midnight Hammer.	NBC News
2-Mar	Day 3	Hegseth	Objective	Clear, decisive mission: **destroy the missile threat**, destroy the navy, no nukes. This is NOT Iraq. This is NOT endless.'	Al Jazeera
2-Mar	Day 3	Vance	Objective	Iran can never be allowed to obtain a **nuclear weapon**. **That is the goal of this operation**.'	NBC News
2-Mar	Day 3	Gen. Caine	Objective	Mission is to '**prevent Iran from the ability to project power outside its borders**.' 'This is not a single overnight operation.' Expects 'additional losses.'	NBC / Times of Israel
2-Mar	Day 3	Leavitt	Objective	Outlined 'clear objectives': **stop Iran's proxies from attacking**, **stop production of roadside bombs**, **destroy missile capabilities**, **annihilate navy**.	NBC News
3-Mar	Day 4	Trump	Contradiction	Posted on Truth Social: 'Their air defense, Air Force, Navy, and Leadership is gone. They want to talk. I said Too Late!' — **declared victory**.	Wikipedia / CNBC
4-Mar	Day 5	Trump	Objective	Told TIME: goals are to **eliminate nuclear threat**, **dismantle ballistic-missile program**, and i**nstall 'a Western-friendly government**.'	TIME Magazine
4-Mar	Day 5	Rubio	Objective	Announced attacks would increase in intensity. 'Purpose of this is to **destroy that missile capability**.'	NBC News
6-Mar	Day 7	Trump	Objective	Truth Social: 'There will be no deal with Iran except UNCONDITIONAL SURRENDER! After that, **selection of a GREAT & ACCEPTABLE Leader**.'	NPR
7-Mar	Day 8	Trump	Boots/regime	Said regime change in Iran will happen, but 'maybe not immediately.' Demanded US role in shaping post-war government.	Wikipedia
7-Mar	Day 8	Trump	Contradiction	After call with Putin: '**The war is very complete, pretty much**… we already won the war in many ways.' Then at press conference: **war is just 'beginning of building a new country' and would end 'soon.'**	Wikipedia / NPR
10-Mar	Day 11	Trump	Boots/regime	Told NY Post: 'I don't have the yips with respect to **boots on the ground**… I probably don't need them, but **I would use them if necessary**.'	TIME Magazine
10-Mar	Day 11	Leavitt	Boots/regime	Ground troops 'not part of the plan for this operation at this time' but Trump 'does not rule options out as commander in chief.'	NBC News
15-Mar	Day 16	Trump	Contradiction	**Ready to declare victory** — but Iran has new supreme leader (Mojtaba Khamenei), IRGC intact, Strait of Hormuz still closed, **regime not surrendered**.	Washington Post / CNN

The consequences of shifting, contradictory war objectives are well-documented across military history and are already playing out in real time in this conflict. The most immediate consequence of fluid objectives is that nobody can define what winning looks like or when to stop. When your objectives shift daily, your adversary can read the confusion and adjust accordingly. Fluid objectives create a gravitational pull toward ever-expanding war aims. What began as a targeted strike on nuclear and missile infrastructure has evolved into the assassination of the supreme leader, demands for unconditional surrender, and hints at regime installation. The defining feature of the war after only one week is not clarity but growing complexity. As such, there is significant uncertainty as to when the war would end. (See Exhibit A for shifting timeline.)

U.S.-Iran Conflict Area Map and Shipping Routes

#	Location	Status
1	Strait of Hormuz	🚨 Primary crisis — US blockade, Iranian mines, 90% traffic collapse
2	Bab el-Mandeb	🚨 Houthi-controlled — Red Sea effectively closed since Nov 2023
3	Suez Canal, Egypt	⚠️ Physically open but underused — ships can't reach it safely
4	Cape of Good Hope	✅ Emergency bypass — adds 3,500 miles, traffic up 191%
5	Strait of Malacca	✅ Asia delivery point — all Gulf crude must pass here for China/Japan
6	Ras Laffan, Qatar	💥 LNG facility partially destroyed — 5-year recovery
7	Jebel Ali, Dubai	⚠️ Gulf hub disrupted — 230 tankers trapped inside Gulf
8	Yanbu, Saudi Arabia	✅ Saudi Red Sea bypass — critical pipeline terminus

What is being blocked at the Strait of Hormuz?

The commonly cited figure of 20% of global oil dramatically understates the full picture of the blockade. The IEA's head, Fatih Birol, described the disruption as "the greatest global energy security challenge in history" and "the largest supply disruption in the history of the global oil market." Vessel tracking data shows 80% of pre-war traffic has stopped and there were just 10 vessel crossings over a four-day period against a normal daily average of 70 to 80. The following is a list of the main exports that transited through the Strait before the war:

Commodity	World Supply	Reference
Global oil (seaborne)	**~25%**	*IEA; Gulf International Forum, March 2026*
Global LNG	**~20%**	*IEA; Rystad Energy, March 2026*
Global seaborne urea fertilizer	**~46%**	*World Economic Forum, April 2026*
Global seaborne ammonia	**~20–30%**	*Sidley Austin analysis, April 2026*
Global seaborne naphtha	**~24%**	*Drewry/Atlantic Council, March 2026*
Global seaborne methanol	**~33%**	*World Economic Forum, April 2026*
Global seaborne LPG	**~30%**	*Atlantic Council, March 2026*
Global monoethylene glycol (MEG)	**~6.5M tons/yr**	*WEF, April 2026*
Global helium supply	**~33%**	*WEF; Gulf International Forum*
Global sulfur exports	**~45%**	*The Fertilizer Institute (TFI), using S&P Global Trade Atlas 2025 data; corroborated by S&P Global Platts (March 19, 2026), FAO Chief Economist Maximo Torero (UN press briefing, March 2026), and NDSU Agricultural Trade Monitor (March 2026)*
Direct shipment exposure: businesses with cargo physically in transit through the Strait on Feb 28	**44,000+ firms, 174 countries**	*Dun & Bradstreet, March 2026*

Primary or 1st Order Effects of the fallout from the War – Gulf Cooperation Council

(1) Qatar — The Most Strategically Devastated

QatarEnergy confirmed that missile strikes on March 18–19 on Ras Laffan Industrial City, the world's single largest LNG processing facility, damaged LNG Trains 4 and 6, cutting 12.8 million tons per annum of production (17% of all exports) and creating an estimated annual revenue loss of $20 billion. Repairs will take 3 to 5 years, during which Qatar will be compelled to declare force majeure on long-term LNG contracts with China, South Korea, Italy, and Belgium. The strikes also hit the Pearl GTL (Gas-to-Liquids) facility operated by Shell, which will be offline for a minimum of one year. Associated collateral losses include: condensates down 24%, LPG down 13%, naphtha down 6%, sulfur down 6%, and helium down 14% — all simultaneously. The structural bottleneck to recovery is the global supply chain for replacement gas turbines needed to power refrigeration compressors in LNG trains. Only three manufacturers worldwide produce these large-frame turbines, and they entered 2026 with order books already stretched by data center expansion demand. Even with immediate capital deployment, procurement delays alone could push meaningful recovery several years out. Qatar Airways, the national airline, was operating at just 20% capacity at the peak of the crisis, adding losses of $5 to $8 billion in the first month alone. The Qatari stock exchange has lost about $13 billion in value since the war began, with the main index falling over 8%. **Qatar's National Vision 2030** rests explicitly on gas revenues financing diversification into education, research, and a knowledge economy. Qatar relies on oil and gas for nearly 80% of its revenues. A $20 billion annual revenue loss, sustained for 3 to 5 years, amounts to $60–100 billion in missing national income — the equivalent of wiping out Qatar's entire social diversification budget for the decade.

(2) UAE — The Global Hub Model Under Existential Stress

More than $120 billion has been wiped from market capitalization on the Dubai and Abu Dhabi stock exchanges since the war began. Debris from Iranian attacks caused confirmed damage to the Burj Al Arab, Palm Jumeirah, Dubai International Airports and the Fujairah oil industrial zone. Dubai International Airport, normally the world's busiest international gateway handling 95 million passengers annually, suffered damage and shut down completely on March 1 with losses expected to run into the billions. Drone strikes damaged cloud and data center facilities linked to Amazon Web Services operations in the UAE and Bahrain, an escalation from "cyber risk" to physical destruction of digital infrastructure. Jebel Ali Port, which handled 15.5 million Twenty-Foot Equivalent Units (TEUs) in 2024, halted operations. **UAE's national ambitions** rely heavily on "connectivity" as a bridge to a post-oil future by attracting tourists, building and operating data centers, and sustaining complex logistical hubs. This is all challenged in the middle of an active war zone. The country's reputation as a "safe haven" that attracted $63 billion in private wealth migration in 2025 alone is directly threatened. Its population growth, at just 1% in 2026 and likely 2% through 2031, is the recent 4% trend that underpinned all major developments.

Primary or 1st Order Effects of the fallout from the War – Gulf Cooperation Council

(3) **Saudi Arabia**

Saudi Arabia's Aramco Ras Tanura refinery (550,000 bpd capacity) was shut down after Iranian drone debris caused a fire. Saudi Arabia's 2026 budget was already built on a projected deficit of about $44 billion (3.3% of GDP), with public debt expected to rise to around $430 billion. Oil still accounts for 54% of state revenues. Each additional month of fighting forces Riyadh to choose between slowing its mega-projects or increasing borrowing. The attack on Ras Tanura detonated the foundational assumption that Saudi Arabia could reform in peace. **For Vision 2030**, this means every project now costs more (higher insurance, higher borrowing costs, higher risk premiums for foreign contractors), takes longer (disrupted supply chains, uncertain timelines), and generates less investor confidence. The 'island in a sea of crises' narrative has vanished.

(4) **Kuwait and Bahrain**

Bahrain, Kuwait, and Qatar are especially exposed because they have no alternative export routes that bypass the Strait, unlike Saudi Arabia's East-West Pipeline and the UAE's Fujairah pipeline. Al Jazeera Kuwait's Mina al-Ahmadi refinery (730,000 bpd) was struck twice, with multiple units shut down. Bahrain's BAPCO Sitra refinery, the country's only oil refinery, suffered confirmed damage to two crude distillation units and a tank farm. For Bahrain, which hosts the U.S. Fifth Fleet and depends on that relationship for its entire security architecture, the war exposed a devastating vulnerability: being targeted for hosting an ally in a war it never joined.

As previously stated, the defining feature of this war has been growing complexity. What summarizes this is Trump's statement: "*Iran war will end when I feel it in my bones*". This is Trump's most honest expression about the trajectory of the war. As of the writing of this commentary, it is still too early to summarize the damage and devastation to Iran, its oil and byproducts, its chemicals' and minerals' export capacities, and the overall impact to its supply chain to the world. The bottom line remains the uncertainty of conflict duration which not only dictates that fan of impact but also its scale and secondary manifestations of its disruptive and destructive pathway over the next few years. This also does not begin to address and express the likely human costs and impacts around the world away from the epicenter of the conflict zone.

A Global System Under Compounding and Cascading Stress

The five secondary effects discussed below: petrochemical cascade, the fertilizer-food chain disruption, the core inflation transmission, the Asian manufacturing power outage, and the multi-year infrastructure destruction timeline are not sequential, but simultaneous, compounding, and mutually reinforcing.

Higher energy costs raise petrochemical prices. Higher petrochemical prices raise packaging costs. Higher packaging costs raise food retail prices on top of the direct food price increases caused by fertilizer shortages. Higher food prices reduce the ability of poor households to afford manufactured goods, reducing demand for the Asian factories that are already power-rationing due to LNG shortages, and all of this is occurring on top of a physical infrastructure destruction that means the supply system will not fully recover even when the political situation resolves.

Roland Berger's conclusion, drawn from supply chain analysis: "Even if disruptions in the Strait of Hormuz were resolved tomorrow, companies must continue to respond proactively, as the effects are long-lasting and a return to normal operations will not be immediate. For many products such as LNG, fertilizers, petrochemicals, and critical materials, there is insufficient bypass infrastructure, limited reserves, and no short-term substitutes. The world is discovering that the Strait of Hormuz was not merely a shipping lane. It was load-bearing infrastructure for the global economy — and the weight of its absence is now being measured in empty fertilizer sheds, darkened factory floors, repriced consumer goods, and empty tables."

https://www.rolandberger.com/en/

Secondary Effect 1: The Petrochemical Cascade From Oil to Plastics to Everything

- The mechanism by which an oil disruption becomes a plastics crisis is seldom discussed. Naphtha is the primary petrochemical feedstock — the liquid intermediary between crude oil and the polymers from which most plastics are made. The Middle East produces and exports naphtha at a scale with no meaningful alternative source. Drewry analyst Anshika Prajapati estimates that the Hormuz closure has disrupted approximately 24 percent of the global seaborne naphtha supply — equivalent to 1.2 million barrels per day. There is no short-term substitute.
- Methanol, used in resins, coatings, paints, and synthetic fibers, follows the same path. Approximately one third of global seaborne methanol trade transits via the Strait.
- Monoethylene glycol (MEG), which goes into polyester fibers, packaging, and textiles, is another Gulf-dependent export with 6.5 million tons shipped in 2025.
- Liquid Petroleum Gas (LPG) provides the propylene feedstock from which polypropylene, one of the most widely used plastics in the world, is manufactured.
- Altana data cited by CNBC: raw feedstocks comprising $733 billion in petrochemicals, intermediates, and finished products, 22 percent of the world's total petrochemical supply, flow through the Gulf. This has a downstream impact on an estimated $3.8 trillion in goods, from toothpaste to towels, from medical packaging to automotive components.

Plastics prices increase since war began	**37%**	*CE Interim / Credendo analysis, April 2026*
Petrochemical supply affected globally	**22%**	*Altana data via CNBC, March 2026*
Downstream goods value affected	**$3.8 trillion**	*Altana data via CNBC, March 2026*
Middle East active petrochemical complexes together handle approximately 22% of total global petrochemical production.	**193**	*Energy consultancy Krimmel Strategy Group, CNBC*
Polyethylene from Middle East transiting Hormuz	**85% (approx)**	*CE Interim automotive analysis, April 2026*
Naphtha disrupted (barrels/day)	**1.2 million**	*CE Interim, citing Drewry*

The Omnipresence of Plastics and the Diminishing Supply

- Plastic product categories affected are not marginal. Plastic packaging is the primary container for food, medicine, cleaning products, and consumer goods globally. PET (polyethylene terephthalate) goes into water and beverage bottles. PVC (polyvinyl chloride) goes into construction materials, pipes, and medical tubing. Polypropylene goes into food containers, automotive parts, and textiles. All have the same origin: Gulf petrochemical feedstocks.
- South Korea's government response illustrates how acute the shortage has become: it imposed a five-month ban on naphtha exports, prioritizing domestic industrial use. Panic buying of plastic trash bags has been reported in South Korean retail markets — a seemingly small detail that reveals how far down the supply chain the shock has penetrated.
- The automotive sector faces the most acute multi-input crisis. CE Interim's analysis documents five simultaneous Gulf-dependent input disruptions in automotive manufacturing: naphtha-derived plastics, aluminum (Gulf smelters are offline), petrochemical rubber compounds, synthetic graphite (petroleum coke-dependent), and helium used in EV battery production. As senior automotive analyst Daniel Harrison of Ultima Media stated, "[the Hormuz blockade] cascades up the value chain to affect every type of raw material in automotive production, including steel, aluminum, plastics, rubbers, glass, semiconductors, and even the helium used in EV battery production." Qualifying an alternative aluminum supplier typically takes up to 18 months due to engineering specifications validation requirements. A shortage that arrived in March cannot be resolved by switching suppliers in April.

Secondary Effect 2: The Fertilizer-Food Chain — From Urea to Famine Risk

- The fertilizer transmission channel operates on a different but equally consequential mechanism. The Gulf is not merely an energy exporter; it is the world's dominant fertilizer producer, and its products are timed to the agricultural calendar in ways that make a supply shock of this duration potentially catastrophic for food production in 2026 and 2027.

Fertilizer Type	Gulf + Iran Share of Global Exports	Primary Source
Urea (nitrogen)	36–49%	IFPRI/IFA (2023–25); AFBF Market Intel
Ammonia (nitrogen)	23–30%	IFPRI/IFA (2023–25); Van Trump Report/IFA 2024
DAP/MAP (phosphate)	~18–20%	IFPRI; Van Trump Report
Sulfur	~41–45%	The Fertilizer Institute; S&P Global Platts
Total fertilizer transit through Hormuz	~30–33% of all seaborne trade	IFPRI; FAO; IFA

- The timing is structurally devastating. The Northern Hemisphere spring planting season — the window during which nitrogen fertilizers must be applied to corn, wheat, and soy crops — runs from April through June. The Hormuz closure began February 28. By the time the fertilizer shortage became acute in March, the planting window was already at risk. The UN's Food and Agriculture Organization chief economist, Maximo Torero, warned on April 13, "Everything is linked to the crop calendar. If farmers don't have all the resources they need for planting, that could cause lower yields, meaning less food in the future." He described the situation as a potential food crisis rivaling COVID-19 in humanitarian scale.
- India depends on Gulf urea for approximately 18 percent of its supply. Brazil — which accounts for nearly 60 percent of global soybean exports and is a major corn and sugar exporter — is almost entirely dependent on imported fertilizers, with nearly half transiting through the Strait of Hormuz. Reduced fertilizer application in Brazil does not merely affect Brazilian food prices; it affects global soy and corn prices that feed livestock across Europe, China, and the United States.
- IMF noted explicitly, "People in low-income countries are most at risk when prices rise because food accounts for about 36 percent of consumption on average, compared with 20 percent in emerging market economies and 9 percent in advanced economies."

Secondary Effect 3: Core Inflation

- Headline inflation — driven by energy and food prices — is already visible and being widely reported. The more insidious and less-discussed phenomenon is what happens to core inflation: the measure that strips out food and energy to capture the underlying price pressures in the economy. Central banks target core inflation because it reflects structural pricing behavior rather than commodity volatility. What the Hormuz crisis is now producing is a core inflation surge that will outlast the war itself because it operates through production cost transmission chains that move slowly and lag the initial shock by months.
- The transmission path to core inflation runs through three channels simultaneously. First, petrochemical feedstock shortages raise the cost of producing plastic inputs for virtually every manufactured good. These cost increases move into finished product prices with a lag of weeks to months as companies work through existing inventory before re-pricing. CNBC reported in March that "companies that had already confirmed production and locked in pricing for upcoming shipments were still able to proceed at previous cost levels. However, all new orders placed over the past couple of weeks are already being quoted at higher prices." The repricing pipeline is already loaded.
- Second, shipping costs have exploded. The Singapore-based geoeconomic analysis firm, BeHorizon, documented that Singapore gas/oil prices have surged 57 percent, while jet fuel has expanded by 114 percent. War-risk insurance for Gulf-adjacent shipping has been withdrawn or priced prohibitively. These shipping cost increases add a logistics premium on top of feedstock cost increases for every manufactured good that either originates from or transits near the Gulf corridor.
- Third, energy costs have risen so sharply in Europe and East Asia that manufacturers are imposing surcharges independent of feedstock costs. UK and EU chemical and steel manufacturers have imposed surcharges of up to 30 percent to offset surging electricity and feedstock costs — surcharges that, if the disruption persists, become embedded in the cost structure of downstream industries.

Secondary Effect 4: The Manufacturing Power Outage — Asia's Industrial Crisis

- Manufacturing power outages are now developing across East and Southeast Asia. Gulf LNG powers the electricity grids that power the factories that make the world's goods. When the LNG stops, the factories slow or stop — regardless of whether they have any other Hormuz exposure.
- Japan obtains 70 percent of its Middle Eastern crude via Hormuz-transiting ships and sources and approximately 95 percent of its crude from the Gulf states collectively. South Korea and Taiwan are similarly exposed. These three countries (South Korea, Taiwan, and Japan) collectively account for approximately 36 percent of global semiconductor production capacity. Their petrochemical plants are highly electricity-intensive, and powering the electricity grids of these East Asian democracies relies heavily on Gulf LNG.
- The helium crisis sits at the most technologically sensitive point of this chain. Qatar produces approximately one third of the world's helium supply, as a byproduct of its natural gas processing. Helium is non-substitutable in semiconductor fabrication because it is used for ultra-low-temperature cooling, for creating stable vacuum environments in lithography, and for processes that print nanometer-scale circuit patterns on silicon. "Shortages of helium and specialized gases from the Gulf are creating a near-immediate crisis for semiconductor and advanced electronics production," according to the WEF. Helium distributors had begun rationing deliveries by early April 2026.

Secondary Effect 5: Electronics to Shoes

South Korea semiconductor production capacity	18% of global	*Gulf International Forum, March 2026*
Taiwan semiconductor production capacity	18% of global	*Gulf International Forum, March 2026*
South Korea helium supply buffer	6 months	*Gulf International Forum, March 2026*
Taiwan helium from Qatar (pre-war share)	Majority	*Gulf International Forum, March 2026*
LNG price increase in Asia	Up to 143%	*Atlantic Council; BeHorizon, March 2026*
Southeast Asia: fuel rationing	Active, multiple countries	*Atlantic Council, April 2026*
South Korea naphtha export ban	5-month ban imposed	*American Prospect, April 14, 2026*

The semiconductor exposure matters beyond electronics. Semiconductors are the enabling technology for automobiles, medical devices, industrial equipment, telecommunications, and defense systems. The 2021 global semiconductor shortage — caused by COVID-era demand shifts and factory closures — produced a cascade that halted automotive production at plants from Detroit to Stuttgart, added months to delivery times for consumer electronics, and contributed meaningfully to the inflation surge of 2021-2023. The current helium and power shortages threaten a second semiconductor supply disruption on top of an economy that never fully rebuilt its chip supply chain resilience.

In Vietnam, Indonesia, Bangladesh, and other Southeast Asian manufacturing hubs, the power constraint is more direct. These countries run export manufacturing for garments, electronics assembly, furniture, and footwear on power grids that depend on LNG and fuel oil imports from the Gulf. The Atlantic Council documented "fuel shortages and rationing that threaten industrial activity" across Southeast Asia. When a Vietnamese garment factory cannot run its machinery because fuel is rationed, the order does not get delayed; it gets cancelled, and the buyer sources from elsewhere at a higher cost with a longer lead time. Both outcomes raise prices for the end consumer.

Secondary Effect 6: Infrastructure Destruction

- All the preceding effects assume that, once the Strait of Hormuz reopens, the Gulf energy system can return to full operation within a reasonable period. This assumption is incorrect. The physical destruction of Gulf energy infrastructure during 45 days of war has created a recovery timeline that will extend disruption well beyond any ceasefire. The war has inflicted damage that is measured not in months but in years.
- The Inventory of Destruction
  Bloomberg compiled the most comprehensive damage assessment, updated through April 11, 2026, based on reporting and satellite imagery. The list is extensive:
  - Ras Tanura (Saudi Arabia): Saudi Aramco's largest crude processing plant (550,000 bbl/day capacity) hit by drone attack in the opening days; temporarily halted, since partially restarted.
  - Satorp (Saudi Arabia): 460,000 bbl/day refinery (62.5% Aramco, 37.5% TotalEnergies) — units halted after incidents on April 7-8, during the supposed ceasefire window.
  - Manifa and Khurais (Saudi Arabia): Each saw 300,000 bbl/day production reductions per Saudi Press Agency April 9 statement.
  - East-West Pipeline (Saudi Arabia): Drone attack on pumping station cut Red Sea bypass flows by 700,000 bbl/day, the very bypass route intended to circumvent Hormuz.
  - Ras Laffan, Qatar: LNG trains S4 and S6 destroyed — 17% of Qatar's total LNG capacity, equivalent to 12.8 million tons per annum (Mtpa). QatarEnergy declared force majeure and shut down all gas liquefaction. Official recovery estimate: up to 5 years.
  - Ruwais (UAE): One of the world's largest refineries hit by drone debris; fires; operations suspended.
  - BAPCO Sitra Refinery (Bahrain): Struck twice; two crude distillation units damaged; force majeure declared. A particular irony: the facility had just completed a $7 billion modernization program in December 2025.
  - South Pars (Iran): Israel struck Iran's giant gas field on March 18; fires took units out of production. South Pars is the world's largest natural gas field.
  - Multiple Gulf ports: Salalah (Oman), Khalifa Bin Salman (Bahrain), and Shahid Haghani (Bandar Abbas, Iran) all suspended operations at various points during the conflict.

The Recovery That Will Take Years

- Rystad Energy, the leading global energy research firm, provided the most authoritative assessment of repair costs and timelines in a March 25[1] press release. Its estimate of infrastructure repair costs across the Gulf exceeds $25 billion — and this figure was compiled before the April 7-8 strikes on additional Saudi facilities. The structural constraints on recovery, however, are more significant than the financial costs.
- In the case of Ras Laffan, a full LNG recovery will require replacement of large-frame gas turbines that power LNG main refrigeration compressors. These turbines are supplied by only three original equipment manufacturers globally. All three entered 2026 with production backlogs of two to four years, driven by pre-existing demand from data center electrification and coal plant retirements. Even if Qatar has an unlimited reconstruction budget today, it cannot obtain the equipment it needs before 2028 at the earliest.

Estimated infrastructure repair cost	**$25 billion+**	*Rystad Energy, March 25, 2026*
Ras Laffan full LNG recovery timeline	**Up to 5 years**	*Rystad Energy; Bloomberg; SPE Journal*
OEM turbine backlog (pre-war)	**2–4 years**	*Rystad Energy analysis*
Ras Tanura capacity affected	**550,000 bbl/day**	*Bloomberg infrastructure damage compilation*
Saudi production reductions (Manifa+Khurais)	**600,000 bbl/day combined**	*Saudi Press Agency, April 9, 2026*
East-West pipeline flow reduction	**700,000 bbl/day**	*Bloomberg, April 9, 2026*
Iran: access to Western contractors	**None (sanctions)**	*Rystad Energy; SPE Journal*
Iran South Pars recovery	**Slower/more expensive**	*Rystad: reliant on Chinese/domestic EPC*

- The critical insight is this: even when the Strait of Hormuz reopens, under whatever negotiated or military terms, the energy system that used to flow through it will not immediately resume. Qatar's LNG trains S4 and S6 will remain offline for years. Saudi Arabia's production reductions will take months to fully restore. Iran's South Pars will produce at reduced rates for an extended period. The supply shock will therefore not end when the war ends. It will attenuate gradually, over years, with elevated prices and constrained supply persisting well into the next decade.

[1] https://www.rystadenergy.com/news/middle-east-conflict-rebuild-energy-cost

Dimming of the Liberal World Order

Refer to 2025 Q1 Commentary
Discussion of the Great Unanchoring

2025 National Security Strategy - Monroe Doctrine vs "Donroe Doctrine"

The "Donroe Doctrine" is a portmanteau of Donald Trump and the Monroe Doctrine, coined to describe a 2025-2026 foreign policy approach focused on asserting U.S. primacy in the Western Hemisphere.

	Monroe Doctrine — 1823	Donroe Doctrine — 2025
Origin & author	President James Monroe, in his 7th annual address to Congress, December 2, 1823. Primarily drafted by Secretary of State John Quincy Adams. A few paragraphs within a broader speech.	President Donald Trump, in the 2025 National Security Strategy released December 4, 2025. Lead drafter: Michael Anton, Director of Policy Planning. A 29-page dedicated strategy document.
Historical context	Spanish colonies across Latin America achieving independence 1810–1823. Fear that European monarchies (France, Holy Alliance) might attempt to re-colonize or restore Spanish control. US itself newly independent and militarily weak.	China now the leading trade partner of every South American nation. Russian and Iranian influence in hemisphere. Mass migration north. Drug cartel power threatening US domestic politics. US is world's largest military power.
Primary threat defined	Defensive European monarchies re-colonizing or reasserting control over newly independent republics in the Western Hemisphere.	Offensive Any non-hemispheric power (primarily China, but also Russia and Iran) owning, controlling, or positioning assets, forces, or influence anywhere in the hemisphere.
Scope of prohibited activity	Narrow and specific: new colonization of territory; military intervention in the political affairs of independent states in the hemisphere by European powers.	Broad and expansive: includes economic ownership of assets, trade relationships, infrastructure investment, diplomatic influence, and military presence — not just territorial or military action.
US reciprocal obligations	Mutual restraint Explicitly stated: the US pledged non-interference in European wars and internal affairs. A bilateral principle: stay out of our hemisphere, we stay out of yours.	No reciprocity Pledge to restrain US action abroad. The US simultaneously conducts wars in Iran, operations in Venezuela, and threatens sovereignty of allied nations (Greenland, Panama). One-directional assertion.
Toward hemispheric nations	Non-interference Explicitly protective of Latin American sovereignty. Monroe stated the US would not interfere in the "internal affairs" of hemispheric nations. Designed to shield newly independent republics.	Interventionist Explicitly authorizes US intervention in hemispheric nations' internal affairs: military strikes on cartels, regime change (Venezuela), territorial claims (Greenland, Panama Canal), ideological alignment requirements.
Legal basis	A unilateral political declaration — not a treaty, not binding international law. Acknowledged at the time as aspirational given US military weakness. Later invoked as customary policy.	Also unilateral. Legal scholars note it conflicts with UN Charter Art. 51 (self-defense only), Chapter VII (no Security Council authorization), and the principle of non-intervention in sovereign states' affairs.
Enforcement mechanism	At the time: none. The US lacked naval or military capacity to enforce it. In practice it was enforced by the British Royal Navy (which had its own commercial interests in keeping the hemisphere open). Became enforceable only as US power grew in late 19th century.	Direct US military force. Naval deployments in Caribbean, airstrikes on Venezuela, military strikes on drug vessels in international waters, threat of force against Greenland, seizure of Maduro. Backed by world's largest military.
Attitude toward sovereignty	Affirmed sovereignty of independent hemispheric republics as the central value to be protected. Framed as defense of the right of nations to self-determination against monarchical re-imposition.	Subordinates hemispheric sovereignty to US strategic interests. Nations may not accept Chinese investment in ports or infrastructure, must cooperate on migration and narcotics on US terms, must align with US strategic preferences.
Migration policy dimension	No migration dimension. Not a consideration in 1823. Hemispheric nations were sparsely populated; movement of people was not a security concern.	Central to the doctrine. "Ensuring the hemisphere remains stable enough to prevent mass migration to the United States" is listed as the first objective. Migration prevention is a primary driver, not an ancillary concern.
Economic dimension	No economic dimension beyond the implicit benefit of open trade with independent nations rather than European colonial monopolies. Economics not a driver of the doctrine.	Explicitly economic: blocking Chinese ownership of "strategically vital assets," securing critical supply chains, controlling access to minerals and energy resources, and preventing Chinese trade dominance in the hemisphere.
Reception in Latin America	Mixed at the time. Some welcomed US support; others noted the US was too weak to actually enforce it. Bolivar famously skeptical. Over time, as US power grew, increasingly resented as cover for US interventionism.	Broadly negative. Coercive framing, history of prior US interventions, and absence of any diplomatic or economic reciprocity have generated resentment. Many nations deepening China ties in response to US pressure.
Historical precedent cited	Original formulation — no prior US doctrine to cite. A genuinely new principle in 1823, though informed by European balance-of-power concepts and the lessons of the Napoleonic Wars.	Cites Monroe Doctrine (1823) but structurally closest to Roosevelt Corollary (1904), which also asserted US right to intervene when hemispheric nations failed to meet US standards of governance and order.

https://www.whitehouse.gov/wp-content/uploads/2025/12/2025-National-Security-Strategy.pdf

The U.S. Security "Supply Chain" Shock

- For 80 years, the U.S. operated the world's dominant security supply chain — delivering deterrence, extended nuclear umbrellas, freedom of navigation, and crisis response to allies from Tokyo to Riyadh to Berlin. Client states paid through strategic alignment: basing rights, petrodollar recycling, arms purchases, trade concessions, diplomatic deference, and supporting the USD system. The "product" was reliable enough that allies built their national security postures around it as a just-in-time input, underinvesting in their own defense industrial base the way a manufacturer underinvests in redundant suppliers when the primary is dependable. This supply chain has now suffered a cascading, multi-front shock.
    - **The supplier is raising prices, behaving erratically, and failing on delivery**. NATO members agreed in 2025 to nonbinding commitments to hit 5% of GDP on defense by 2035, a target unthinkable two years ago.
    - **Territorial threats against allies** Trump threatened to use military force to seize the self-governing Danish territory of Greenland, claiming that its ownership was essential for national security. Trump's attacks on Canadian sovereignty effectively reshaped Canadian domestic politics, evidenced by Mark Carney's election as Prime Minister on an anti-Trump platform.
    - **Unilateral war without allied consultation** Trump did not seek congressional approval before strikes on Iran, as he had also acted unilaterally when launching the June 2025 strikes on Iranian nuclear facilities and for the January ouster of Venezuela's leader Nicolás Maduro. The February 2026 attack on Iran, launched during active negotiations, killed Supreme Leader Khamenei and triggered Iranian retaliation against the Gulf states plus the closure of the Strait of Hormuz.
    - **NATO withdrawal talk tied directly to the Iran war**. U.S. and Israel's war on Iran is framed as a "test" that the alliance had failed, shortly before Trump met with NATO Secretary-General Mark Rutte at the White House. Trump told The Telegraph he "always knew they were a paper tiger" and was strongly considering pulling out of NATO, while Secretary of State Marco Rubio said that, if the alliance was "just about defending Europe" but not the other way around, that arrangement would "have to be reexamined."

A Real-Time Case Study

- Between February 28 and March 18, 2026, Qatar was hit by 203 missiles and 87 drones, Saudi Arabia by at least 38 missiles and 435 drones, Jordan by 204 missiles and drones combined.
- By late March, the UAE reported Iran had launched 378 ballistic missiles, 15 cruise missiles, and some 1,835 drones at it, with a March 28 strike on the Emirates Global Aluminum plant causing damage expected to take up to a year to repair.
- Iranian strikes have taken out 17% of Qatar's LNG capacity, which is estimated to take three to five years to recover, prompting Qatar to declare force majeure on supply contracts with Belgium, China, Italy, and South Korea.
- By late March, analysts estimated the UAE and Kuwait had burned through roughly 75% of their Patriot missile interceptor stocks, and Bahrain up to 87%.
- The headline fact is this: decades of petrodollar recycling, arms purchases, and strategic deference bought the GCC a security umbrella that, when tested, could not prevent hundreds of successful strikes on their territory. These are strikes triggered by a war the U.S. started without consulting them.
- Spain closed its airspace to U.S. military planes involved in the conflict and barred U.S. use of jointly operated bases; France refused Israel-bound overflight; Poland refused to relocate Patriot systems to the Middle East. British PM Keir Starmer said the UK would not join Trump's blockade of Iranian ports.
- Trump requested support from NATO allies, China, Japan, and South Korea and they all declined to secure the Strait
- SIPRI data released in March 2026 showed European states more than tripled their imports of major weapons systems between 2021 and 2025; Europe went from 12% to 33% of global arms imports.
- Rearmament at speed reinforces existing supply relationships: the U.S. supplied 48% of weapons delivered to Europe in 2021–25, with U.S. exports to the continent rising 217%. Twelve European nations had 466 F-35s on order or preselected by end of 2025, including 39 new decisions in 2025 alone. For now, Europe is paying more to the "unreliable supplier" while trying to build domestic alternatives.

Cascading Effects from Supply Shocks

The US-Iran conflict illustrates how a single geopolitical rupture becomes a transmission mechanism for consequences that no architect of the original decision fully modeled, like the butterfly effect where a small disturbance in one part of a complex system produces disproportionate outcomes far removed in time and geography. The decision to strike Iran on February 28 set in motion forces whose full trajectory remains unmapped. The initial military action rippled outward immediately through energy markets, shipping insurance premiums, and fertilizer supply chains, each ring of impact touching industries, governments, and households that had no direct stake in the conflict itself. These ripple effects carried with them a second layer of unintended consequences: the fertilizer shock threatening 2027 crop yields in countries that had no position on Iranian enrichment, the collapse of Gulf LNG exports undermining nitrogen fertilizer production in India and Pakistan, helium sourced from Qatar essential for semiconductor manufacturing, and the rerouting of global shipping adding weeks and hundreds of millions of dollars in costs to supply chains already stressed from prior disruptions. Beneath all of this operates what might be called the unconscious transmission mechanism. There is a largely invisible infrastructure of dollar-denominated trade, correspondent banking, commodity pricing conventions, and shipping insurance frameworks through which the conflict's economic consequences are transmitted and without deliberate direction. These factors reach economies whose governments loudly oppose the war but whose financial systems are structurally wired to transmit its costs. The human costs compound alongside the economic ones with thousands of Iranian and Lebanese civilians killed, over 20,000 seafarers stranded on hundreds of ships in the Gulf, millions of farming families across Asia and Africa facing planting seasons without affordable fertilizer, and ordinary households in every importing nation absorbing fuel and food price increases that fall heaviest on those least able to bear them. The downstream effects are where the full weight of these compounding forces ultimately settles, such as 2027 food prices, permanently elevated defense baselines that crowd out social spending, accelerated de-dollarization efforts that erode the very hegemonic infrastructure the conflict was partly designed to protect, and a global trust deficit toward American-led security guarantees that will shape alliance calculations for a generation beyond the last shot fired. The ever-expanding cost of this conflict, measured not only in dollars and barrels but in stunted harvests, displaced families, and foreclosed diplomatic possibilities, accumulates daily and silently in ledgers that we will all experience for years to come.

The Long and Costly Road Forward

- Security supply chains have extreme switching costs and multi-decade lead times. A country can't replace a sovereign nuclear deterrent, establish a blue-water navy, or an integrated air defense in a budget cycle. And the current shock is worse than clean decoupling, it's entanglement with an unreliable supplier. Non-U.S. NATO powers probably don't have the capability to pull off a Strait of Hormuz mission after years of defense cuts, and serious European rearmament could break governments because of the unpopular cuts in health and social programs it would entail.
- Meanwhile, the U.S. still wants the benefits of hegemony: dollar dominance, arms sales (Europe is buying more American weapons than ever), sanctions power, extraterritorial reach, USD based financial system without the fixed costs, forward deployment, alliance maintenance, treaty compliance, and extended deterrence credibility. The Trump White House has made clear that it sees the application of U.S. unilateral power, rather than alliances, as the best way to protect U.S. interests forward, and the President seems to regard NATO, not as a defensive alliance, but as a tool to advance U.S. foreign policy interests.
- Supply chains don't work that way for long. Client states either find new suppliers, vertically integrate (indigenous nuclear programs, sovereign capability), or the market fragments into regional blocs. All three are happening simultaneously: European rearmament, a Franco-German nuclear initiative, GCC diplomatic hedging toward China and direct engagement with Iran, an EU–Indo-Pacific "coalition of independents," and quiet nuclear-latency debates from Warsaw to Seoul to Tokyo.
- The deepest damage isn't any single policy. It's that credibility and trust, once broken, are the hardest inputs in the security supply chain to remanufacture. Deterrence is a confidence good. It works only as long as adversaries and allies alike believe the supplier will deliver. Once that belief cracks, even restored deliveries get priced with a permanent risk premium. The post-1945 U.S.-led order was built on the premise that the hegemon absorbed short-term costs to generate long-term trust. The current administration is consuming that trust as a one-time dividend. When it's gone, no amount of future arms sales or tariff threats rebuilds it, because the next state, watching this episode, will always hedge.
- In the long run, the U.S. is a victim of its own making, like an architect who actively chips away the cornerstone of his mansion.

The Tariff Chaos

IEEPA at the Supreme Court

- On September 9, 2025, the Supreme Court granted review of the consolidated tariff challenges of Learning Resources, Inc. v. Trump and V.O.S. Selections, Inc. v. Trump, which were filed earlier in June 2025. The Court agreed to hear the case on an expedited schedule given its broad constitutional and economic implications. The Court heard oral arguments on November 5, 2025.The arguments focused on whether the International Emergency Economic Powers Act (IEEPA) actually authorizes the President to impose sweeping tariffs or whether that authority must come from a clear congressional grant.
- What are the issues:
  - Is the authority to "regulate" imports under IEEPA broad enough to include imposing tariffs, essentially a tax, without explicit statutory language?
  - Even if IEEPA could be read to allow tariffs, does it unconstitutionally delegate legislative authority to the executive branch without an "intelligible principle"?
  - The Court has increasingly required clear congressional authorization for decisions of vast economic and political significance.
  - What Constitutes an "Emergency"? Does President Trump's justification (e.g., trade deficits, economic competition) sufficiently connect to a genuine national emergency that IEEPA was meant to address?
- Even without IEEPA, the Administration could re-announce tariff measures under one or more of the following statutory authorities, albeit with procedural reviews and perhaps slower implementation. Overall, tariff levels might remain similar in aggregate over time, albeit restructured under different legal authorities.
  - Section 301 (Trade Act of 1974) allows the U.S. to impose tariffs in response to unfair trade practices by another country. This was the basis for many of the China tariffs in the 2018–2020 period.
  - Section 232 (Trade Expansion Act of 1962) permits tariffs or quotas for national security reasons (e.g., steel and aluminum tariffs historically).
  - Section 122 (Trade Act of 1974) is related to balance of payments issues, allowing temporary tariffs (e.g., up to 15% for 150 days).
  - Section 338 (Tariff Act of 1930) targets unfair practices and can impose up to 50% tariffs.

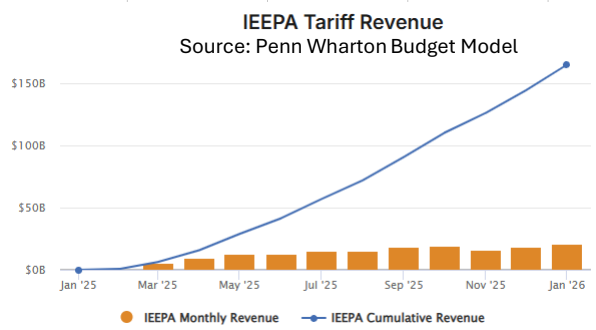
Just as the World Settles Down, IEEPA Tariffs are Dead

- Trump applied IEEPA on Feb. 1, 2025, to pursue two broad objectives: (1) rebalance trade and (2) achieve non-trade goals, including stemming fentanyl flows, containing illegal immigration, punishing countries purchasing Iranian and Russian oil, replacing income taxation, and coercing countries to invest in America, just to name a few. The Supreme Court's February 20 rebuke of President Trump's tariff strategy was sweeping and swift. In a 6-3 decision, the justices ruled that the president's tariffs exceeded the powers granted by the International Emergency Economic Powers Act ("IEEPA"), a 1977 law authorizing executive action to address national emergencies created by foreign threats.
- The Supreme Court's majority did not dispute that the President had legitimate policy aims nor that the tariffs were economically consequential. It held, simply, that IEEPA's grant of authority to "regulate importation" did not include imposing tariffs. The majority began with Article I, Section 8 of the Constitution, which vests in Congress alone the power to "lay and collect Taxes, Duties, Imposts and Excises." The Court embraced the definition of a tariff as "a tax levied on imported goods and services" and underscored that the Constitution "does not vest any part of the taxing power in the Executive Branch." When Congress delegates tariff authority, it typically uses explicit, revenue-related language and pairs that delegation with caps on rates, temporal limits, and procedural preconditions. None of those features appear in IEEPA. The very features that made IEEPA so useful for the President were the lack of caps, time limits, and procedural requirements The statute's silence on rates, duration, and procedure was not a loophole. It was proof of scope.
- The statutory authority changed; the underlying approach did not. The Supreme Court's decision removed IEEPA as an open-ended authority for adjusting tariffs, but it did not alter the administration's reliance on tariffs as a central policy instrument. What changed was everything that made IEEPA special: the speed, the uncapped rates, the breadth of declared emergency as justification, the insulation from Congress, and the fusion of trade and foreign policy into a single, presidentially controlled lever.
- The ruling invalidated the so-called "Liberation Day" tariffs and erased roughly three-quarters of the new tax revenue the administration had projected from its tariff program, estimated at $1.4 trillion over a decade by the Tax Foundation.

Before and Post IEEPA Tariffs up through Supreme Court Decision

Trade Remedy[1] Enforcement	Imported Products	FY 2026	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Section 201	Solar Products[2]	$55.63 million	$438.03 million	$280.12 million	$237.79 million	$311.25 million	$896.46 million	$868.11 million
Section 232	Steel[3]	$1.78 billion	$5.00 billion	$1.22 billion	$1.56 billion	$2.61 billion	$1.45 billion	$1.29 billion
	Aluminum[4]	$1.47 billion	$3.10 billion	$388.22 million	$459.56 million	$721.89 million	$438.60 million	$467.31 million
	Automobiles[5]	$6.09 billion	$18.54 billion	-	-	-	-	-
	Automobile Parts[6]	$3.17 billion	$7.43 billion	-	-	-	-	-
	Copper[7]	$635.96 million	$585.62 million	-	-	-	-	-
	Wood Products[16]	$451.40 million	-	-	-	-	-	-
	Trucks and Buses[17]	$341.51 million	-	-	-	-	-	-
	Truck Parts[18]	$270.45 million	-	-	-	-	-	-
Section 301	China Products[8]	$5.38 billion	$35.58 billion	$38.19 billion	$38.37 billion	$49.47 billion	$44.08 billion	$34.58 billion
IEEPA	China and Hong Kong, all goods[9]	$7.74 billion	$30.13 billion	-				
	Mexico, all goods[10]	$921.71 million	$5.56 billion	-				
	Canada, all goods[11]	$472.00 million	$1.95 billion	-				
	Reciprocal all countries, all goods[12]	$27.38 billion	$54.36 billion	-				
	Brazil, all goods[13]	$610.83 million	$361.27 million	-				
	India, all goods[14]	$1.58 billion	$414.49 million	-				
	Japan, all goods[15]	$1.66 billion	$369.40 million	-				

Trade Remedy Duties Assessed = trade remedy duties due on imported goods.



https://budgetmodel.wharton.upenn.edu/p/2026-02-20-supreme-court-tariff-ruling/

[1] All programs updated as of: December 14, 2025.
[2] Section 201 duty requirements for solar cells and modules were effective February 7, 2018.
[3] Section 232 duty requirements for steel were effective March 23, 2018.
[4] Section 232 duty requirements for aluminum were effective March 23, 2018.
[5] Section 232 Automobile duty requirements were effective April 3, 2025. Totals, based on Chapter 99 HTS may include column 1 duties for Japan effective September 16, 2025.
[6] Section 232 Automobile Parts duty requirements were effective May 3, 2025. Totals, based on Chapter 99 HTS, may include column 1 duties for United Kingdom effective June 30,2025, Japan effective September 16, 2025.
[7] Section 232 Copper duty requirements were effective August 1, 2025.
[8] Section 301 China duty requirements were effective July 6, 2018.
[9] IEEPA China and Hong Kong duty requirements were effective February 4, 2025.
[10] IEEPA Mexico duty requirements were effective March 4, 2025.
[11] IEEPA Canada duty requirements were effective March 4, 2025.
[12] IEEPA Reciprocal duty requirements were effective April 5, 2025. This includes the base rate and country-specific rates.
[13] IEEPA Brazil duty requirements were effective August 6, 2025.
[14] IEEPA India duty requirements were effective August 27, 2025. This duty is based on an Executive Order to address the threats to the U.S. government from the Russian Federation.
[15] IEEPA Japan duty requirements were effective August 7, 2025.
[16] Section 232 Timber and Lumber (Wood Products) requirements were effective October 14, 2025.
[17] Section 232 Medium and Heavy-Duty Vehicles (Trucks and Buses) requirements were effective November 1, 2025.
[18] Section 232 Medium and Heavy-Duty Vehicle Parts (Truck Parts) requirements were effective November 1, 2025.

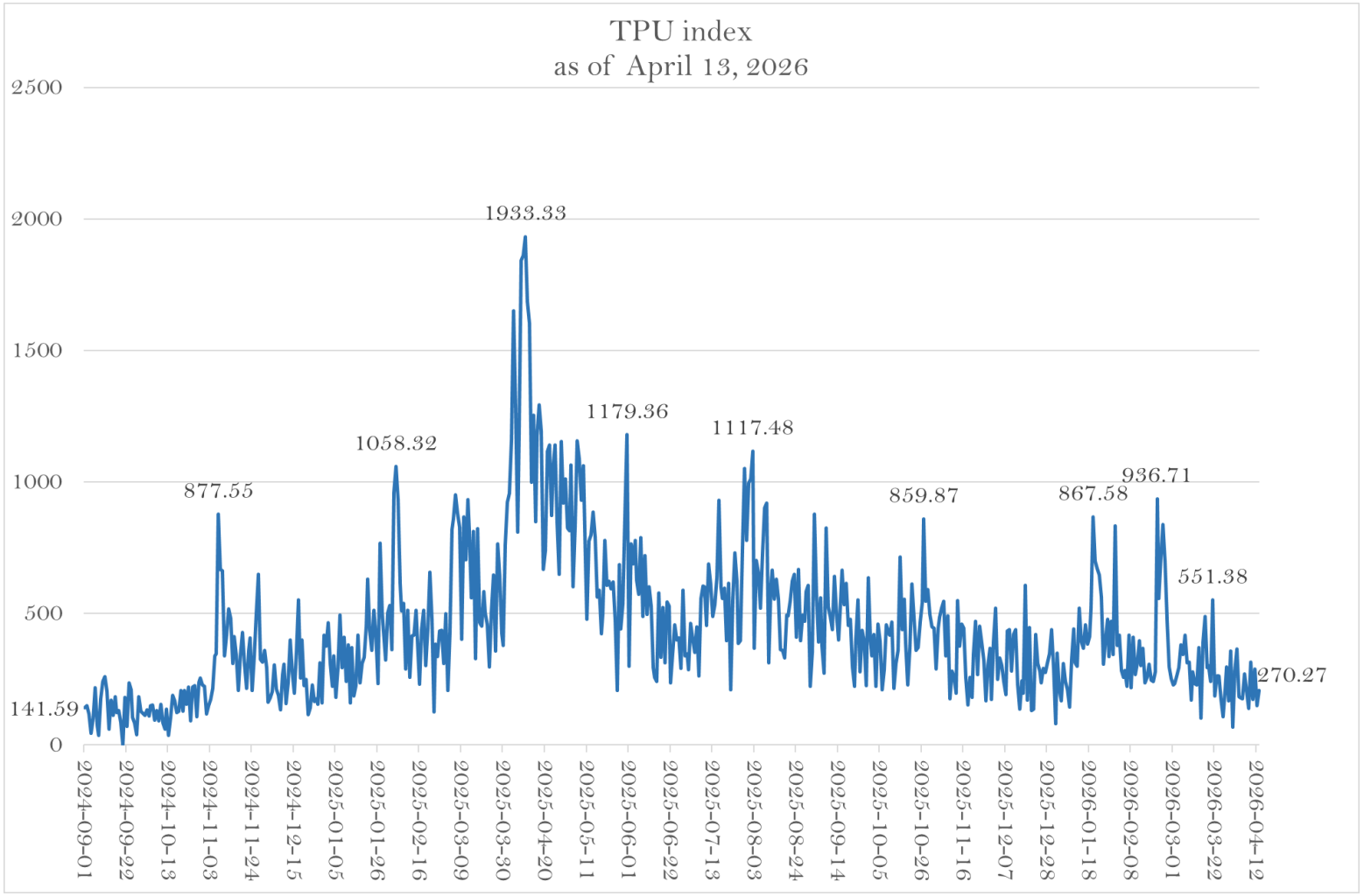
Source: US Custom & Board Protection, https://www.cbp.gov/newsroom/stats/trade

The $166 Billion Question: IEEPA Tariff Refunds and the Road Ahead

- As of March 4, 2026, more than 330,000 importers had made more than 53 million entries subject to IEEPA tariffs, and approximately $166 billion in IEEPA duties and estimated duty deposits had been collected. Wharton Budget Model estimates total IEEPA collections at approximately $175 billion to $179 billion.
- The government has confirmed that interest will be owed on top of the principal, and the Cato Institute has estimated that each month of delay costs approximately $700 million in accruing interest.
- The questions of who gets paid, how, and when were left entirely to the Court of International Trade (CIT) and the administrative processes of Customs and Borders Protection (CBP). On March 4, CIT Judge Richard Eaton directed CBP to refund IEEPA tariffs, declaring that "all importers of record whose entries were subject to IEEPA duties are entitled to the benefit of the Learning Resources decision." The order covers unliquidated entries and recently liquidated entries not yet final but does not address entries whose liquidation has already become final, leaving the most time-sensitive cases in legal limbo. CBP filed a declaration stating it cannot comply immediately. CBP aims to have a new automated refund mechanism within its Automated Commercial Environment ready by late April 2026, though even that timeline could shift depending on court supervision and further appeals.
- During oral arguments at the CIT, the government explicitly maintained: "It is not our position that every single importer will get a refund. Our position is that you have to file a claim in this court."
- President Trump said the refund issue "could be litigated for several years." CBP has also been automatically rejecting post-summary corrections and protests filed by importers seeking refunds through normal administrative channels, waiting instead for direction from the Administration.
- Many importers passed the tariff costs through to their customers — retailers, manufacturers, and ultimately consumers. This means that a direct refund to the importer of record would constitute a windfall rather than a remedy. Downstream businesses that absorbed tariff surcharges without formal legal standing face the prospect of watching direct importers collect refunds for costs those importers never actually bore.
- Companies should expect the administrative process to take months, perhaps years, to implement. As of mid-March 2026, the refund saga is in its earliest stages: a court order to pay, a government unwilling or unable to pay promptly, an appeal expected imminently, and over $165 billion sitting in the Treasury that importers and their lawyers are determined to recover.

https://budgetmodel.wharton.upenn.edu/p/2026-02-20-supreme-court-tariff-ruling/
https://www.cato.org/blog/tariff-sour-grapes-will-cost-taxpayers-20-million-day

Trade Policy Uncertainty Index – Continues to Improve



Dario Caldara, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo construct a monthly index of Trade Policy Uncertainty (TPU Index) by counting the frequency of joint occurrences of trade policy and uncertainty terms across major newspapers.

Source: https://www.matteoiacoviello.com/tpu.htm & Philip Chao

Illustration of Various Tariff Enforcements

Top 10 US import sources — effective tariff rates by scenario	Pre-SCOTUS	Post-SCOTUS	S122 @ 15%	Change vs.
Country	(IEEPA active)	(no S122)	(current)	pre-SCOTUS
China	~30–35%	~20–22%	~22–25%	▼ ~10 pp
S301: 7.5–100% | S232: steel/auto | IEEPA: ~20% (reduced Nov '25)				
Mexico	~5–8%	~2–3%	~5–6%	≈ Flat
USMCA: 88%+ duty-free | IEEPA fentanyl: 25% non-USMCA goods				
Canada	~5–8%	~2–3%	~5–6%	≈ Flat
USMCA: 88%+ duty-free | S232: steel/aluminum apply				
European Union	~15–17%	~3–4%	~15–16%	≈ Flat (deal preserved by S122)
IEEPA deal: 15% floor | S232: steel/auto | S122 flat				
Japan	~15–16%	~4–5%	~15–16%	≈ Flat (deal preserved)
IEEPA deal: 15% floor | S232 auto deal: 15% on autos				
South Korea	~22–25%	~5–6%	~15%	▼ ~8–10 pp
KORUS FTA on many goods | IEEPA: 25% (raised Jan '26)				
Vietnam	~20–22%	~5–6%	~15%	▼ ~6–7 pp
IEEPA: 20% (down from 46%) | No FTA with US				
India	~18–20%	~5–6%	~15%	▼ ~4–5 pp
IEEPA deal: 18% | No US FTA | S122 flat				
Taiwan	~15%	~3–4%	~15%	≈ Flat
IEEPA deal: 15% | S301 new probe | No FTA				
United Kingdom	~10–11%	~3–4%	~13–15%	▲ slight
IEEPA deal: 10% base | S232 steel removed | Auto TRQ				

Product-specific tariffs — Section 232 rates (unaffected by SCOTUS, in force indefinitely)			
Product category	**S232 rate**	**Applies to:**	Effective tariff rate (all duties)
Steel & Steel Derivatives	25%	Global (country exclusions apply)	39.6% avg (Penn-Wharton)
Aluminum & Derivatives	25%	Global	39.6% avg (combined)
Automobiles & Parts	25%	Global (UK: 10% TRQ on 100k units; EU/Japan/Korea: 15%)	14.5% avg (Penn-Wharton)
Copper	25%	Global	25%+ MFN baseline
Lumber & Timber products	25%	Global (softwood)	25%+ MFN baseline
Semiconductors (advanced)	25%	Targeted (Nvidia H200, AMD MI325X; data center exempted)	25% on covered items
Chinese goods (S301 — various)	7.5–100%	China only (~$370B+ in goods)	33.4% blended avg China ETR

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What's Ahead…

- The IEEPA ruling reduced the weighted average applied tariff rate on all imports from 13.8% to 6.7% under remaining Section 232 tariffs alone. With the Section 122 surcharge in effect, this rises to approximately 10.3%. If Section 122 expires on schedule, the estimated average effective tariff rate falls to 5.6% — the highest since 1972, but well below IEEPA-era peaks. Tax Foundation Treasury Secretary Bessent's assertion that combining Sections 122, 232, and 301 "will result in virtually unchanged tariff revenue in 2026" is optimistic, and those seeking to challenge new tariff investigations may view it as evidence that the outcome of any investigation has been predetermined. Getting from 10% back to 17% — the IEEPA peak — through procedurally legitimate 232 and 301 investigations, in time, at the right rates, with defensible evidentiary records, is a multi-year project, not a five-month one. The architecture can be rebuilt, but it will be slower, narrower, more legally exposed to APA challenges, and incapable of replicating the overnight escalation dynamics that made IEEPA such a powerful diplomatic weapon.

Aggregate effective tariff rates — four scenarios			
Scenario	**Trade-weighted Average**	**pre-SCOTUS**	**Status**
Pre-SCOTUS (Feb 19, 2026)	15.30%	—	Struck down
Full IEEPA + S232 + S301 + MFN			
Post-SCOTUS, IEEPA only removed	8.1–8.3%	▼ 7.1 pp	Interim
S232 + S301 + MFN only, no replacement			
Section 122 at 10% (Feb 24)	11.40%	▼ 3.9 pp	Transitional
S122 surcharge + S232 + S301 + MFN			
Section 122 raised to 15% (Feb 24–Jul 24)	13.00%	▼ 2.3 pp	In force
Current regime, expires July 24, 2026			

Sources: Global Trade Alert (SCOTUS IEEPA Impact Report; Section 122 Tariff Estimates; Feb 2026); Penn-Wharton Budget Model (Feb 23, 2026); Yale Budget Lab (Feb 20–21, 2026); USTR statement; Tax Foundation (Tariff Tracker 2026). Country-level rates are trade-weighted estimates based on 2024 US import data. Penn-Wharton China ETR of 33.4% reflects December 2025 data prior to final IEEPA step-down. Post-SCOTUS figures per Global Trade Alert 8.1–8.3% trade-weighted average. https://globaltradealert.org/reports/S122-US-Tariff-Estimates
https://budgetmodel.wharton.upenn.edu/p/2026-02-23-effective-tariff-rates-and-revenues-updated-february-23-2026/
https://budgetlab.yale.edu/research/state-tariffs-february-21-2026

Uncertainty Remains - Other tools in the tool kit!

- The post-SCOTUS world is genuinely less uncertain than the post-Liberation Day world in one specific dimension: the threat of overnight, unlimited, all-products-from-all-countries tariff escalation at the sole discretion of the President is gone. The threat of whipsawing and nearly instantaneous tariffs is likely to subside. The replacement authorities require investigations, findings, public comment, and time — all of which impose a structural lag between threat and implementation that IEEPA did not, but in most other dimensions, the pace of change has been unusually rapid, with policy direction driven largely by executive action, emerging national security priorities, tariff expansion, shifting enforcement patterns, and supply chain pressures that require companies to rethink how they structure cross-border trade.

- The status of tariff rates in approximately 20 bilateral trade deals remains uncertain; particularly where countries negotiated a tariff that exceeds the 15% maximum Section 122 allows, such as Indonesia's 19% rate. Trading partners that made concessions in exchange for specific tariff treatment now occupy legal limbo.

- The least-discussed and potentially most disruptive tariff tool remaining is **Section 338**[1], a provision embedded in the original Smoot-Hawley Act that has been dormant since 1949. Section 338 authorizes the president to impose tariffs of up to 50% on imports from any country that "discriminates" against U.S. commerce as compared to other nations. The statute is short and vague. It assigns a role to the U.S. International Trade Commission. The statute separately authorizes the president to impose tariffs "whenever he shall find as a fact" that discrimination exists. This language suggests **near-unilateral authority**, which is similar to Trump's interpretation under IEEPA. If the circumstances are found to be met, it could be a potent trade weapon, with tariffs of up to 50% and an embargo authorized if the discrimination continues. There are serious questions as to whether the tests could be met when the administration is seeking blanket authority on all goods. Thus, applying this statute for across-the-board tariffs would be seen as a substitute authority similar to IEEPA. Section 338 has never been used to impose trade restrictions. While a finding of discrimination occurred in 1935 against Germany and Australia, no action followed. Its authority remains entirely untested in modern courts.

- Antidumping and Countervailing Duty Laws are rarely discussed but constantly active in the background, allowing U.S. domestic industries to petition Commerce and the ITC for protective duties whenever imports are sold below fair value (antidumping) or subsidized by foreign governments (countervailing). These duties are not discretionary presidential actions — they flow from legal investigations and findings — but they operate independently of the tariff statutes, can reach extremely high rates, and are nearly impossible to remove once imposed. The Administration's heightened focus on trade enforcement means these petitions are being filed and acted upon at an accelerating rate, particularly against Chinese goods routed through third countries.

- In a largely unnoticed announcement after the SCOTUS ruling, Trump mentioned on Truth Social that he may impose "license fees" on trading partners as an alternative to tariffs. This is significant. Fees on services and licenses are not tariffs and therefore may not be subject to the same constitutional constraints. USTR Greer similarly noted that "responsive action can take a number of forms — it can be tariffs, it can be fees on services, it can be other things." The legal architecture for this is untested, but if the Administration pursues it, it opens an entirely new front of executive economic actions that have no obvious statutory ceiling and have never been litigated.

[1] https://www.law.cornell.edu/uscode/text/19/1338

The Birth of Alternative Ways to Impose Tariffs…starting with Section 122

- A tariff is fundamentally a tax, and taxing power belongs to the legislature. The executive branch may only exercise it within the boundaries Congress has explicitly drawn. For example, the existing statutory delegations in Sections 232 and 301 remain intact and operative. What it means is that the president cannot effect unlimited tariff power under IEEPA, a statute that was never designed to grant such freedom and rights to the president. What followed the Supreme Court decision was an instant policy pivot in an effort to preserve and continue tariff revenue. The alternative statutes now being assembled are real and significant tools, but they are slower, capped, procedurally constrained.
- As an immediate bridging move, the Administration assembled a multi-statute tariff framework to replace the sweeping IEEPA regime but faces tighter legal constraints and under the looming shadow of midterm elections.
- The Administration's use of IEEPA in early 2025 showed how its speed advantage translated into foreign and trade policy leverage at will. The Administration used national emergencies related to border security, illegal drug trafficking, and persistent trade imbalances to justify IEEPA application to immediately impose tariffs ranging from 10% to as high as 50% on certain goods from major trading partners.
- Within hours of the ruling, the Administration deployed a contingency plan. President Trump issued a proclamation under **Section 122** of the Trade Act of 1974 imposing a 10% "temporary import surcharge" on products from all countries, effective February 24, for 150 days unless modified, terminated, or extended by Congress. The next morning, Trump posted on Truth Social that the rate would be raised to 15%, the maximum allowed under Section 122. This is the ceiling and thus further rate increases are not available under this statute. Section 122 is a stopgap measure and serves as a bridge designed to preserve negotiating leverage while the Administration initiates the more formal investigative processes required under Sections 301 and 232.

Section 232 of the Trade Expansion Act of 1962

- Section 232 is a federal statute that authorizes the President to restrict imports through tariffs, quotas, or negotiated agreements when the Secretary of Commerce determines that those imports threaten to impair U.S. national security.
- The statute's trigger is a formal Commerce Department investigation. Section 232 requires investigation and a formal determination by the Commerce Department that imports threaten to impair national security before duties may be imposed. That investigation must result in a written report to the President, who then has 90 days to decide whether to act and, if so, what remedy to impose. The investigation can take up to 270 days for Commerce to complete its report, after which the President has separate decision and implementation windows.
- Because the statute does not define "national security," it grants the executive branch broad discretion in its interpretation, and there is no cap on the tariff rate. This combination of broad discretion and uncapped rates makes Section 232 a powerful tool for sector-specific industrial policy. Trump used it in his first term to impose tariffs on steel and aluminum and, in his second term, expanded its reach to automobiles, auto parts, copper, semiconductors, and lumber. Section 232 has no statutory time limit, and measures may remain in force indefinitely unless the president acts to change them.
- Its critical limitation is that it is product-specific, not country-wide. A Section 232 tariff applies to a defined category of imports (e.g., steel products) because that category poses a national security threat based on the investigation's findings.
- Procedurally, Congress retains a check: it may pass a joint resolution of disapproval, though that resolution is subject to presidential veto and has rarely been successfully used. Courts have historically applied broad deference to presidential national security determinations made under the statute, making Section 232 tariffs among the most legally durable trade instruments available to the executive branch.

Section 301 of the Trade Act of 1974

- Section 301 is a federal statute that authorizes the U.S. Trade Representative to investigate and the president to impose trade remedies against foreign government conduct that is unfair, unreasonable, or discriminatory and that burdens or restricts U.S. commerce.
- Section 301 is explicitly a commercial fairness instrument. Section 301 authorizes the U.S. Trade Representative to respond to unfair foreign trade practices, including violations of trade agreements or acts that are "unreasonable or discriminatory" and burden U.S. commerce. Its scope is deliberately broad and covers intellectual property theft, forced technology transfer, discriminatory digital services, industrial subsidies, and market access barriers. This makes it among the most flexible trade enforcement tools.
- Section 301 requires post-action reporting to Congress for certain measures. In practice, USTR must open a formal investigation, publish notice in the Federal Register, accept written public comment, hold hearings, consult with the targeted government, and develop a factual record before recommending a remedy. This procedural architecture means that every modification to tariff lists requires its own notice-and-comment cycle.
- Section 301 offers a broad range of remedies and does not cap tariff levels, but it requires a formal investigative process and findings before action can be taken. Remedies can include tariffs, import restrictions, denial of trade agreement benefits, or fees and may be applied selectively by country and product category based on what the investigation finds.
- Section 301 actions are subject to a statutory four-year review, after which measures terminate unless continuation is requested. But once imposed, they are difficult to unwind (e.g. the Biden Administration's decision to retain all of Trump's first-term Section 301 China tariffs.)
- Section 301's central limitation is inherently country-and-practice-specific. It cannot impose universal tariffs across all trading partners simultaneously. Each target requires its own investigation, its own factual record, and its own findings of unfair conduct tied to commercial harm. Non-trade grievances — drug trafficking, immigration, territorial disputes, foreign energy purchases fall entirely outside its statutory scope.

It Remains “My Evidence…My Verdicts”

- The most important structural reality is this: neither Section 232 nor Section 301 grants a targeted foreign government any standing to appear before a U.S. court to contest the factual findings that justify tariffs against it. The investigation is conducted by U.S. agencies (Commerce under Section 232 and the USTR under Section 301) using U.S. evidentiary standards with U.S. public comment periods and produces findings that are reviewable only by U.S. courts under standards that are extraordinarily deferential to the Executive. A foreign government that believes the findings against it are fabricated, exaggerated, or applied in bad faith has no direct legal mechanism to put its evidence before an American judge and have that judge weigh it against the Administration's claims. Courts have upheld Section 232 against constitutional challenges and have applied broad deference to presidential national security determinations. The Supreme Court itself, in the IEEPA ruling, cited Section 232 approvingly as an example of proper congressional tariff delegation, partly because of its broad presidential discretion, which the Court called "sweeping, discretion-conferring language.”
- Under Section 232, the trigger is a Commerce Department finding that imports "threaten to impair national security." The term "national security" is deliberately left undefined in the statute. Some groups argue that the Trump administration's interpretation, particularly related to economic factors, is overly broad, resulting in overutilization of Section 232. The White House asserts that "economic security is national security“, a framing that can encompass virtually any import from any country.
- Section 301 appears more procedurally balanced because consultation with the targeted foreign government is mandatory from the outset of a Section 301 investigation. This sounds meaningful, but in practice, it is not. Consultation means the U.S. government is required to notify the foreign government and offer to discuss the matter. It does not mean the foreign government can present exculpatory evidence to an independent tribunal, compel discovery of the U.S. evidence base, or have its submissions weighed by a neutral factfinder. The USTR remains judge, jury, and investigator simultaneously, and the final determination that a country's practices are "unreasonable, unjustifiable, or discriminatory and burden U.S. commerce" is made entirely within the executive branch.

The Tariff Man Will Rise Again

- After the failure at the Supreme Court regarding the erroneous application of IEEPA and the probable failure to end the war and triumph over Iran, Trump will likely turn his attention again to tariff issues.
- The shift from IEEPA to Section 122 produced dramatic savings for countries that had faced the highest reciprocal rates. Vietnam alone saw a 36% reduction from 46% to 10%, making Vietnamese goods dramatically more competitive overnight. That same 36-point gap is precisely the gap the Administration will try to close through Section 301. The Southeast Asian countries, Vietnam, Cambodia, Laos, Thailand, Malaysia, and Bangladesh are the most exposed and also the ones against which the Administration has the most plausible Section 301 pathway. The entire wave of new Section 301 investigations launched on March 11–13 specifically targets excess industrial capacity in manufacturing, which is the primary economic complaint against exactly these countries. USTR Greer has said these investigations would conclude within five months, significantly quicker than the maximum 12 to 18 months allowed under the statute. That timeline puts initial tariff findings arriving around August 2026, precisely as the Section 122 clock expires on July 24. The administration is building the replacement before the bridge collapses.
- China is the one major country that never got meaningful relief from the SCOTUS ruling and against which the Administration's tariff arsenal is most fully loaded. Existing Section 301 tariffs on Chinese goods already range from 7.5% to 100% depending on the product. The struck-down IEEPA components, the 10% reciprocal rate and the 10% fentanyl tariff, were reduced from their peak through successive truces. What China faces under the remaining Section 301 architecture is already more punishing than most countries faced at their IEEPA peak. New Section 301 investigations into Phase One deal compliance, shipbuilding dominance, semiconductor practices, and industrial overcapacity provide multiple additional vectors for escalation.

The Tariff Man Will Rise Again

- Several countries that faced high IEEPA rates - Lesotho, Madagascar, Angola, Libya, Guyana, and Iraq - face a genuine gap between their prior IEEPA burden and what 301 and 232 can realistically rebuild. These are mostly commodity exporters, African Growth and Opportunity Act beneficiaries, or countries with minimal manufactured goods trade whose bilateral deficits were driven by resource flows, not industrial competition. The tariff rates the administration claimed were "reciprocal" corresponded to each nation's trade surplus with the U.S. expressed as a percentage of total exports to the U.S., which means the formula basically invented an emergency from a trade accounting ratio, not from any actual unfair practice. Trump cannot reconstruct a 50% tariff on Lesotho's garments under Section 301 without demonstrating that Lesotho's government engages in practices that burden U.S. commerce, a much higher and more specific bar than "the bilateral deficit ratio is high."
- A final layer of exposure involves the approximately 20 bilateral framework deals negotiated under IEEPA authority in 2025. Countries like Indonesia (19%), India (18%), and the Philippines (19%) agreed to tariff rates that actually exceed the 15% Section 122 ceiling. Those country-specific rates are legally inoperative. Section 122 cannot enforce them, and Section 301 has not yet produced findings to justify them. Until those findings arrive, these countries temporarily pay less than their negotiated deal rate, which creates its own political absurdity: countries that made concessions are being rewarded with lower tariffs than they bargained for while countries that resisted negotiation pay the same flat 15%. That dynamic will accelerate the push to complete Section 301 findings quickly.
- The Administration has the political motivation, the stated timeline, and the statutory pathways to rebuild most of the major-economy tariff rates — Japan, South Korea, EU, India, Vietnam, Taiwan — to approximately their pre-SCOTUS levels by late summer 2026 through Section 301 findings backed by Section 232 product-specific tariffs. The hardest gaps to close are the very highest rates against small, commodity-based economies where the evidentiary basis for Section 301 is thin. Those countries may paradoxically be the longest-term beneficiaries of the Supreme Court's ruling and not because Trump lacks the will to target them, but because the law now requires a reason.

The K-Shaped Economy

Refer to 2025 Q4 Commentary

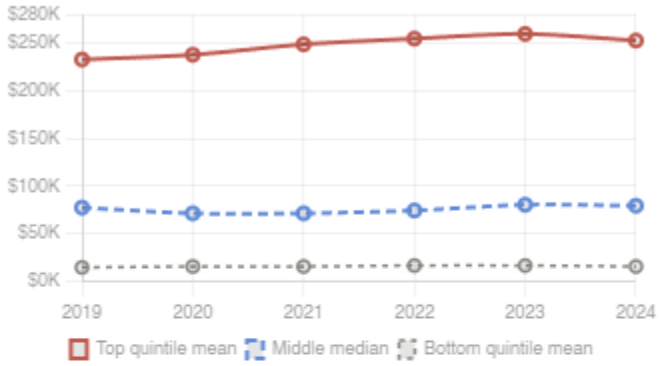
K-Shaped Economy Continues – Income, Wealth, & Spending

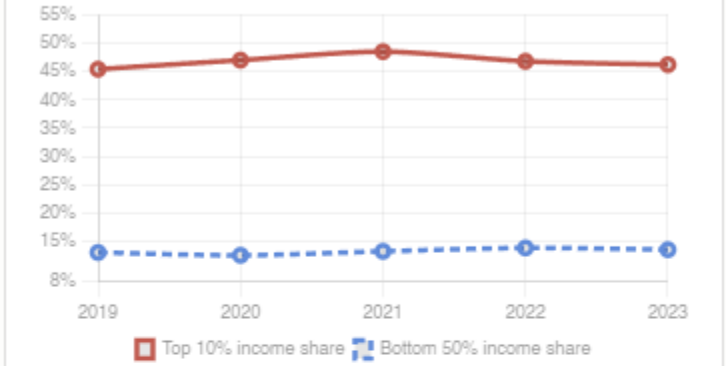
Top 1% wealth (Q3 2025)
$55T
≈ bottom 90% combined

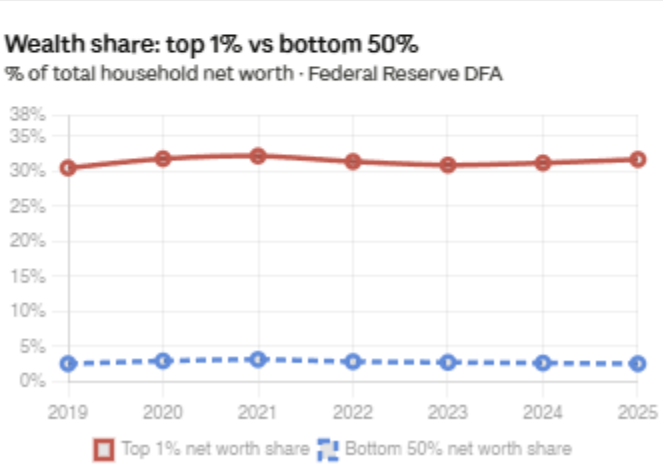
Bottom 50% wealth share
2.5%
of all US household wealth

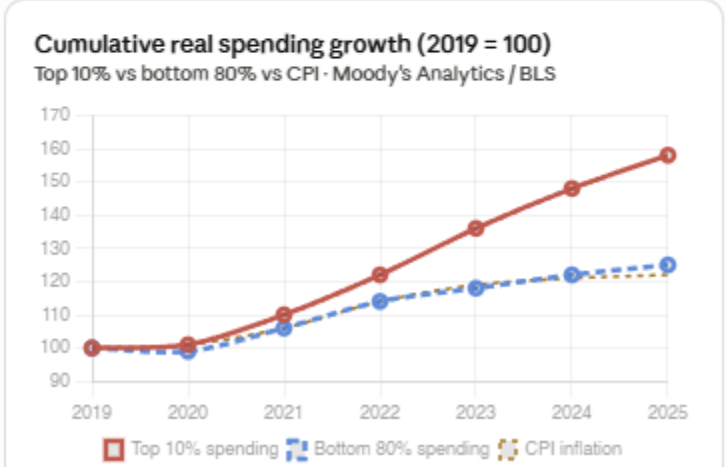
Real median HH income
$80,610
2023 — first rise since 2019

Cumulative inflation 2020–25
~25%
bottom 80% spending barely kept pace









CPI Components - Housing, Food, & Energy Cumulative Prices

All items cumulative 2019→2025
+25%
bottom 80% wages barely kept pace

Shelter cumulative 2019→2025
+28%
worst for renters & first-time buyers

Gini 2019 vs 2024
0.484 → 0.490
near 60-year high per US Bank

Energy cumulative peak (2022)
+52%
regressed then spiked again 2026

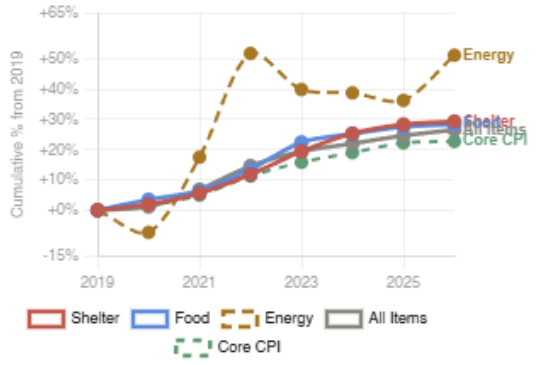
Restaurant vs grocery gap
+10pp
food away (+33%) vs at home (+23%)

Natural gas 2019→2025
+57%
permanent cost-of-living rise

Gasoline Mar 2026 (Iran war)
+21%
single-month spike Mar 2026

Cumulative price increase since 2019 (%)

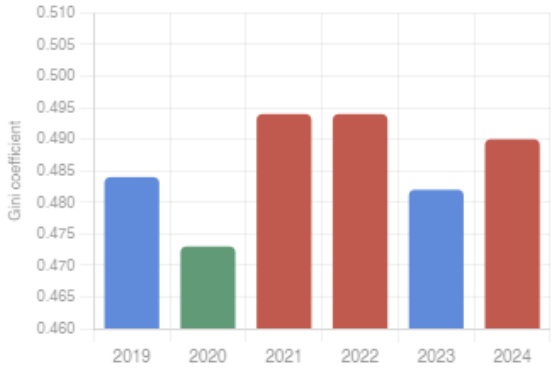
2019 = 0% baseline · BLS CPI-U annual averages · Mar 2026 partial shown



Shelter	Food	Energy	All Items	Core CPI
+28.3%	+27.5%	+36.2%	+24.6%	+22.2%

US Gini coefficient — household income inequality

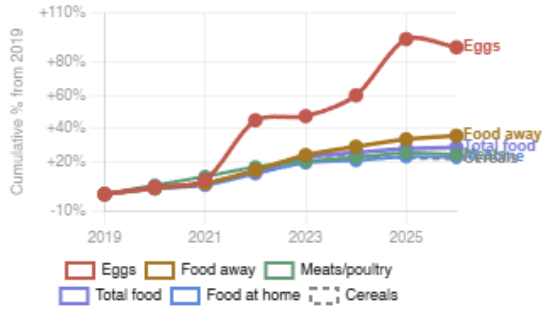
0 = perfect equality · 1 = perfect inequality · Census Bureau CPS ASEC · 2024 = latest



2019 (baseline)	2020 stimulus dip	2024 (latest)
0.484	0.473	0.490

Cumulative food inflation by subcategory (%)

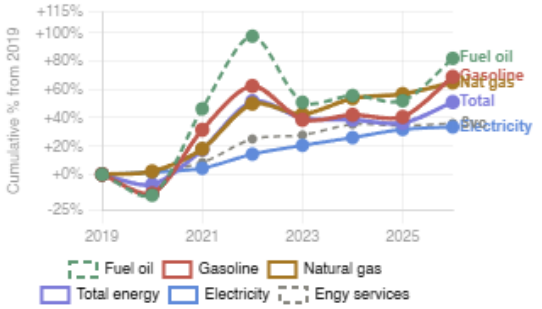
2019 = 0% · BLS CPI-U food subcategories · annual averages



Eggs	Food away	Total food
+94% 2019→2025	+33% restaurants	+28% all food
Meats	**Food at home**	**Cereals**
+25% meats & poultry	+23% grocery	+22% bakery products

Cumulative energy inflation by subcategory (%)

2019 = 0% · BLS CPI-U energy subcategories · Iran war re-spike Mar 2026

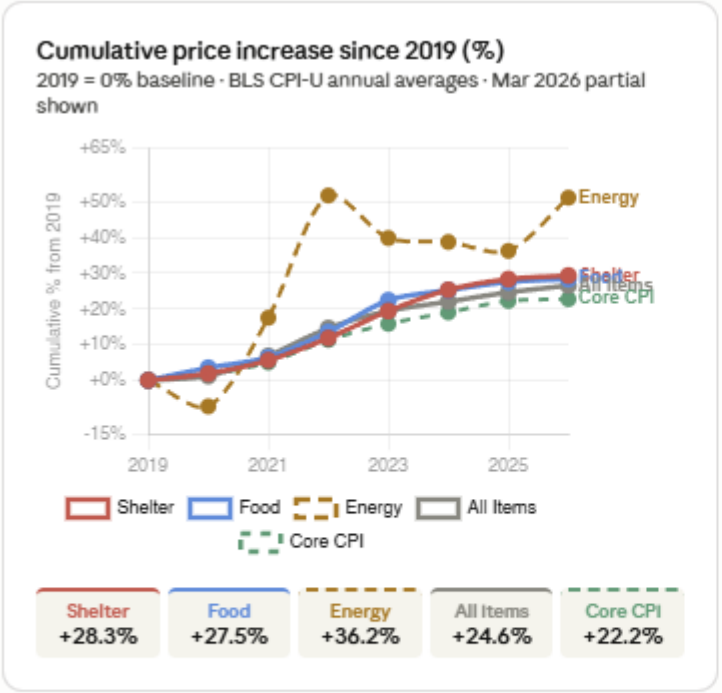


Gasoline	Natural gas	Total energy
+41% peak +63% 2022	+57% 2019→2025	+36% +51% Mar 2026
Fuel oil	**Electricity**	**Engy services**
+52% peak +98% 2022	+32% steady climb	+34% elec + piped gas

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Higher Inflation Leads to Higher Inequality

The Gini coefficient measures the degree of inequality in a distribution, such as income, wealth, or consumption, within a population. A Gini coefficient of 0 indicates perfect equality, where everyone has the same income or wealth, while a Gini coefficient of 1 indicates perfect inequality, where one individual holds all the income or wealth and everyone else has none. Cumulative inflation hits lower-income households hardest — they spend 40–50% of income on food, shelter, and energy, the three hardest-hit categories. The 2020 Gini dip to 0.473 confirms that pandemic stimulus genuinely compressed inequality, but as transfers expired and asset prices surged in 2021, the Gini snapped back to 0.494. Inflation and inequality are not parallel stories — they are the same story measured two different ways.



All items cumulative 2019→2025
+25%
bottom 80% wages barely kept pace

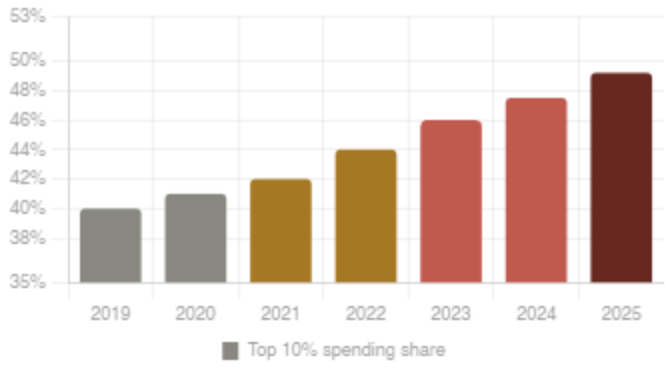
Shelter cumulative 2019→2025
+28%
worst for renters & first-time buyers

Gini 2019 vs 2024
0.484 → 0.490
near 60-year high per US Bank

Energy peak cumulative (2022)
+52%
re-spiking in Mar 2026 Iran shock

Consumer Spending, Equity Holdings, & Homeownership

Top 10% share of total consumer spending (%)
Moody's Analytics (note: BEA/CE methodology shows lower but same trend)

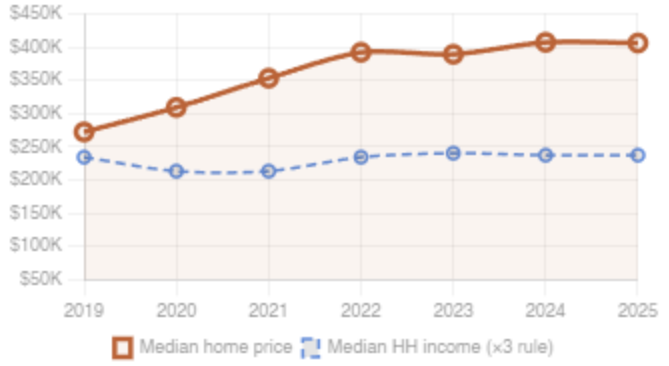


Median equity holdings: top 10% vs bottom 90% ($K)
Stock portfolio values · University of Michigan survey

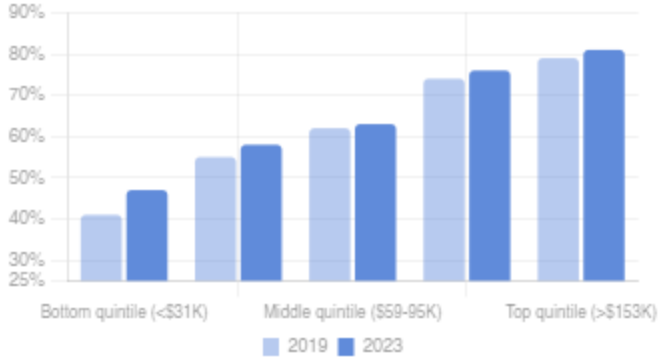
Top 1% wealth (Q3 2025)
$55T
≈ bottom 90% combined

Bottom 50% wealth share
2.5%
of all US household wealth

US median existing home price ($K)
NAR existing-home sales / Census Bureau · +47% from 2019 to peak 2022



Homeownership rate by income quintile (%)
Minneapolis Fed / Census ACS / Urban Institute · 2019 vs 2023



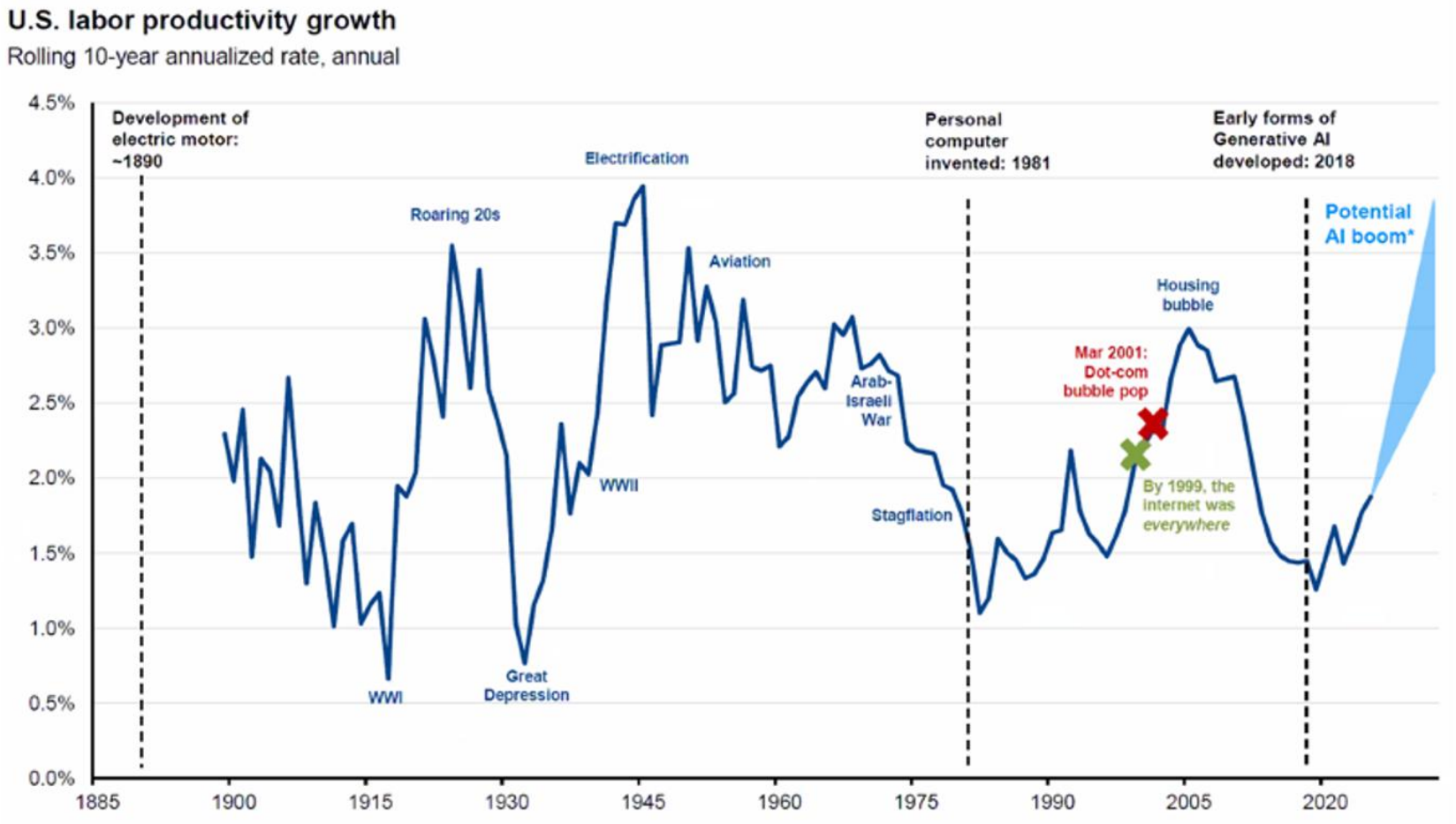
Home price gain 2019→peak
+47%
$272K → $399K (2022)

30-yr mortgage rate 2019 vs 2024
3.9% → 7.1%
monthly payment nearly doubled

Housing wealth locked by "rate trap"
~$30T
owners won't sell at 7%+ rates

AI-Labor Displacement

Long Term, AI Presents Significant Productivity Upside



*J.P. Morgan Asset Management estimates plausible productivity gains of 1.4-2.7% from generative AI and other AI technologies over the next few years, in addition to the expected 1.5% annual productivity growth projected by the Congressional Budget Office.

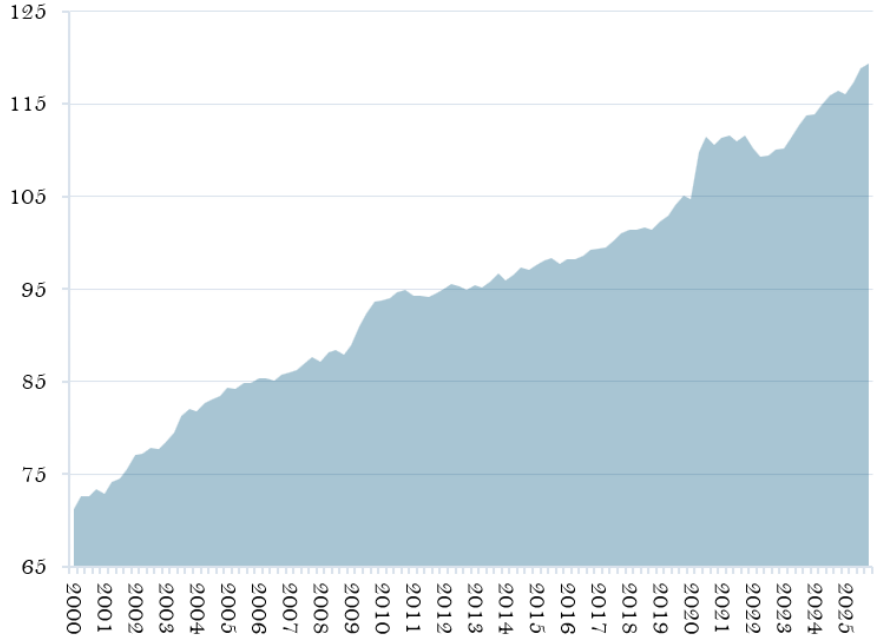
Source: BLS, NBER, J.P. Morgan Asset Management. Data from 1888 to 1957 reflect productivity data for the total private economy from John Kendrick, "Productivity Trends in the United States," NBER. Data from 1958 to 2023 reflect non-farm productivity data from the BLS. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may

U.S. Labor Productivity Has Been Rising for Many Quarters

Output per hour, nonfarm business sector — long-run trend and recent quarter-over-quarter changes

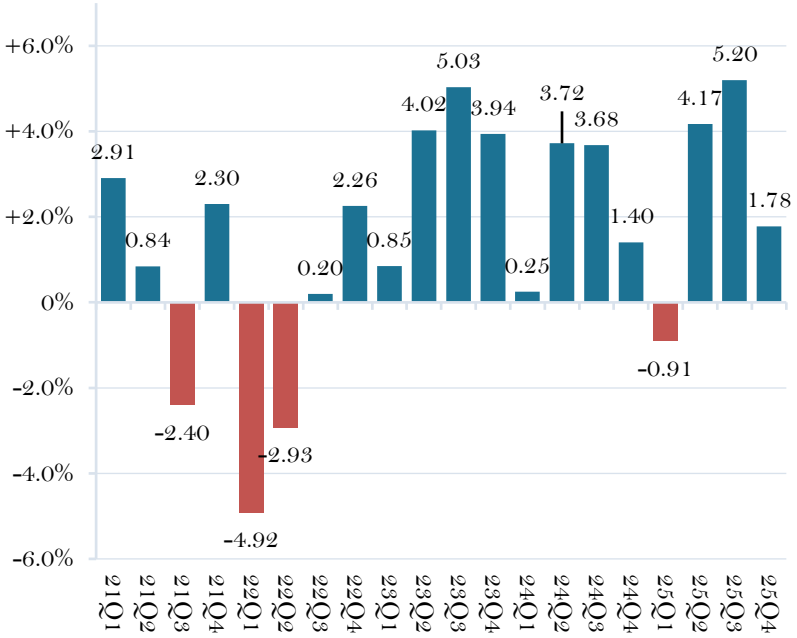
Long-run trend: 2000–2025

Index of output per hour, 2017 = 100



Recent 20 quarters: Q1 2021 – Q4 2025

Quarter-over-quarter % change, annual rate

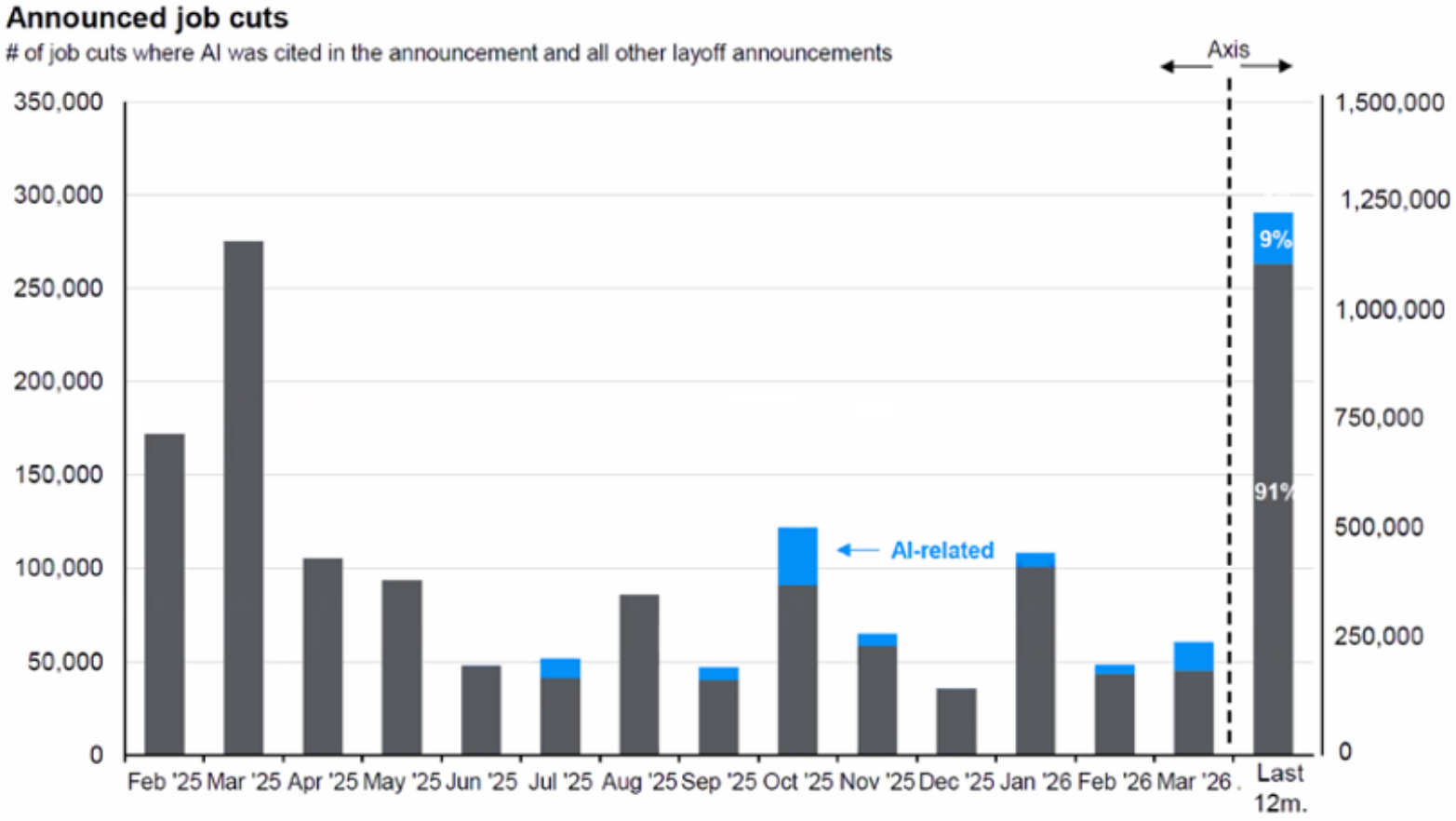


Source: U.S. Bureau of Labor Statistics, Productivity and Costs (FRED series OPHNFB). Data through Q4 2025.

AI and Employment in the longer run

- Economic productivity is defined as output per hour worked. When a machine aids a worker, for example a carpenter with a nail gun versus a hammer, both the worker and the machine are counted together, output rises, and that's unambiguously good. This results in GDP going up, wages tending to rise, and employment can stay stable or even grow as the economy expands. The future (slow and steady) scenario is where it gets thorny. When a machine replaces a worker entirely, the math on productivity looks great in the short run (i.e., the same or more output with fewer hours worked), but the economic consequences branch depending on what happens next. The key question economists debate is whether job displacement from technology is transitional (short-term) or structural (long-term).
- The optimistic (historical) view holds that technology has always destroyed some jobs and created new ones. For example, the agricultural revolution didn't create mass permanent unemployment; it freed up labor for manufacturing, and automation of manufacturing freed up labor for services. Each wave ultimately expanded the pie. The economy "absorbs" displaced workers into new roles, and rising productivity funds the wage growth that generates new consumer demand which creates new jobs. This has been the dominant pattern for 200 years.
- The pessimistic (emerging) view argues that AI is categorically different because, unlike prior technologies that automated physical tasks, AI automates cognitive tasks – these are the very skills workers retreated into during prior waves of automation. If AI can do legal research, write code, analyze data, draft documents, and handle customer service, then what is left for humans to retreat into this time? The share of tasks genuinely exposed to AI replacement, rather than augmentation, is larger than optimists assume, and the new job creation from AI may not offset displacement at the scale and speed required.
- When a company fires 100 workers and replaces them with AI, several things happen at the same time. The company's productivity metric rises, and its profits likely rise. However, those 100 workers lose income, which reduces consumer spending, and consumer spending is roughly 70% of U.S. GDP. If this happens at scale across the economy, we have a paradox where measured productivity is rising but aggregate demand is falling which suppresses growth. This is a case of strong GDP alongside flat real disposable income which is unsustainable.

AI-Related Layoffs thus far are modest relative to headlines



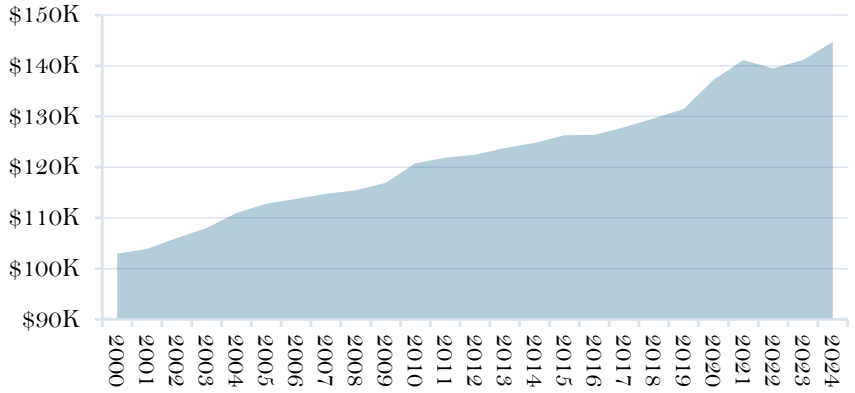
Source: Challenger, Gray and Christmas; J.P. Morgan Asset Management. Other popular reasons cited include DOGE actions, market/economic conditions, restructuring or closing, and cost-cutting efforts. Data are as of April 2, 2026.

Productivity, Unemployment, and the AI Hypothesis

More output per worker, while unemployment stays low — what role might AI be playing?

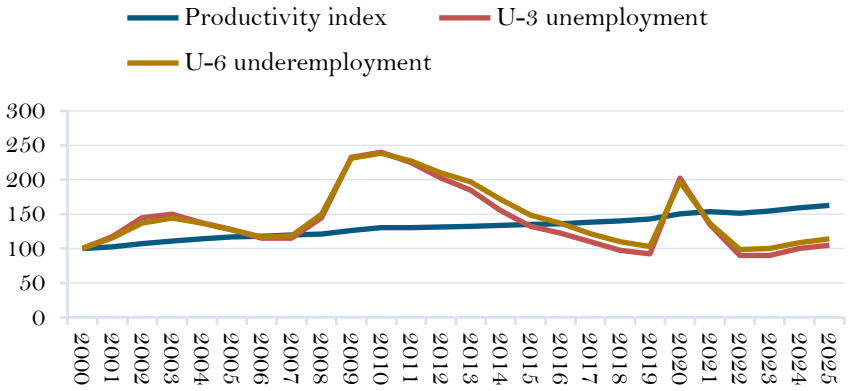
1. Output per worker has been climbing

Real GDP per employed person ($K, chained 2017 dollars), annual



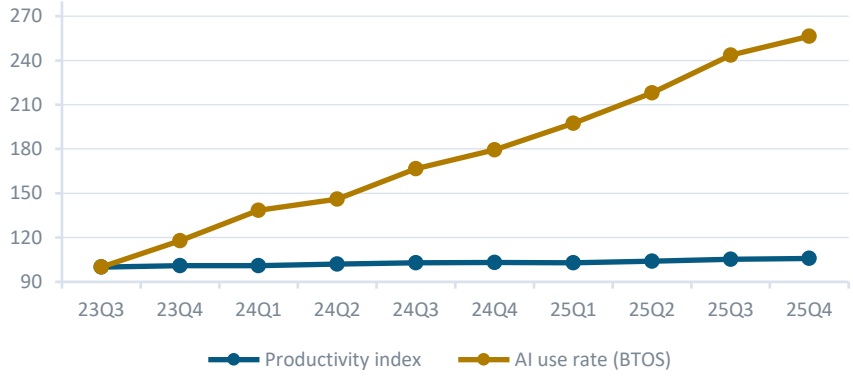
2. Productivity climbs while U-3 and U-6 stay range-bound

All three series indexed to 2000 = 100 (so movements are directly comparable)



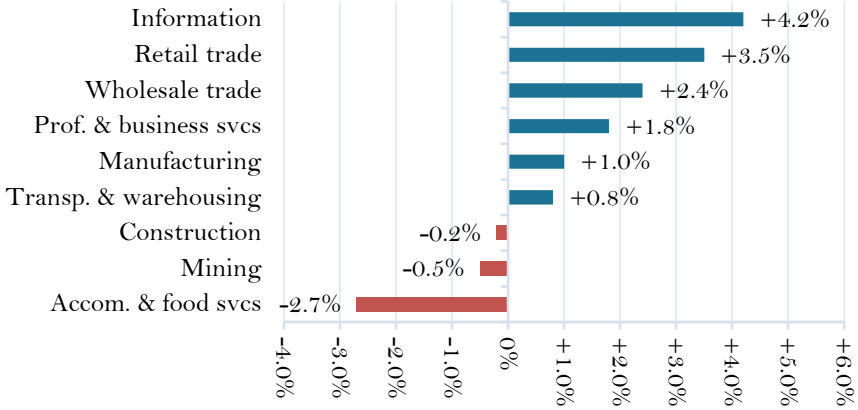
3. Productivity rises alongside AI adoption — but the AI series is short

Both indexed to Q3 2023 = 100; AI = BTOS firm-level use rate



4. Productivity gains are uneven across industries

Annualized labor productivity growth by sector, 2019–2024 (BLS)

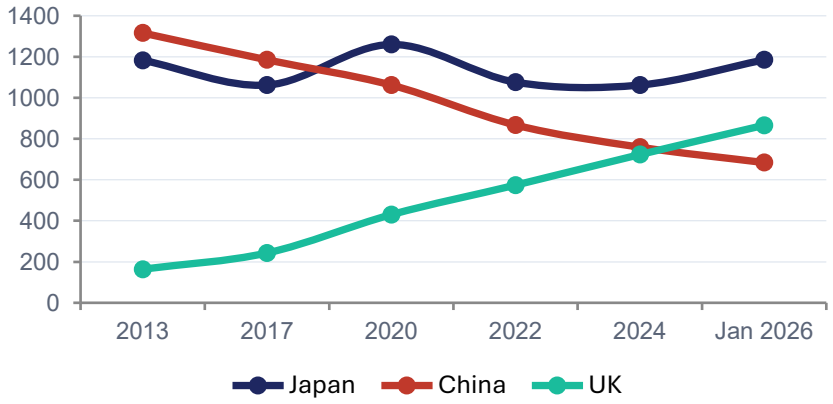


Ballooning Deficit

Who Will Fund the Debt?
Foreign Central Banks' Retreat Meets Digital Dollar

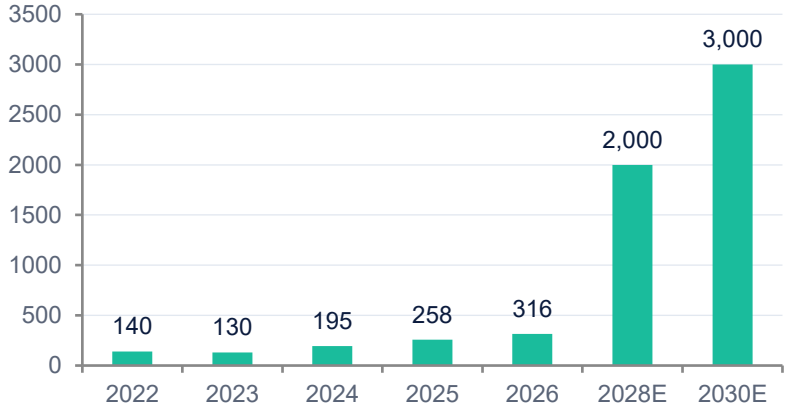
China's holdings down 42% from peak

Foreign Treasury Holdings — Top Sovereign Creditors ($B)



GENIUS Act creates a new captive Treasury buyer

Stablecoin Market Cap → New Treasury Demand ($B)



THE STRUCTURAL SHIFT

Foreign share of marketable Treasuries: ~50% (2008) → 28-30% (2026).

China's stockpile has fallen from $1.32T (Nov 2013) to $684B (Jan 2026) — a 42% retrenchment as Beijing diversifies into gold and bilateral RMB settlement.

Japan's holdings remain large but flat; even allies are not absorbing new issuance.

THE GENIUS ACT OFFSET

Mandates

1:1 backing in cash + short-term T-bills.

Standard Chartered projects $2T market by 2028; Citi base case $1.9T by 2030.

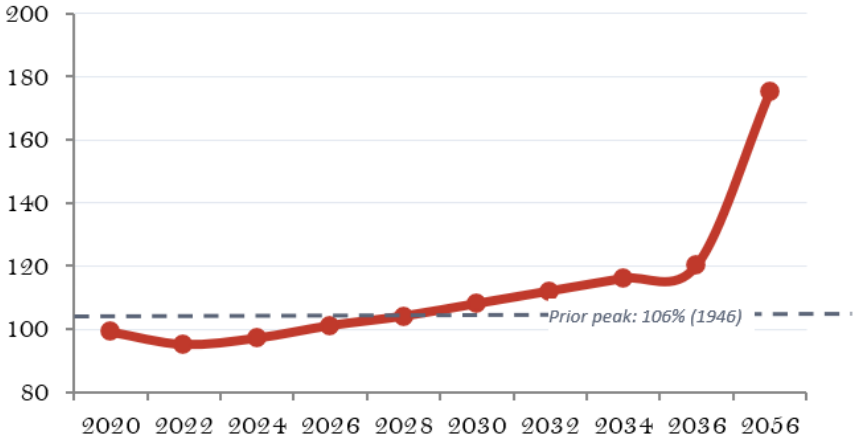
Every Lagos merchant or Manila remitter holding USD becomes an indirect bidder at Treasury auctions — extending dollar hegemony into the digital age.

U.S. Fiscal Cliff: Deficit at $1.9T and Climbing

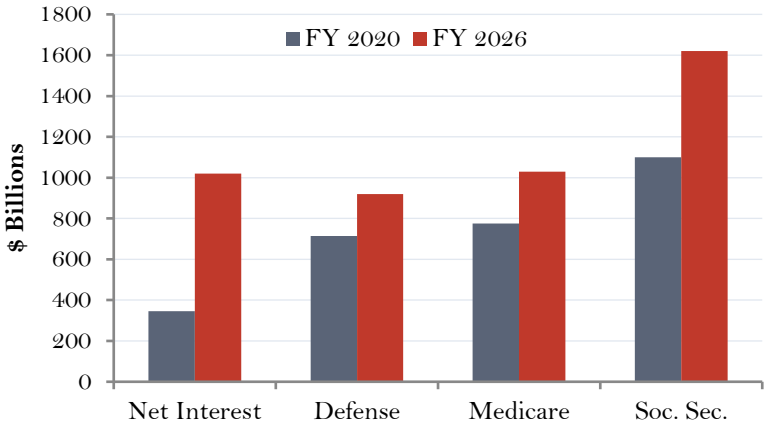
CBO February 2026 Baseline | Debt-to-GDP set to break the WWII record by 2030

$1.9T	120%	$1T+	$23T
FY2026 Deficit	Debt-to-GDP by 2036	Annual Net Interest Cost	Cumulative Deficit '26-'35

Federal Debt Held by the Public (% of GDP)



Net Interest Now Exceeds Defense Spending



OPERATION EPIC FURY — IRAN WAR FUNDING IMPACT

$11.3B Pentagon estimate (first 6 days)

$16.5B CSIS adjusted (12 days, incl. losses)
https://www.csis.org/analysis/iran-war-cost-estimate-update-113-billion-day-6-165-billion-day-12

~$1B/day ongoing burn rate

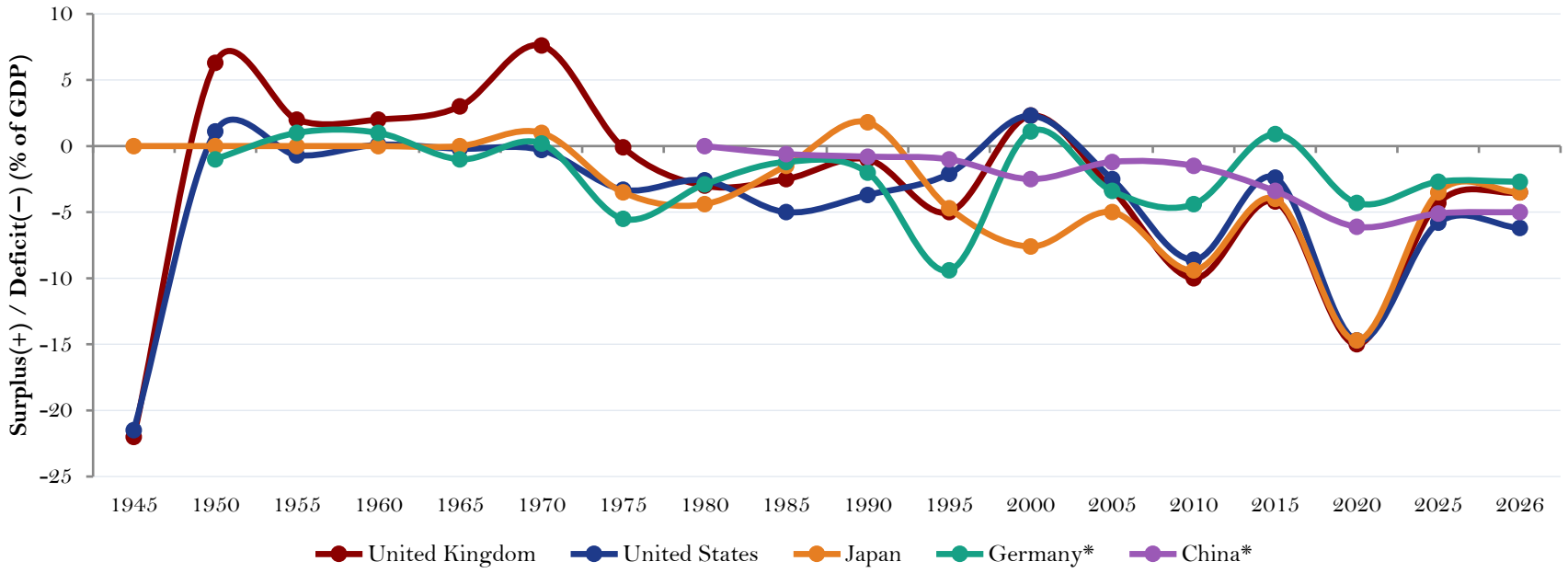
$1T Harvard Kennedy School lifetime cost projection

Public finance expert Linda Bilmes projects the 2026 U.S.-Iran war will cost American taxpayers at least $1 trillion. This lifetime projection includes immediate combat costs (approx. $2 billion/day), military replenishment, interest on debt, and long-term veteran disability care. https://www.hks.harvard.edu/faculty-research/policy-topics/international-relations-security/why-war-iran-so-expensive

80 Years of Deficits: A Five-Nation Comparison Since 1945

General government net borrowing (deficit) as % of GDP — UK, U.S., Japan, Germany, China

Net Government Lending(+) / Borrowing(−) as % of GDP



POST-WAR PEAK

WWII finale: U.S. @21.5% (1945), UK @22% (1945-46). *Then primary surpluses + financial repression brought all advanced nations near balance by the mid-1950s.*

STRUCTURAL DRIFT (1975 → 2008)

Welfare state expansion + aging populations replaced wars as deficit drivers. Japan's 1990 bubble pop sent it on a 30-year deficit trajectory; Germany's reunification cost peaked at -9.4% (1995).

COVID THEN... NO MEAN REVERSION

2020 trough — UK @15%, Japan @14.7%, U.S. @14.7%. *Six years on, only Germany returned near balance. The US is the outlier: -6%+ deficits forecast through 2036 with no recession.*

**Germany 1945-49 omitted (occupied); 1950-1990 = West Germany. China pre-1980 omitted (planned economy). Japan ran balanced budgets 1945-1965.*
Sources: OBR; OMB; CBO Feb 2026; Japan MoF; Destatis; IMF WEO.

End of Pax Britannia: 1946 Debt Peak vs. The U.S. Trajectory

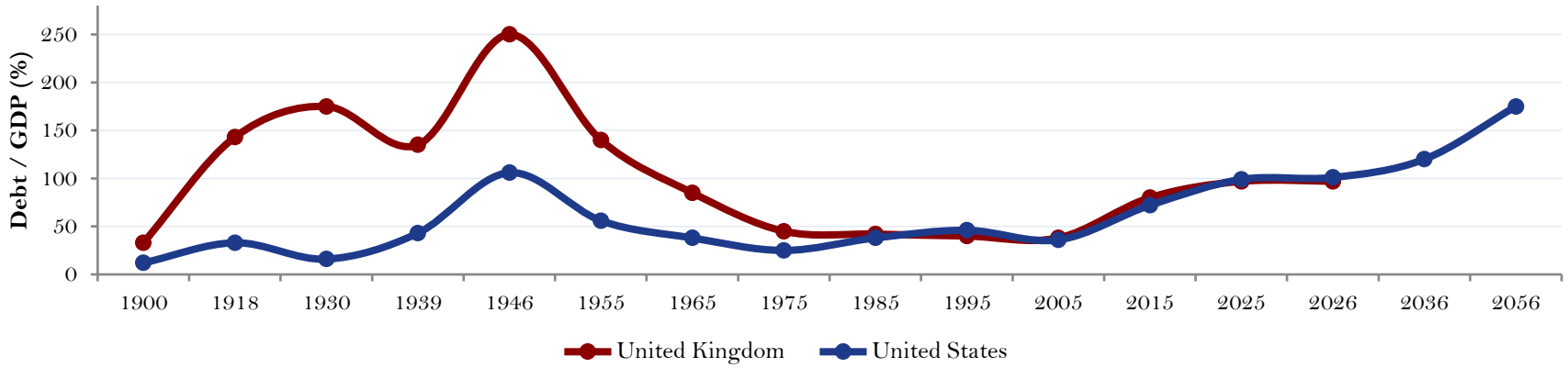
Britain serviced 250% debt-to-GDP under capital controls and financial repression — conditions the U.S. cannot replicate.

250%
UK Debt-to-GDP, 1946-47 peak (OBR)

106%
US Debt-to-GDP, 1946 peak (debt held by public)

101% → 120%
US Debt-to-GDP, 2026 → 2036 (CBO baseline)

Debt Held by the Public as % of GDP — UK and US, 1900-2056



HOW THE UK ESCAPED 250%(1946 → 1971)

Capital controls + Bretton Woods peg forced domestic banks and savers to hold gilts; **negative real rates** in 24 of 30 years; nominal GDP rose 12x while debt rose 2.4x. Result: 206 ppt drop in debt-to-GDP in 27 yrs.

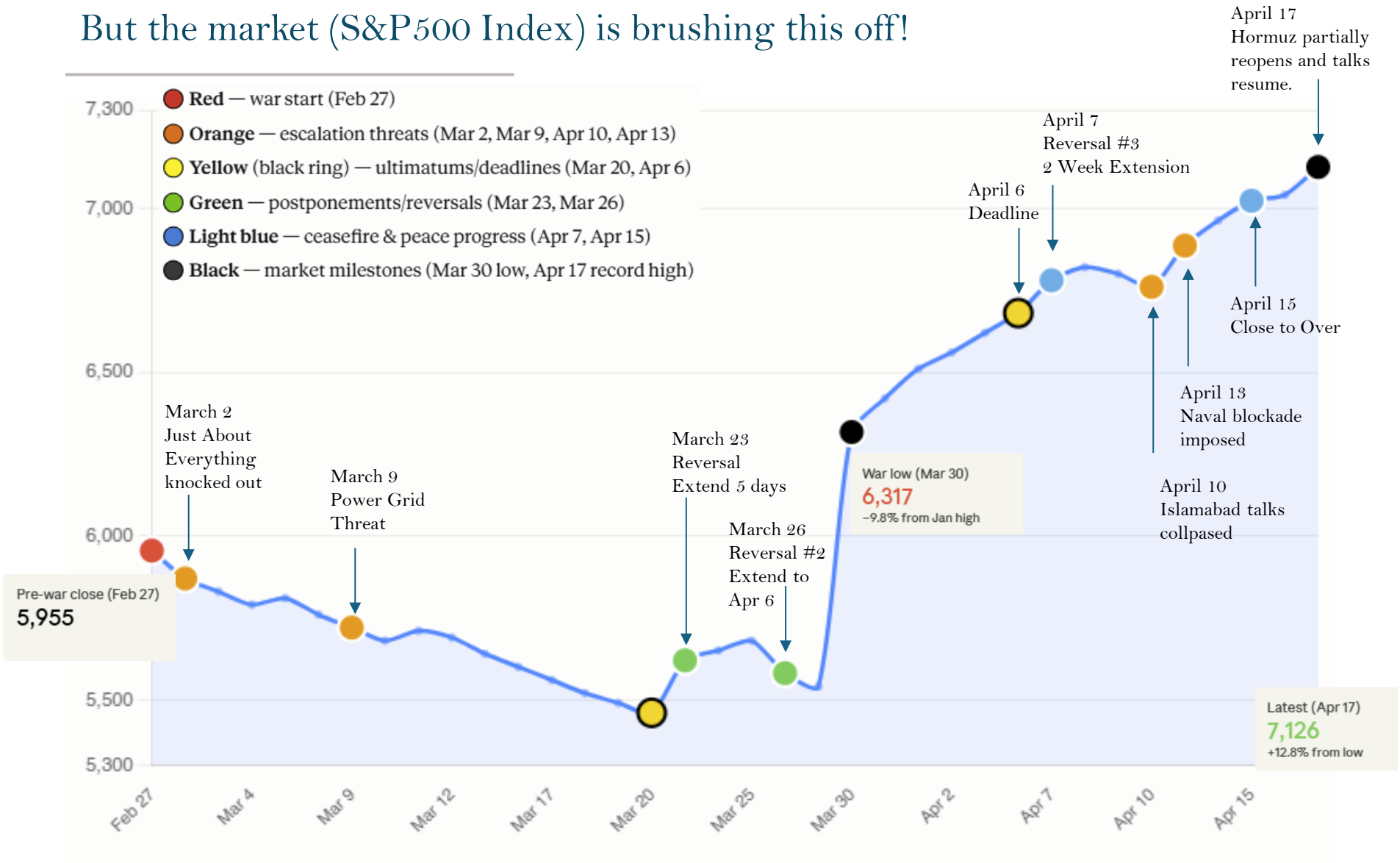
WHY THE U.S. CAN'T USE THE SAME PLAYBOOK

Open capital markets, independent Fed, 30% foreign ownership. The post-WWII U.S. ran **primary surpluses**; today's baseline shows 6%+ deficits indefinitely with r > g projected from 2031.

Sources: UK Office for Budget Responsibility (300 Years of UK Public Finance Data); Bank of England 'A Millennium of Macroeconomic Data'; UK Parliament; CBO Feb 2026 Baseline; NBER (Acalin & Ball 2023). UK and US measured on debt-held-by-public basis where available.

Stock Market Resilience

But the market (S&P500 Index) is brushing this off!



S&P 500 closes at all-time high of 7,126, up 12.8% from March 30th low, as Strait of Hormuz partially reopens and talks resume.

What factors are likely supportive to current market resilience?

1. **Strong corporate earnings**. This is the biggest pillar. Going into Q1 2026 earnings season, FactSet's consensus estimate for S&P 500 first-quarter 2026 earnings growth stood at 13.2% year-on-year as of March 31, which would extend an unbroken run of double-digit growth stretching back to Q4 2024. Over the past four quarters, 79% of S&P 500 companies exceeded earnings estimates with an average upside surprise of 7.2%. If this holds, actual growth could approach approximately 19%, the strongest quarterly performance since Q4 2021. People are buying the dips.
2. **AI capex**. Microsoft, Alphabet, Amazon, and Meta are on track to spend upwards of $650 billion on AI investments this year. Amazon announced $200 billion in 2026 capex, Alphabet $175–185 billion, Meta $115–135 billion, and Microsoft's fiscal-2026 run rate puts it on pace for $145 billion. Add Oracle at ~$50 billion and the five largest U.S. cloud and AI infrastructure providers have collectively committed to spending between $660 billion and $690 billion on capital expenditure in 2026, nearly doubling 2025 levels. That flows directly into the market. Technology is expected to deliver 46% earnings growth, contributing nearly 80% of the total market profit increase. Since the S&P's low on March 30, the "Magnificent 7" mega-cap tech stocks are up nearly 18%, while the S&P 493 (absent those seven companies) is up about 8%.
3. **Trump Deescalation**. Investors have been conditioned to believe that Trump will back off if the economic pain becomes too intense – the "TACO" trait. More concretely, 9 of the 10 best days for the S&P 500 since the beginning of Trump's second term have been driven by TACO.
4. **Energy Independence**. U.S. "oil independence" is a production story, not a price story, and the market is looking through the near-term gas-price pain to the ceasefire narrative. While the U.S. is a major oil producer, gas prices are still tied to global crude markets, and diesel cost is largely affected by these global benchmarks.
5. **No Recession** – U.S. GDP is still humming along, and the labor market is not showing real stress, even though we clearly have a jobless expansion where the shrinking job opening is met with shirking job seekers (mainly an effect from immigration policy).

What are some obvious factors that can change the current market direction?

1. **Midterm flip risk.** Since 1946, there have been 20 midterm elections, and in 18 of them, the president's party lost seats in the House of Representatives, a 90% conversion rate in the past 80 years. The market is ignoring this risk. On the other hand, Republicans have done aggressive mid-decade redistricting in Texas, Missouri, North Carolina, and Ohio that could blunt a blue wave. But if only one or both chambers flip, Trump's ability to deliver market-friendly policy (tax cut extensions, deregulation, executive-pressure trades, etc.) is meaningfully constrained, and that's a regime change the S&P, at 20.9 times forward earnings, isn't pricing.
2. **TACO without an emotional off-ramp**. A tariff pause is costless for Trump since he can simply declare victory and move on. A war with assassinated leaders, 3,400+ dead, a blockade, civilian-infrastructure threats, and rising prices at home is categorically different. Trump can't just walk away or TACO if the Iranians decide to hold their line and keep the strait closed. If he TACOs, he will appear weak and lost.
3. **Import goods' prices feeding into core inflation.** This is already happening. The March 2026 import price index was already running hot: U.S. Import Price Index: +0.8% and U.S. Export Price Index: +1.6% in March 2026. A new Fed study is even more direct: the tariffs implemented through November of 2025 have raised core goods PCE prices by 3.1 percent through February 2026, explaining the entirety of excess inflation in the core goods category. Also, large stockpiles of pre-tariff inventory allowed businesses to hold off on reflecting the cash costs of tariffs in their earnings reports. But that pre-tariff inventory is running out, and many businesses are planning further price hikes in 2026. This is in addition to the inflation coming from the Iran war.
4. **Interest Rate Remains Restrictive**. The Fed's hands are more tied than usual. Normally the "Fed put" is the backstop under any of these risks, but an oil shock is a classic stagflation setup — cutting rates accelerates inflation, holding rates chokes growth.
5. **Hyperscaler Capex Retreats**. The moment one of Microsoft, Meta, Alphabet, or Amazon guides capex down or the moment Nvidia's backlog inflects, the entire thesis that "stocks are priced on earnings not headlines" loses its resilience.

A Mid-Term Democrat Win Changes the Fundamental Assumptions

A Republican loss of the House, and especially both chambers, would fundamentally reprice the market's assumption that Trump can deliver a continuous stream of business-friendly policy. The core pro-market pillars (extending the 2017 tax cuts past their 2025 expiration, aggressive deregulation via executive-legislative coordination, further corporate tax reduction, and budget-driven fiscal stimulus) all require congressional cooperation, and a Democratic House alone is enough to block every major legislative initiative, starting with the tax extension that Wall Street has largely priced in as a given.

Beyond legislative gridlock, a Democratic House would immediately activate subpoena power and launch a cascade of investigations — into Trump's business dealings, the Trump family's post-election enrichment, the conduct of the Iran war, emoluments, and administration officials - which Trump has historically responded to with erratic, impulsive, and norm-breaking behavior (firings, pardons, retaliatory executive orders, escalatory foreign policy gambits, etc.) that markets hate because they inject unpriceable tail risk. The practical result is a presidency consumed by legal and political warfare rather than governance: less bandwidth for deal-making, more chaotic Truth Social interventions in markets, potential constitutional confrontations over funding and appointments, and a White House more likely to use tariffs, trade actions, and foreign policy, including more military adventures (Cuba for example) as distraction tools since those are the levers that don't require Congress.

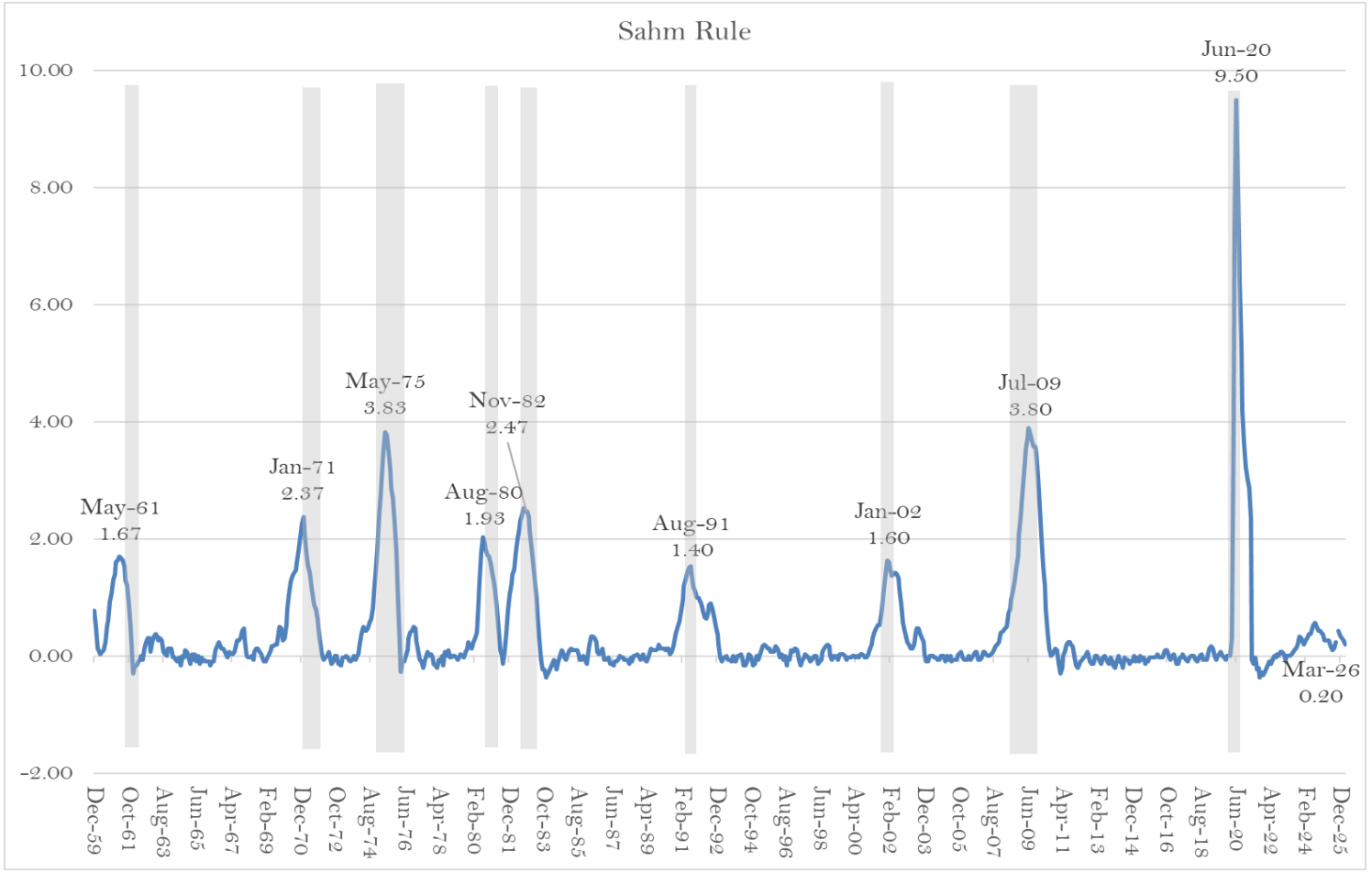
For the stock market, this converts the current "TACO + tax cuts + deregulation" bull narrative into a U-turn with policy paralysis, investigative overhang, and an even more unpredictable president with fewer institutional guardrails and more incentive to lash out. This is the regime in which P/E multiples compress, volatility premiums expand, and the AI earnings engine has to carry the entire market on its own without any political tailwind.

Higher Inflation and Slowing Economy - Stagflation Lite?

- Stagflation is loosely defined as below-trend growth with inflation still above the 2% target.
- The U.S. labor market has settled into a "low-hire, low-fire" equilibrium, with most forecasters expecting modest job growth and a stable unemployment rate around current levels, while tariff pass-through to consumers now exceeds 50% and is projected to add roughly 1 percentage point to inflation between late 2025 and mid-2026. This does not take the current Iran conflict related inflation headline and core inflation elements into consideration. The Iran war has intensified price pressures: a war-driven jump in gas prices pushed U.S. inflation to 3.3% in March 2026, the fastest annual pace in nearly two years, with gasoline rising a record 21.2% in a single month and real wage gains collapsing from 1.3% to 0.3% annually. Hopefully, this price rise is transitory (6 to 9 months).
- AI could weigh further on hiring if it gives executives greater confidence or cover to reduce headcounts to preserve margins while at the same time the unemployment rate for young workers between the ages of 16 to 24 is above 10% and the long-term unemployed rate is tied with the pre-2009 record.
- In January this year, the Peterson Institute[1] argued inflation could exceed 4% by end-2026 as companies, having depleted pre-tariff inventories, raise prices in smaller increments over a longer period. This is also before anticipated new rounds of pushing tariffs higher to make up the lowered rates due to the loss of IEEPA. This is anticipated to be the next round of maintaining prices higher and continuing uncertainties.

[1] https://www.piie.com/blogs/realtime-economics/2026/risk-higher-us-inflation-2026

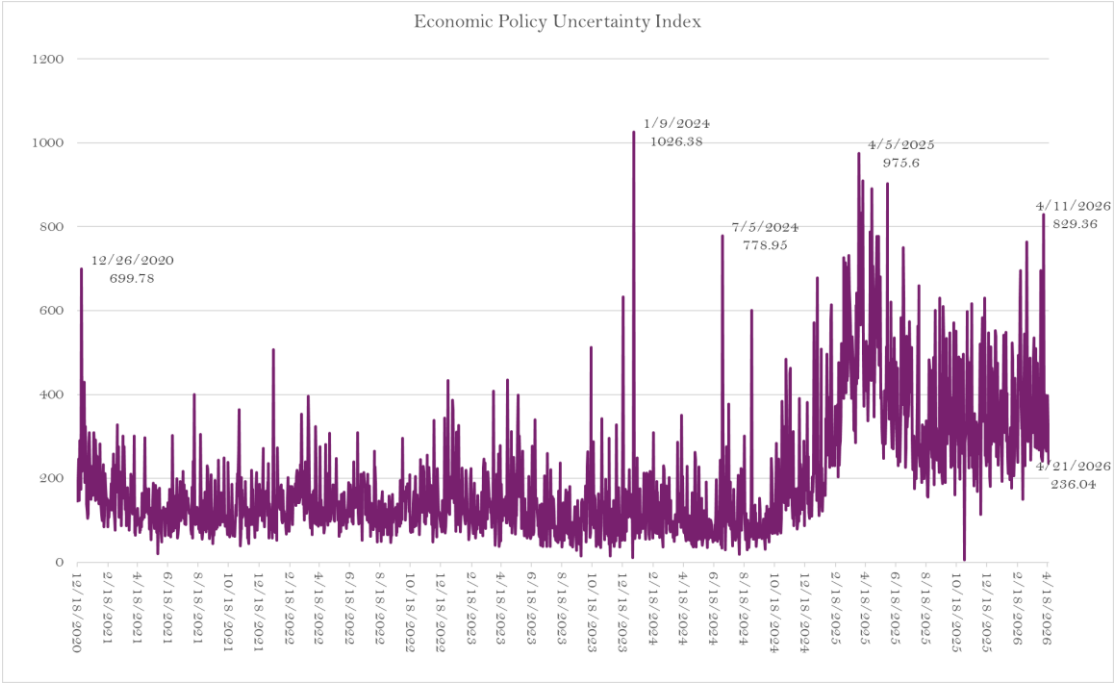
Sahn Rule Recession Indicator (03-2026) – No Recession



Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months. As of the end of Q1, Sahn Rule suggests negligible chance of a recession.

Source: https://fred.stlouisfed.org/series/SAHMREALTIME and Philip Chao

Economic Policy Uncertainty Index – Volatile but Improving



To measure the U.S. policy-related economic uncertainty, this index consists of three types of underlying components.

(1) The newspaper-based component is an index of search results from 10-large newspapers. From these papers, a normalized index is constructed of the volume of news articles discussing economic policy uncertainty. It also utilizes data from two other sources: the number of federal tax code provisions set to expire and disagreement among economic forecasters.

(2) Reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions create annual dollar-weighted numbers of tax code provisions scheduled to expire over the next 10 years, giving a measure of the level of uncertainty regarding the path that the federal tax code will take in the future.

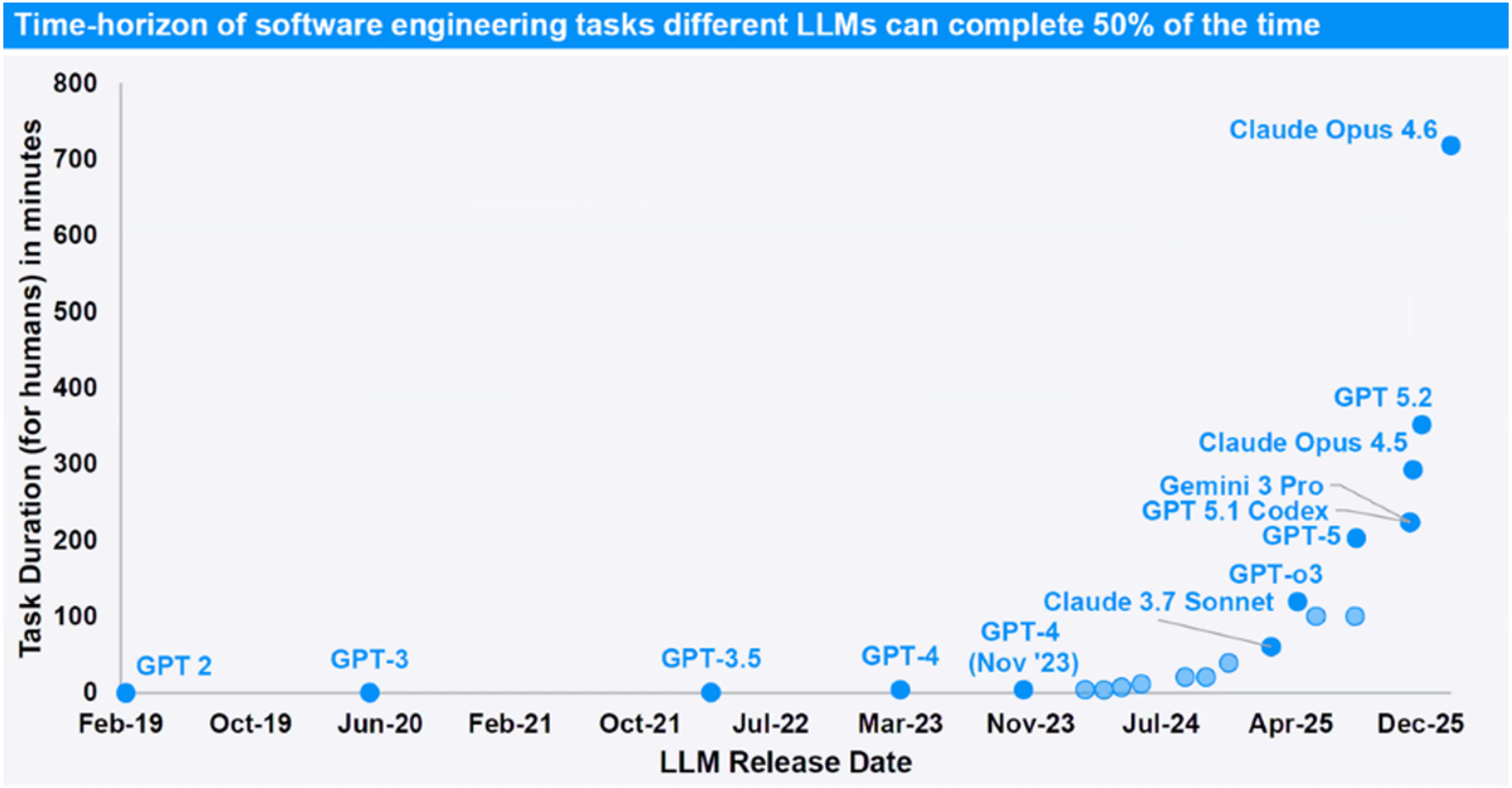
(3) The Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters utilizes dispersion between individual forecasters' predictions about future levels of the Consumer Price Index, Federal Expenditures, and State and Local Expenditures to construct indices of uncertainty about policy-related macroeconomic variables.

Source: Atlanta Fed – FRED, Philip Chao, https://fred.stlouisfed.org/series/USEPUINDXD/

AI Driven Stock Market

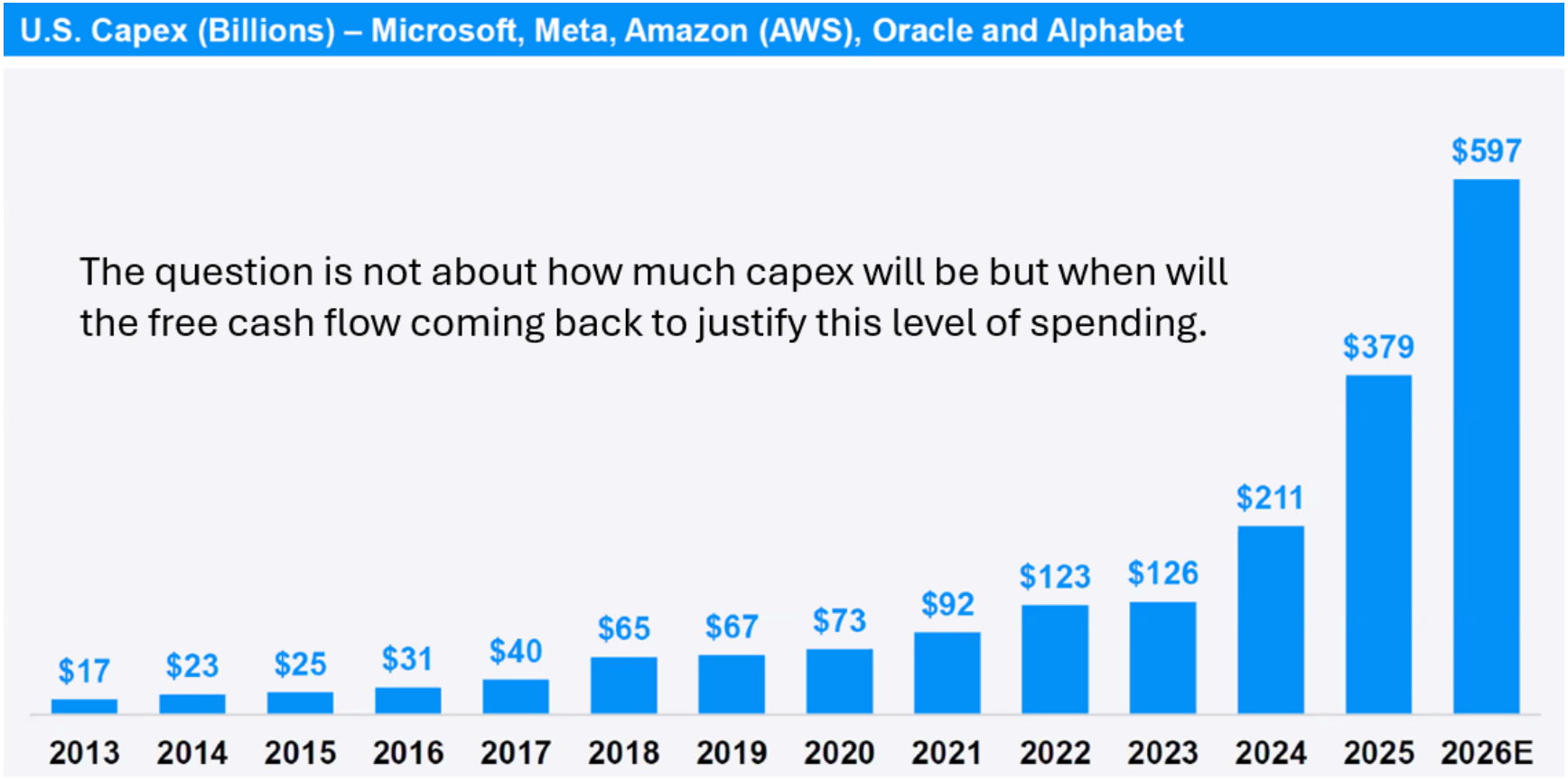
Speed and Disruption

AI Speed of Change and Advancement



Source: Model Evaluation & Threat Research (METR). Chart methodology on paper arXiv:2503.14499 [ca.AI]. Using updated time horizon measurement methodology as of March 11, 2026.
JP Morgan

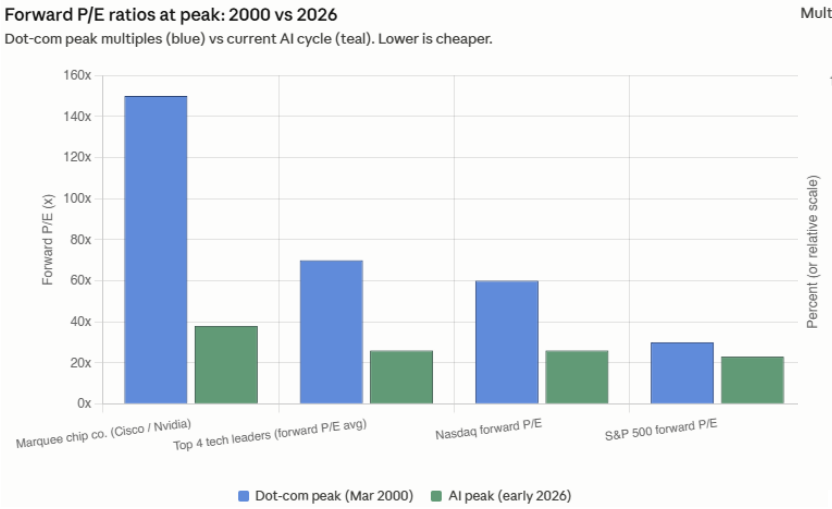
Capex has Ramped Quickly and is Expected to Continue

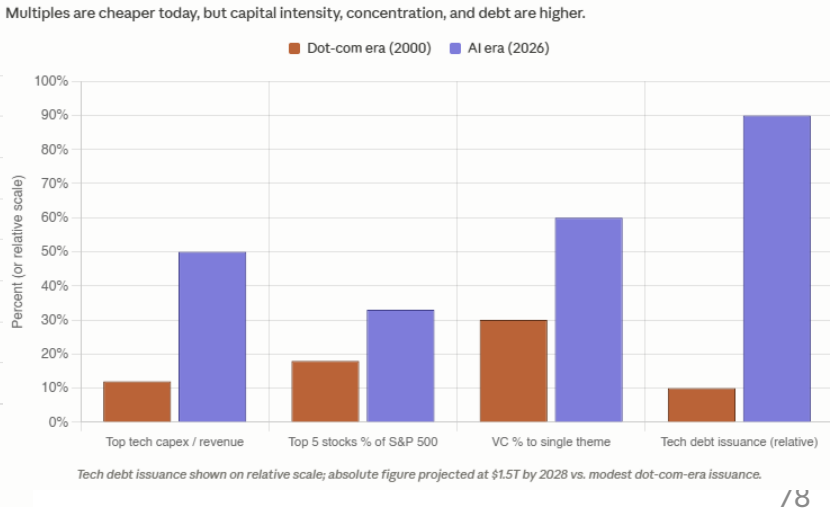


Source: Bloomberg; data as of 2/10/2026. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.

Stocks are priced on Earnings, not Headlines

- The entire "stocks are priced on earnings, not headlines" narrative for AI rests on the assumption that hyperscaler capex keeps going up and Nvidia's backlog keeps growing. The moment either of those inflects, the unwinding would begin. The entire AI driven market narrative rests on the assumptions that hyperscaler capex keeps going up and Nvidia's backlog keeps growing.
- The early warning to watch for are:
  1. Free cash flow is already collapsing across the hyperscalers in 2026, with Amazon projected negative.
  2. The funding mix has shifted from cash to debt, and credit markets are starting to price in risk.
  3. Capital intensity has reached utility-like levels, which is incompatible with current tech earning multiples.
  4. The math to justify the spending at historical returns requires more than doubling combined hyperscaler profits.
  5. Depreciation is structurally understated if GPU useful life is shorter than assumed.
  6. The financing has become circular, which means an inflection in one node cascades to all others
- Many compare the current AI driven market with the height of the Dot-com market; there are similarities and differences. In terms of AI P/E, the current market is not as rich as during the Dot-com height, but from other metrics, such as capex/revenue ratio, top 5 stocks as a % of the S&P 500 index, concentration of venture capital investments, and total debt issuance, the AI-driven market is much richer.





Index Performance

2026Q1 Stocks & Bonds Performance & 60/40

Benchmark Index TR in USD	TR 2026 Q1	TR YTD	TR Annlzd 3 Yr
DJ Industrial Average NR	-3.31	-3.31	13.14
S&P 500	-4.33	-4.33	18.32
S&P 500 Growth	-8.11	-8.11	21.91
S&P 500 Value	0.03	0.03	13.90
Russell Mid Cap	1.29	1.29	13.33
Russell Mid Cap Growth	-6.35	-6.35	12.74
Russell Mid Cap Value	3.68	3.68	13.14
Russell 2000	0.89	0.89	13.05
Russell 2000 Growth	-2.81	-2.81	12.27
Russell 2000 Value	4.96	4.96	13.80
NASDAQ 100	-5.82	-5.82	22.61

Benchmark Index TR in USD	TR 2026 Q1	TR YTD	TR Annlzd 3 Yr
Bloomberg US Agg Bond	-0.05	-0.05	3.63
Bloomberg US Corp IG + HY	-0.53	-0.53	5.33
Bloomberg Municipal	-0.18	-0.18	2.87
Bloomberg High Yield Corporate	-0.50	-0.50	8.60
Bloomberg Gbl Agg Ex USD Hdg	-0.19	-0.19	4.28
Bloomberg EM Local Currency Broad	-3.15	-3.15	4.72
Bloomberg EM Hard Currency Agg	-1.61	-1.61	7.77

US 60/40 Portfolio 2025 Q4	TR 2026 Q1	TR YTD	TR Annlzd 3 Yr
S&P 500	-4.33	-4.33	18.32
Bloomberg US Agg Bond	-0.05	-0.05	3.63
60/40 Portfolio 2025 Q4	-2.62	-2.62	12.44
International 60/40 Portfolio			
Bloomberg Gbl Agg Ex USD Hdg	-0.19	-0.19	4.28
MSCI ACWI ex USA All Cap GR	-0.58	-0.58	14.93
60/40 Portfolio 2025 Q4	-0.35	-0.35	8.54

Benchmark Index TR in USD	TR 2026 Q1	TR YTD	TR Annlzd 3 Yr
S&P 1500 Cons Discretionary	-8.76	-8.76	14.25
S&P 1500 Cons Staples	7.61	7.61	8.49
S&P 1500 Energy	38.37	38.37	18.19
S&P 1500 Financials	-8.89	-8.89	17.08
S&P 1500 Health Care	-4.82	-4.82	5.73
S&P 1500 Industrial	4.71	4.71	18.70
S&P 1500 Information Technology	-8.61	-8.61	25.62
S&P 1500 Materials	9.26	9.26	9.06
S&P 1500 Media	-8.40	-8.40	-5.95
S&P 1500 Commun Services	-6.88	-6.88	30.53
S&P 1500 Utilities	8.01	8.01	13.97
S&P Composite 1500	-3.81	-3.81	17.77

Benchmark Index TR in USD	TR 2026 Q1	TR YTD	TR Annlzd 3 Yr
MSCI ACWI ex USA All Cap GR	-0.58	-0.58	14.93
MSCI EAFE GR	-1.12	-1.12	14.19
MSCI Europe GR	-2.68	-2.68	13.96
MSCI AC ASEAN GR	-1.26	-1.26	8.32
MSCI EM GR	-0.10	-0.10	15.41
MSCI Frontier Emerging Market GR	2.74	2.74	20.03
MSCI Australia GR	3.31	3.31	10.36
MSCI Brazil GR	19.17	19.17	20.28
MSCI Canada GR	1.43	1.43	20.50
MSCI China GR	-8.93	-8.93	6.77
MSCI France GR	-5.35	-5.35	7.62
MSCI Germany GR	-8.39	-8.39	14.62
MSCI Hong Kong GR	5.54	5.54	7.54
MSCI India GR	-18.09	-18.09	7.52
MSCI Italy GR	-3.24	-3.24	27.57
MSCI Japan GR	1.51	1.51	16.13
MSCI Korea GR	16.68	16.68	26.63
MSCI Mexico GR	7.73	7.73	13.30
MSCI UK All Cap GR	0.77	0.77	15.92
MSCI ACWI All Cap GR	-2.64	-2.64	16.73

Source: Morningstar Direct, Experiential Wealth 03-31-2026

Investment Style Summary 2026Q1

2026Q1 TR

	Value	Blend	Growth
Large	1.57	**-3.99**	**-8.96**
Mid	2.87	0.83	**-4.87**
Small	3.7	1.48	**-2.4**

2026 Q1 Trailing 1Y

	Value	Blend	Growth
Large	15.05	15.62	16.17
Mid	15.37	15.14	13.51
Small	19.67	19.46	18.06

Source: Morningstar Direct, Experiential Wealth 03-31-2026

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Federal Reserves' SEP

GDP

Employment

Inflation/Core Inflation

Interest Rate

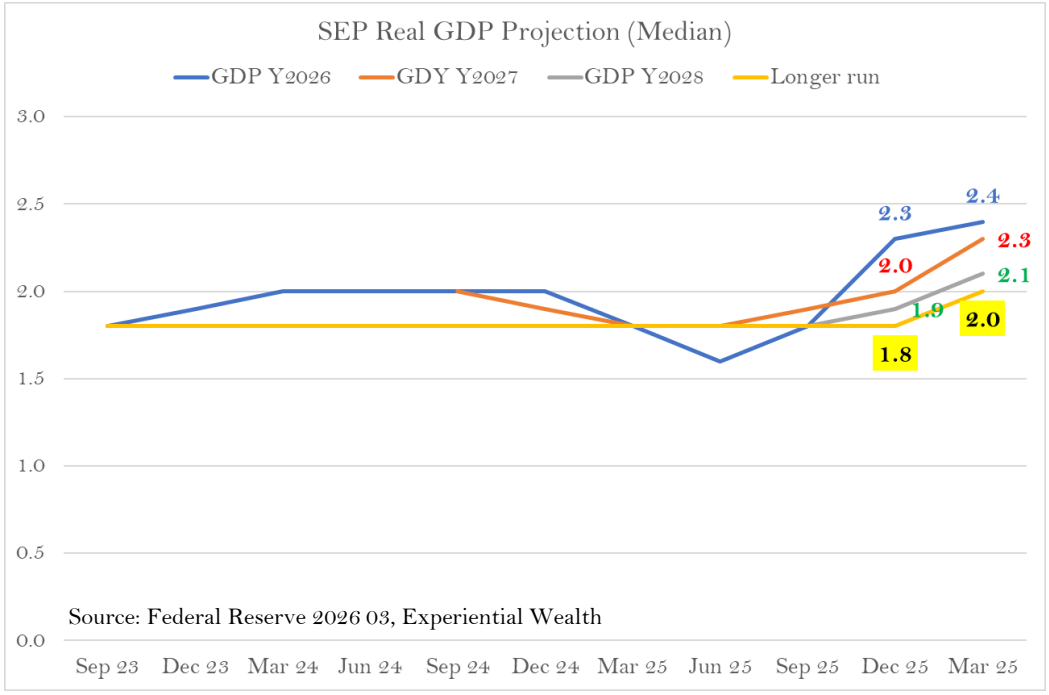
FOMC Members' Median Economic Projections (03-2026)

Central Tendency	Y2026		Y2027		Y2028		Longer Term	
Real GDP	Low	High	Low	High	Low	High	Low	High
Dec-25	2.1%	2.5%	1.9%	2.3%	1.8%	2.1%	1.8%	2.0%
Mar-26	2.2%	2.5%	2.0%	2.4%	2.0%	2.3%	1.8%	2.0%
U3 Unemployment	Low	High	Low	High	Low	High	Low	High
Dec-25	4.3%	4.4%	4.2%	4.2%	4.0%	4.3%	4.0%	4.3%
Mar-26	4.3%	4.5%	4.2%	4.4%	4.0%	4.3%	4.0%	4.3%
PCE Inflation	Low	High	Low	High	Low	High	Low	High
Dec-25	2.3%	2.5%	2.0%	2.2%	2.0%	2.0%	2.0%	2.0%
Mar-26	2.6%	3.1%	2.0%	2.3%	2.0%	2.0%	2.0%	2.0%
Core PCE	Low	High	Low	High	Low	High	Low	High
Dec-25	2.4%	2.6%	2.0%	2.2%	2.0%	2.0%	N.A.	N.A.
Mar-26	2.5%	2.8%	2.0%	2.3%	2.0%	2.0%	N.A.	N.A.
Fed Funds	Low	High	Low	High	Low	High	Low	High
Dec-25	2.9%	3.6%	2.9%	3.6%	2.8%	3.6%	2.8%	3.5%
Mar-26	3.1%	3.6%	2.9%	3.6%	2.9%	3.6%	2.9%	3.5%

	Higher
	No Change
	Lower

https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260318.htm

Summary of Economic Projections (SEP) – GDP



The March SEP published by the Fed shows an upward revision or projection to the US GDP for every year beginning in 2026 and to the longer run. From Chair Powell's March 18 Press Conference. Productivity is the central explanation. Powell noted that meaningfully higher productivity had been visible for roughly four to five years and that this was not yet attributable to generative AI. He emphasized that forecasters are typically skeptical of sustained productivity booms because they are rare and often revised away, but the run had been long enough that participants were beginning to bake more of it into their longer-run views. There is a growing confidence among participants in the productivity story. Powell explicitly tied the near-term GDP markup to this same theme. There is also mechanical effects from the late-2025 government shutdown. Some of the 2026 markup is not "new growth" but a timing shift. As analysts noted, growth was taken from Q4 2025 and put into Q1 2026 due to the government shutdown and reopening, a point Powell had also flagged at the December 2025 meeting.

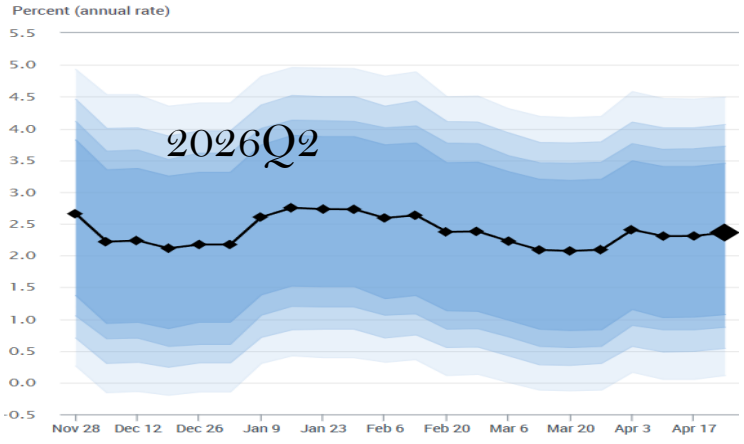
U.S. Economy – 2026Q1 GDP & Q2 Projections

	Adv Est	2nd Est	3rd Est
Gross Domestic Product	1.4	0.7	0.5
Personal Consumption Expenditure (PCE)	2.4	2.0	1.9
Goods	-0.1	0.4	0.3
Durable	-0.9	0.0	0.1
Nondurable	0.4	0.6	0.4
Services	3.4	2.7	2.7
Gross Private Domestic Investment	3.8	3.3	2.3
Fixed Investment	2.6	1.6	1.5
Non-Residential;	3.7	2.2	2.4
Structures	-2.4	-7.1	-6.5
Equipment	3.2	3.9	4.3
IP Product	7.4	5.7	5.4
Residential	-1.5	-0.5	-1.7

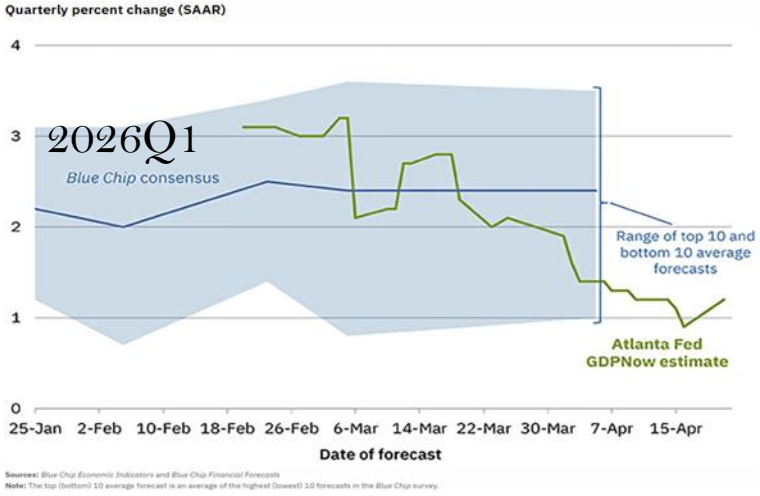
	Adv Est	2nd Est	3rd Est
Net Export of Goods and Services			
Exports	-0.9	-3.3	-3.2
Goods	-1.8	-1.8	-1.7
Services	0.5	-6.0	-5.7
Imports	-1.3	-1.1	-1.0
Goods	-2.8	-2.5	-2.4
Services	3.9	4.0	4.2
Gov't Consumption Expenditure	-5.1	-5.8	-5.6
Federal	-16.6	-16.7	-16.6
National Defense	-10.8	-10.7	-10.7
Non defense	-24.1	-24.4	-24.3
State & Local	2.4	1.2	1.5

Source: BEA, Philip Chao

New York Fed Nowcast



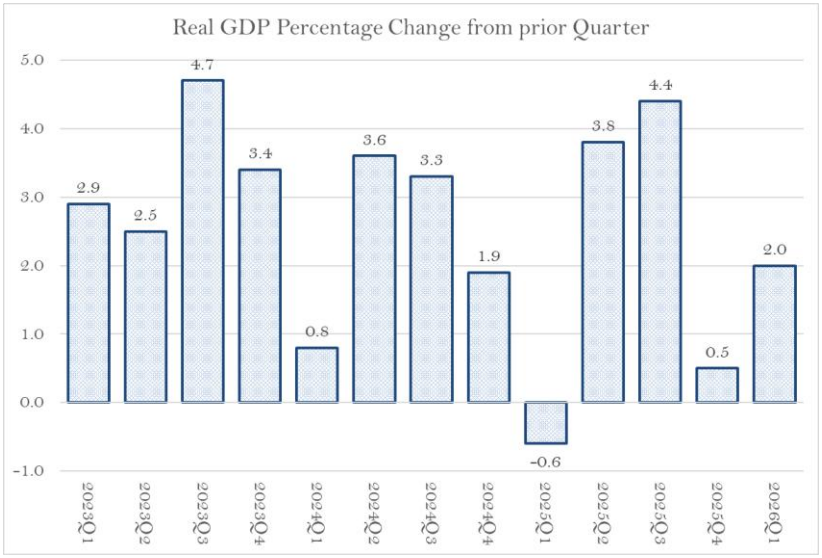
Atlanta Fed GDPNow

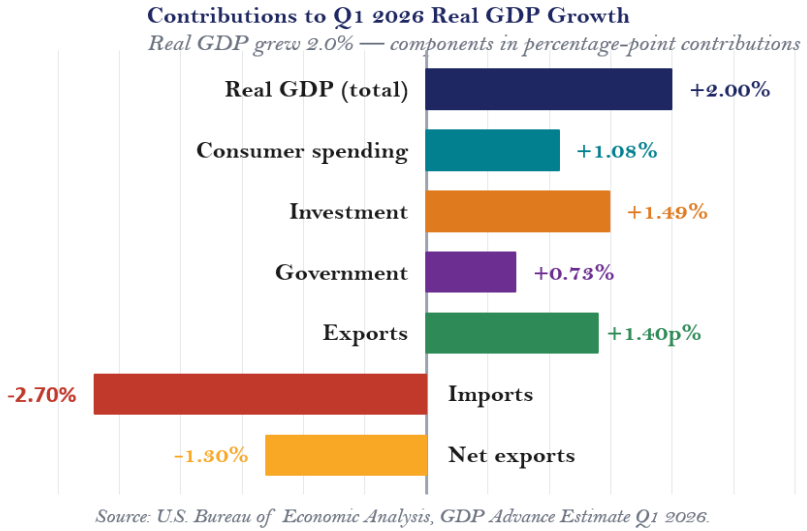


The New York Fed Staff Nowcast for 2026:Q1 is 2.4%, with the 50% probability interval at [1.1, 3.5]% and the 80% interval at [0.1, 4.5]%. The Staff Nowcast for 2026:Q2 is 2.8%. As of 04-26-2026.
https://www.newyorkfed.org/research/policy/nowcast#/nowcast

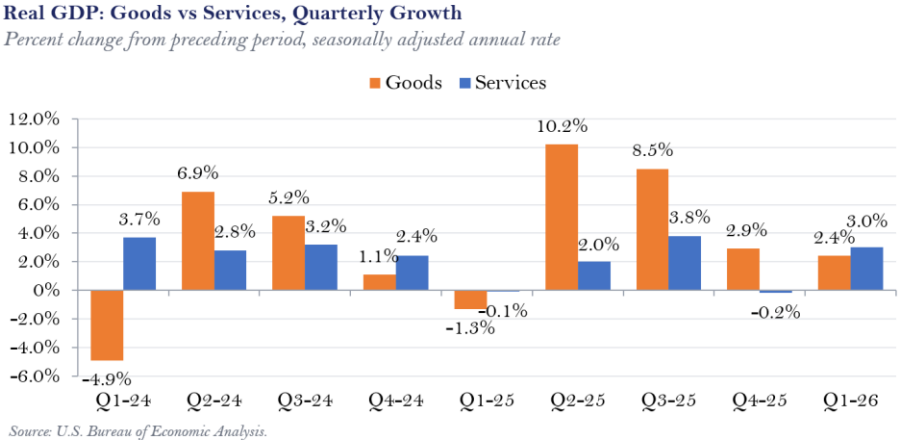
The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2025 is 1.2 percent on 4-21-2026.
https://www.atlantafed.org/cqer/research/gdpnow

GDP 2026Q1





Real gross domestic product (GDP) increased at an annual rate of 2.0 percent in the first quarter of 2026, according to the advance estimate by the BEA. In the fourth quarter of 2025, real GDP increased 0.5 percent. The contributors to the increase in real GDP in the first quarter were investment, exports, consumer spending, and government spending. Imports, which are a subtraction in the calculation of GDP, also increased.

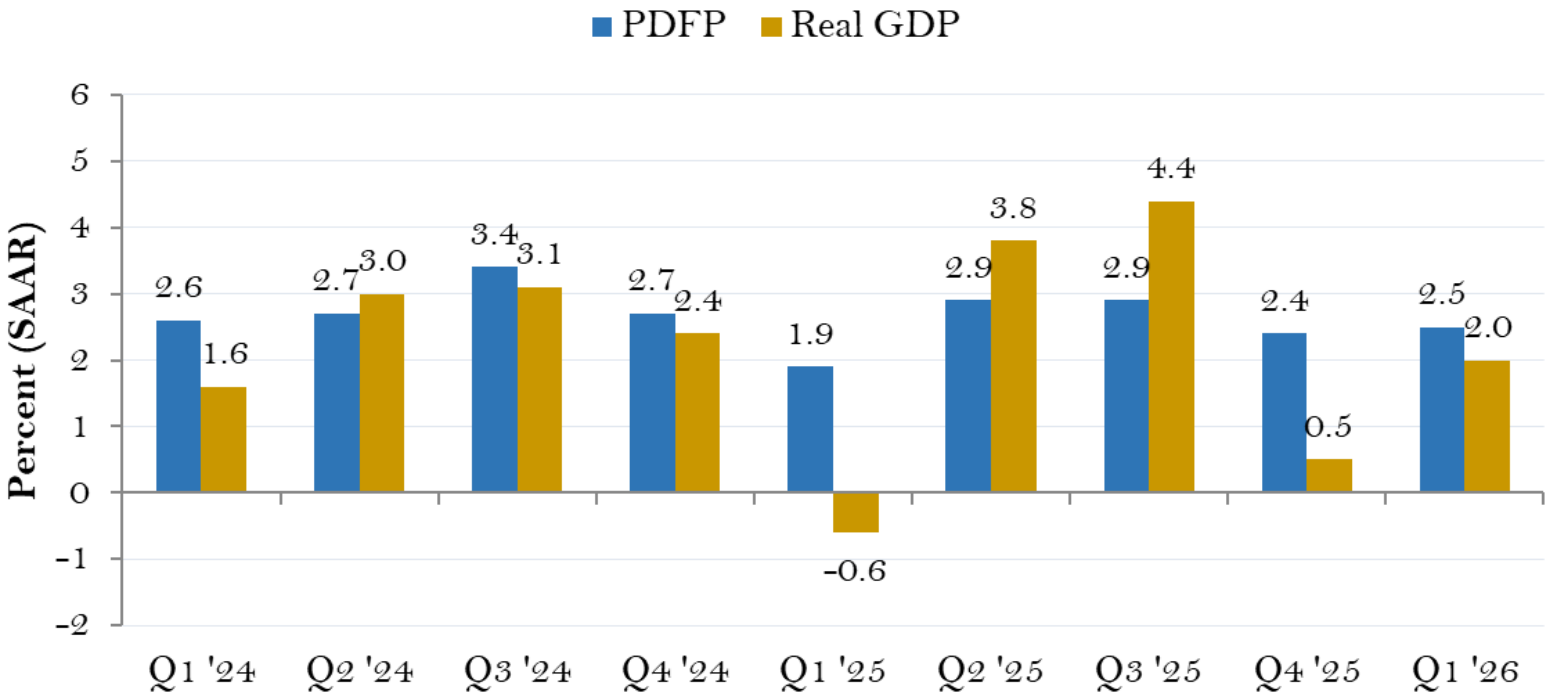


Chair Powell's Preferred Economic Gauge – PDFP

- Private Domestic Final Purchases (PDFP) is a measure of underlying domestic demand in the U.S. economy.
- Gross Domestic Product (GDP) measures the total monetary value of all final goods and services produced within a country's borders. GDP is a noisy quarterly measure because three of its components can swing wildly without reflecting the true underlying health of the economy:
    - Net exports — A surge in imports (often from companies front-running tariffs, as happened in early 2025) mechanically subtracts from GDP even though it reflects strong domestic demand. Conversely, a drop in imports inflates GDP without indicating real strength.
    - Inventory changes — Inventory builds and drawdowns can add or subtract several percentage points from GDP in a single quarter and tend to reverse, distorting the underlying trend.
    - Government spending — Particularly federal defense outlays and one-off programs can produce volatility unrelated to private-sector momentum.
- By stripping all three out, PDFP isolates what U.S. households and businesses are actually buying for final use. This represents consumer spending plus business and residential fixed investment. The Fed treat PDFP as a cleaner measure on private-sector demand and a better leading indicator of where GDP is heading once the noise is removed. This is exactly what Powell gets at during the April Press Conference when he said that GDP is at "two percent or better" but PDFP is "actually higher than that", meaning the underlying private economy is stronger than the headline suggests.

PDFP vs. GDP, quarterly: Q1 2024 – Q1 2026

Quarter-over-quarter % change at seasonally adjusted annual rate

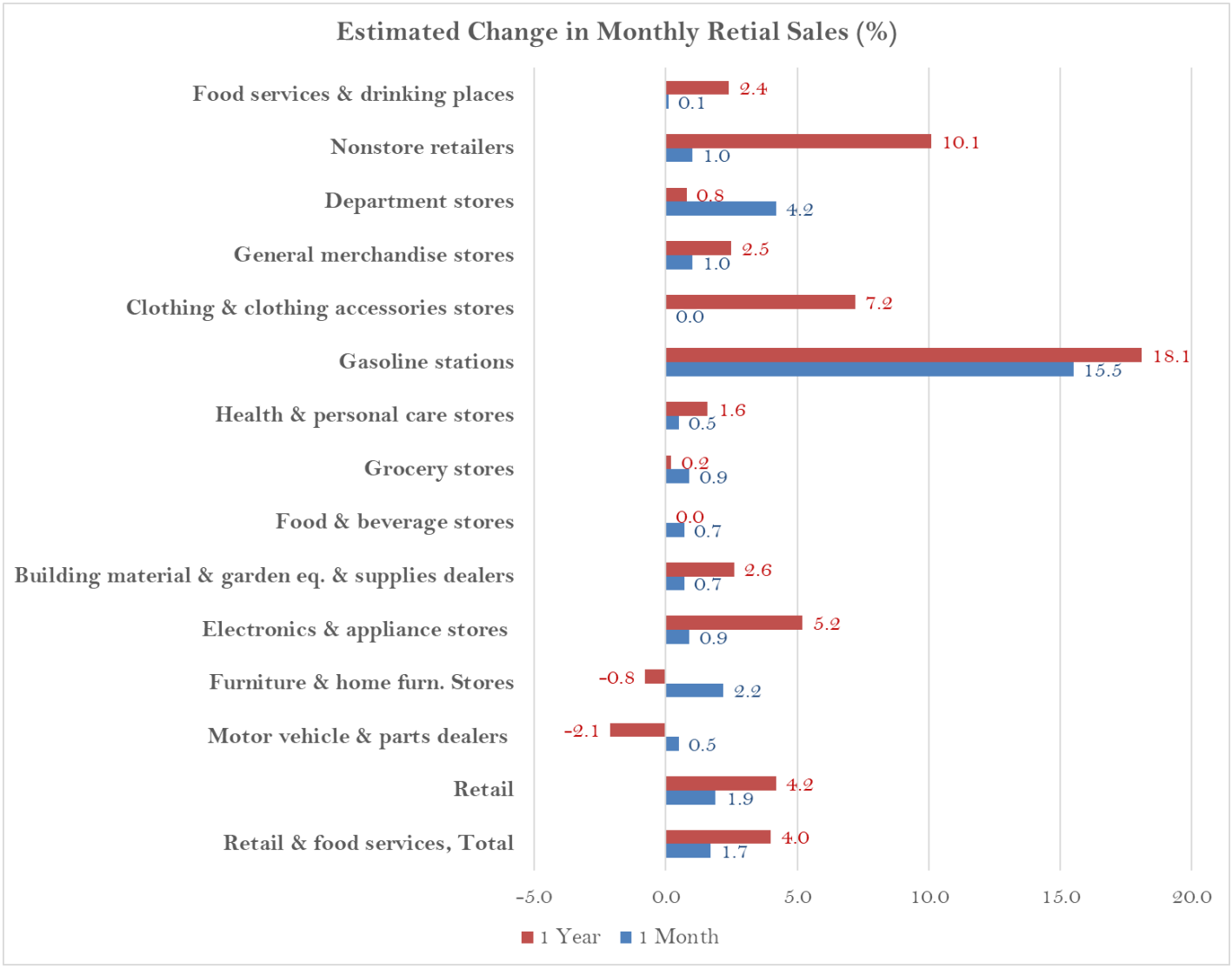


Note Q1 2025: GDP −0.6% (import surge), but PDFP +1.9% — the cleanest example of why Powell looks past headline GDP.

PDFP has stayed in a tight 1.9–3.4% range across all nine quarters, while GDP swung from −0.6% (Q1 2025, tariff-driven import surge) to +4.4% (Q3 2025) and back down to +0.5% (Q4 2025, the 43-day federal shutdown).

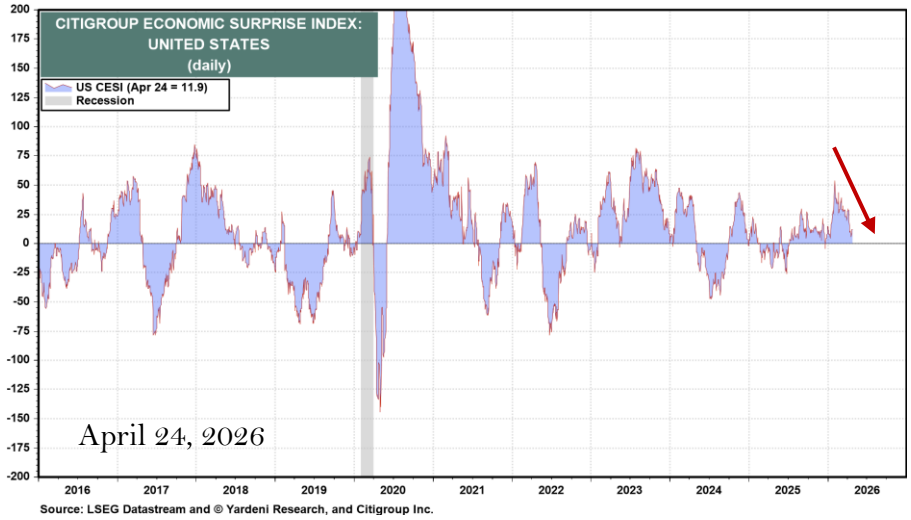
Source: All figures from BEA NIPA Table 1.4.1, reflecting the September 2025 annual update plus the April 30, 2026, advance estimate for Q1 2026.

Retail Sales March 2026 (Spike in Gas Stations)

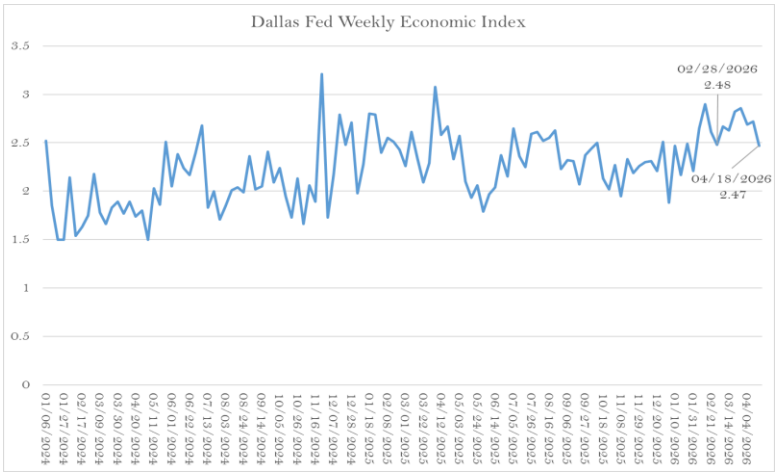


Source: https://www.census.gov/retail/sales.html & Philip Chao

High Frequency Economic Data



https://yardeni.com/charts/citigroup-economic-surprise/

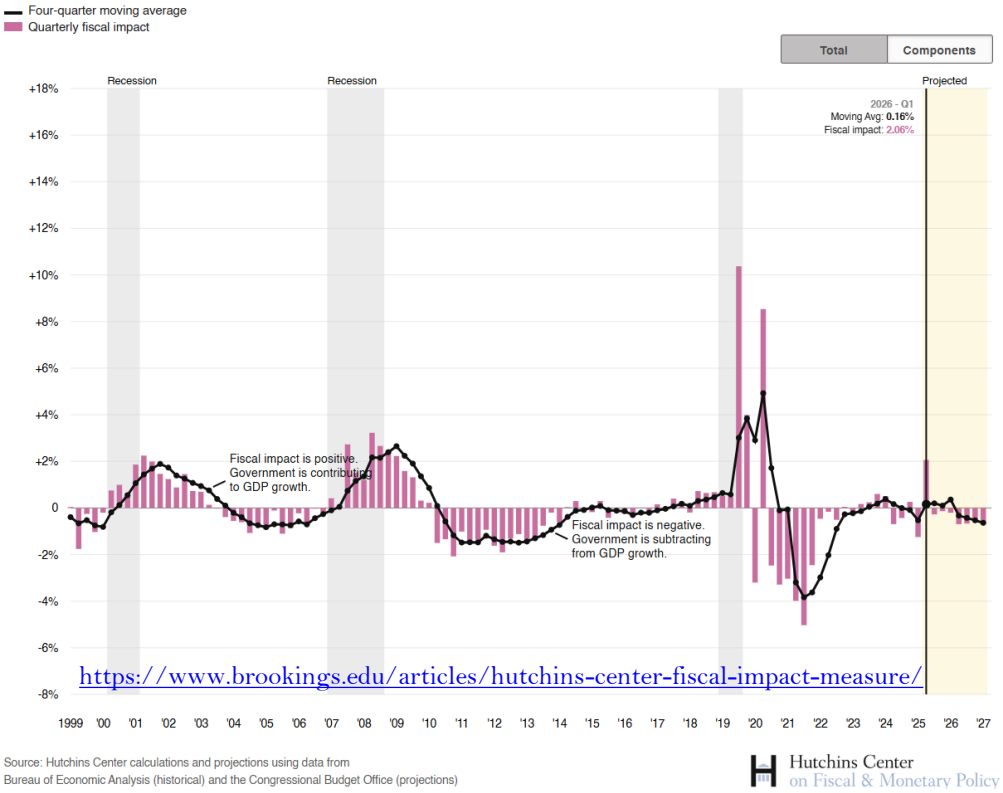


Source: Federal Reserve Bank of Dallas, Philip Chao as of 04-18-2026
https://www.dallasfed.org/research/wei

Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, is now back to neutral. (We prefer "exceeding" expectations). As a trend, going forward the expectation is more likely to be disappointing than exceeding. This is a sign of the economy slowing more than the market's expectation. Since the last quarter of 2024, the economy continues to be underwhelming.

Dallas Fed's Weekly Economic Index (WEI) provides a signal of the state of the U.S. economy based on data available on a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. The WEI is currently 2.47 percent, scaled to four-quarter GDP growth, for the week ended April 18 and 2.72 percent for April 11. The 13-week moving average is 2.63 percent. This is compared with 1.99 percent four-quarter GDP growth through first quarter 2026.

Brookings Financial Impact Measure (FIM)



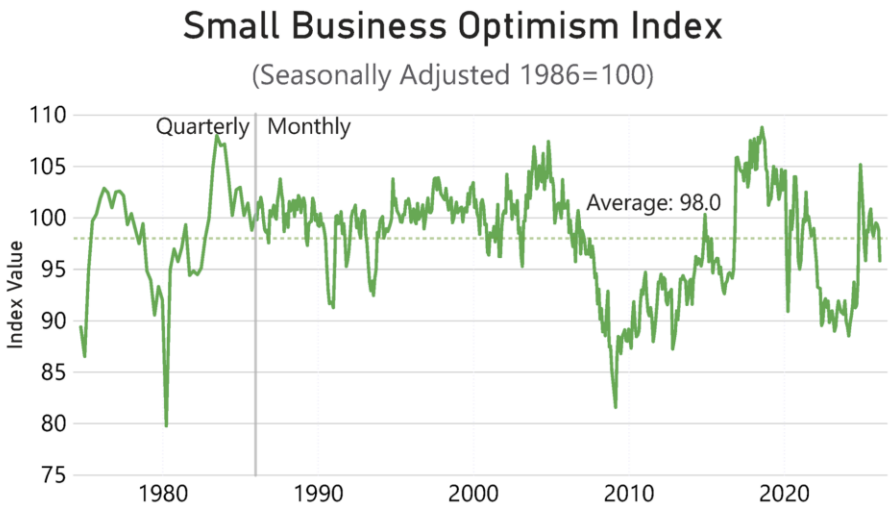
Fiscal policy subtracted 1.3% from U.S. GDP growth in the fourth quarter of 2025, according to the FIM. The FIM translates changes in taxes and spending at the federal, state, and local levels into changes in aggregate demand, showing the effect of fiscal policy on real GDP growth. Real GDP rose at an annual rate of 0.7 percent in the fourth quarter, according to the latest government estimate. Brookings expects fiscal policy to add 2.1% to GDP growth in the 2026Q1. This reflects the reversal of the temporary effects of the government shutdown, as well as the stimulative effects of the OBBBA on both purchases and taxes. Hutchins forecasts that fiscal policy will be moderately restrictive over the remainder of 2026 as the restrictive effect of tariffs and weak underlying purchases are mostly offset by the stimulative effects of the OBBBA. In 2027, the FIM will turn more restrictive as purchases continue to be weak and supply side effects - notably the waning effects of the equipment purchases we assume had been spurred by the CHIPS and Inflation Reduction Acts -turn negative.

National Federation of Independent Business (NFIB) – 03-2026

- The frequency of reports of positive profit trends fell 11 points from February to a net negative 25% (seasonally adjusted), contributing the most to the Optimism Index's decline.
- The net percent of owners expecting better business conditions fell 7 points from February to a net 11% (seasonally adjusted), the third consecutive monthly decline and the lowest level since October 2024. This was the second biggest contributor to the Index's decline.
- The Employment Index fell in March from 103.5 to 101.6. While the 1.9-point decline is a meaningful turn in labor market conditions, the current reading remains above both the 2025 average of 101.2 and the historical average of 100.
- In March, both planned and actual labor compensation decreased from the previous month. A seasonally adjusted net 33% reported raising compensation, down 1 point from February. A seasonally adjusted net 18% plan to raise compensation in the next three months, down 4 points from February and the lowest reading since July 2025.
- Sixteen percent (seasonally adjusted) of small business owners plan to make capital outlays in the next six months, down 2 points from February and the lowest level since November 2009.
- A seasonally adjusted net negative 5% of all owners reported higher nominal sales in the past three months, down 6 points from February. This decline ended a string of four consecutive months of improvement.
- A net negative 5% (seasonally adjusted) of owners plan inventory investment in the coming months, down 3 points from February and the lowest level since May 2024. This is in step with the decline in those expecting higher sales over the next quarter.
- In March, 62% of small business owners reported that supply chain disruptions affected their business to some extent, up 3 points from February. Three percent reported a significant impact (down 2 points), 17% reported a moderate impact (up 3 points), 42% reported a mild impact (up 2 points), and 36% reported no impact (down 3 points).
- Actual price increases picked up in March following three consecutive months of decline. The net percent of owners raising average selling prices rose 1 point from February to a net 25% (seasonally adjusted), well above its historical average.
- In contrast to actual prices, planned prices declined in March, falling 4 points to a net 24% (seasonally adjusted). This was the lowest level since July 2024.
- When asked to evaluate the overall health of their business, 13% rated it as excellent (up 1 point), 51% as good (down 4 points), 30% as fair (up 4 points), and 4% as poor (down 1 point).

https://www.nfib.com/news/monthly_report/sbet/

National Federation of Independent Business (NFIB) – 03-2026



The NFIB Small Business Optimism Index fell 3.0 points in March to 95.8, leaving it below its 52-year average of 98.0. The last time the Optimism Index fell below its historical average was April 2025. The Uncertainty Index rose 4 points from February to 92, well above its historical average of 68.

NFIB Survey – Small Business Outlook 03-2026

OUTLOOK FOR EXPANSION

Percent Next Three Months "Good Time to Expand"
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	8	6	11	14	13	15	13	11	11	10	10	11
2022	9	8	6	4	6	3	4	5	6	5	6	5
2023	7	6	2	3	3	6	6	6	5	6	8	8
2024	8	5	4	4	4	4	5	4	4	6	14	20
2025	17	12	9	9	10	11	16	14	11	13	13	13
2026	15	15	11									

MOST IMPORTANT REASON FOR EXPANSION OUTLOOK

Reason Percent by Expansion Outlook
March 2026

Reason	Good Time	Not Good Time	Uncertain
Economic Conditions	4	22	14
Sales Prospects	5	4	2
Fin. & Interest Rates	0	2	3
Cost of Expansion	0	6	7
Political Climate	3	7	8
Other / Not Available	1	1	2

OUTLOOK FOR GENERAL BUSINESS CONDITIONS

Net Percent ("Better" Minus "Worse") Six Months From Now
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-23	-19	-8	-15	-26	-12	-20	-28	-33	-37	-38	-35
2022	-33	-35	-49	-50	-54	-61	-52	-42	-44	-46	-43	-51
2023	-45	-47	-47	-49	-50	-40	-30	-37	-43	-43	-42	-36
2024	-38	-39	-36	-37	-30	-25	-7	-13	-12	-5	36	52
2025	47	37	21	15	25	22	36	34	23	20	15	24
2026	21	18	11									

NFIB Survey – Small Business Earnings & Sales

ACTUAL EARNINGS CHANGES

Net Percent ("Higher" Minus "Lower") Last Three Months
Compared to Prior Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-16	-11	-15	-7	-11	-5	-13	-15	-14	-17	-17	-14
2022	-17	-17	-17	-17	-24	-25	-26	-33	-31	-30	-22	-30
2023	-26	-23	-18	-23	-26	-24	-30	-25	-24	-32	-32	-25
2024	-30	-31	-29	-27	-30	-29	-30	-37	-34	-33	-26	-26
2025	-25	-24	-28	-21	-26	-22	-22	-19	-16	-25	-23	-20
2026	-21	-14	-25									

MOST IMPORTANT REASON FOR LOWER EARNINGS

Percent Reason
March 2026

Reason	Current Month	One Year Ago	Two Years Ago
Sales Volume	13	16	14
Increased Costs*	8	12	17
Cut Selling Prices	5	2	6
Usual Seasonal Change	8	8	6
Other	3	1	2

** Increased costs include labor, materials, finance, taxes, and regulatory costs.*

ACTUAL SALES CHANGES

Net Percent ("Higher" Minus "Lower") Last Three Months
Compared to Prior Three Months
(Seasonally Adjusted)

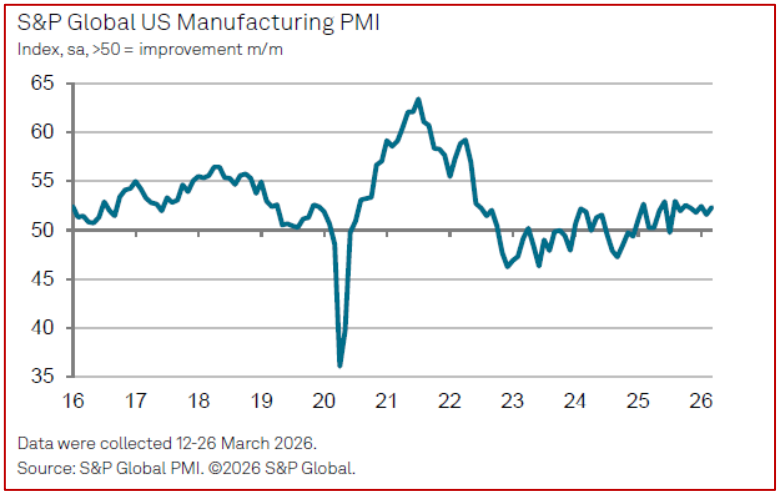
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-7	2	-6	3	7	9	5	0	3	-4	-2	1
2022	2	0	4	3	1	-2	-5	-8	-5	-8	-7	-8
2023	-4	-6	-6	-9	-8	-10	-13	-14	-8	-17	-17	-11
2024	-11	-13	-10	-13	-14	-12	-16	-16	-17	-20	-13	-13
2025	-14	-12	-11	-8	-13	-5	-9	-9	-7	-13	-9	-8
2026	-6	1	-5									

SALES EXPECTATIONS

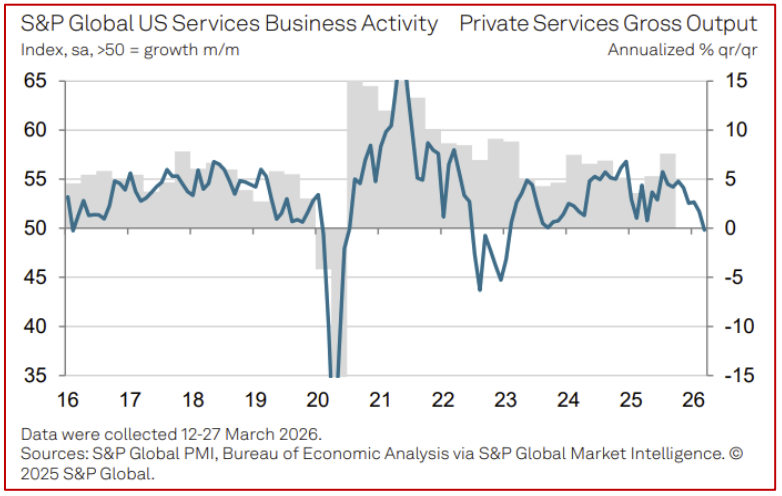
Net Percent ("Higher" Minus "Lower") During Next Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-6	-8	0	1	3	7	-4	-2	2	0	2	3
2022	-3	-6	-18	-12	-15	-28	-29	-19	-10	-13	-8	-10
2023	-14	-9	-15	-19	-21	-14	-12	-14	-13	-10	-8	-4
2024	-16	-10	-18	-12	-13	-13	-9	-18	-9	-4	14	22
2025	20	14	3	-1	10	7	6	12	8	6	15	10
2026	16	8	7									

S&P Business Survey shows strength



- US manufacturing performance improved in March, with growth solid and picking up since February amid better gains in both output and new orders. However, with tariffs continuing to negatively impact new export sales, growth was principally driven by higher domestic demand. Moreover, this in part reflected some client safety stock building due to the war in the Middle East, which drove up inflation and added to supply-chain stress. March's survey signaled notable accelerations in both input and output price inflation, whilst the time taken to deliver inputs to manufacturers deteriorated to the greatest degree since October 2022. Meanwhile, confidence in the outlook softened fractionally, with firms noting worries over higher energy prices and tariffs. Employment numbers were little changed overall.



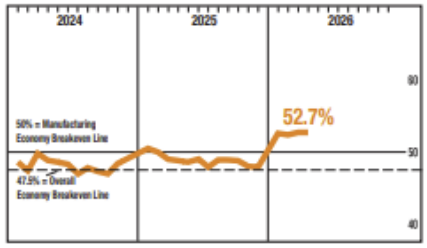
- The US private sector services economy experienced a contraction of activity at the end of the first quarter of 2026, according to March PMI survey data from S&P Global. It was the first decline recorded in over three years amid the weakest rise in new work since April 2024. Confidence in the outlook weakened against a backdrop of rising cost pressures as a surge in energy prices following the outbreak of war in the Middle East cast a shadow over the sector. Employment numbers fell fractionally amid an uncertain outlook.
- The headline Business Activity Index recorded 49.8 in March, down from February's 51.7 and lower than the earlier 'flash' estimate of 51.1. Overall, it was the lowest index reading for over three years and consistent with a fractional contraction in activity. Panelists commonly linked the deterioration in activity to the impact of the war in the Middle East. Latest survey data showed the weakest growth in new work for just under two years. There were reports of a lack of client confidence, amid worries that the conflict will increase prices. Export trade also deteriorated to a greater degree than in February, falling solidly overall. Firms noted that the adverse impact of tariffs on trade was compounded by the hit to sentiment of the war in the Middle East.

https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en

ISM Report on Business 04-2026 – Maunfacturing PMI (50% + is expansion)

MANUFACTURING PMI® at 52.7%

The U.S. manufacturing sector expanded in April for the fourth straight month following a 10-month period of contraction, registering 52.7 percent, the same reading as March. Of the five subindexes that directly factor into the Manufacturing PMI®, three (New Orders, Production and Supplier Deliveries) were in expansion territory, the same as in March. The Employment and Inventories indexes stayed in contraction, with Employment in decline compared to March.



Manufacturing at a Glance

INDEX	Apr Index	Mar Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	52.7	52.7	0.0	Growing	Same	4
New Orders	54.1	53.5	+0.6	Growing	Faster	4
Production	53.4	55.1	-1.7	Growing	Slower	6
Employment	46.4	48.7	-2.3	Contracting	Faster	31
Supplier Deliveries	60.6	58.9	+1.7	Slowing	Faster	5
Inventories	49.0	47.1	+1.9	Contracting	Slower	12
Customers' Inventories	39.1	40.1	-1.0	Too Low	Faster	19
Prices	84.6	78.3	+6.3	Increasing	Faster	19
Backlog of Orders	51.4	54.4	-3.0	Growing	Slower	4
New Export Orders	47.9	49.9	-2.0	Contracting	Faster	2
Imports	50.3	52.6	-2.3	Growing	Slower	3
Overall Economy				**Growing**	**Same**	**18**
Manufacturing Sector				**Growing**	**Same**	**4**

*Number of months moving in current direction. ISM® *Manufacturing PMI® Report* data have been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

Economic activity in the manufacturing sector expanded in April for the fourth consecutive month. The Manufacturing PMI registered 52.7 percent in April, the same reading as March. The overall economy continued in expansion for the 18th month in a row. (A Manufacturing PMI above 47.5 percent, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index expanded for the fourth straight month after four straight readings in contraction, registering 54.1 percent, up 0.6 percentage point compared to March's figure of 53.5 percent. The April reading of the Production Index (53.4 percent) is 1.7 percentage points lower than March's reading of 55.1 percent. The Prices Index remained in expansion (or 'increasing' territory), registering 84.6 percent, a 6.3-percentage point jump from March's reading of 78.3 percent. In the last three months, the Prices Index has increased 25.6 percentage points to reach its highest level since April 2022 (84.6 percent).

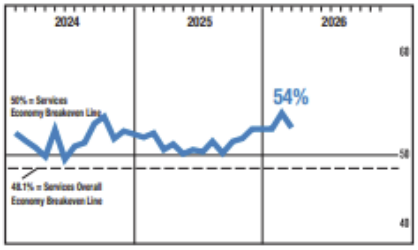
The 13 manufacturing industries reporting growth in April — listed in order — are: Textile Mills; Nonmetallic Mineral Products; Primary Metals; Plastics & Rubber Products; Miscellaneous Manufacturing‡; Transportation Equipment; Machinery; Electrical Equipment, Appliances & Components; Paper Products; Fabricated Metal Products; Computer & Electronic Products; Chemical Products; and Furniture & Related Products.

Source: https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

ISM Report on Business 03-2026 – Services PMI (50% + is expansion)

SERVICES PMI® at 54%

In March, the Services PMI® registered 54 percent, 1.7 percentage points above its 12-month moving average. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting. A Services PMI® above 48.1 percent, over time, generally indicates an expansion of the overall economy. Therefore, the March Services PMI® indicates the overall economy is expanding for the 70th straight month.



Services at a Glance

INDEX	Mar Index	Feb Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	54.0	56.1	-2.1	Growing	Slower	21
Business Activity	53.9	59.9	-6.0	Growing	Slower	21
New Orders	60.6	58.6	+2.0	Growing	Faster	10
Employment	45.2	51.8	-6.6	Contracting	From Growing	1
Supplier Deliveries	56.2	53.9	+2.3	Slowing	Faster	16
Inventories	54.8	56.4	-1.6	Growing	Slower	2
Prices	70.7	63.0	+7.7	Increasing	Faster	106
Backlog of Orders	53.6	55.9	-2.3	Growing	Slower	2
New Export Orders	50.7	57.2	-6.5	Growing	Slower	2
Imports	55.2	51.8	+3.4	Growing	Faster	2
Inventory Sentiment	55.3	55.3	-1.0	Too High	Slower	35
Overall Economy				**Growing**	**Slower**	**70**
Services Sector				**Growing**	**Slower**	**21**

*Number of months moving in current direction. ISM® *Services PMI® Report* data have been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

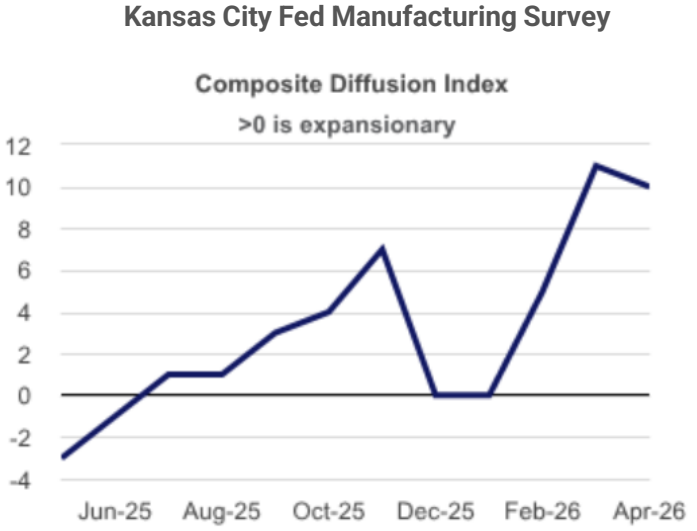
Economic activity in the services sector continued to expand in March. The Services PMI registered 54 percent, the 21st consecutive month in expansion territory. The Business Activity Index remained in expansion territory in March but dropped from February's reading of 59.9 percent to 53.9 percent, its lowest reading since September 2025 (50.2 percent). The New Orders Index registered 60.6 percent, 2 percentage points above February's figure of 58.6 percent and its highest level since February 2023 (61 percent). The Employment Index contracted for the first time in four months with a reading of 45.2 percent, a 6.6-percentage point decrease from the 51.8 percent recorded in February. The Prices Index registered 70.7 percent in March, a 7.7-percentage point increase over February's figure of 63 percent and its highest reading since October 2022 (70.7 percent). The index has exceeded 60 percent for 16 straight months but is only 3.5 percentage points above its 12-month average of 67.2 percent.

The 13 services industries reporting growth in March — listed in order — are: Wholesale Trade; Management of Companies & Support Services; Finance & Insurance; Accommodation & Food Services; Transportation & Warehousing; Educational Services; Mining; Construction; Utilities; Other Services✢; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; and Information.

Source: https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Manufacturing Activities Continue to be Mixed – 04-2026

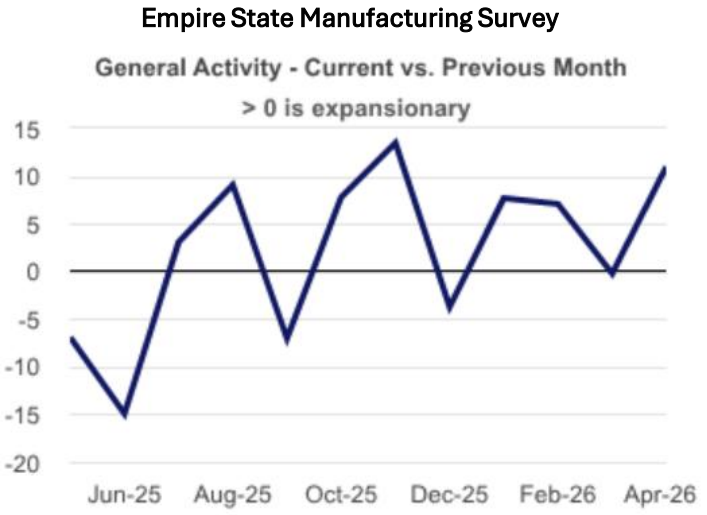
Manufacturing conditions are little changed in the Golden State. While the composite index edged higher, the gain was slight and the details mixed. Employment was the only component to increase at a higher rate over the quarter. It is unclear how employment would rally given the already long-standing labor shortages that have been compounded by recent immigration policy shifts, but this does lend upside risk to wages. Production and new orders are expected to rise, but not as much as previously. Supplier deliveries are expected to be slower, likely as a result of ongoing trade policy shifts and the conflict in the Middle East.



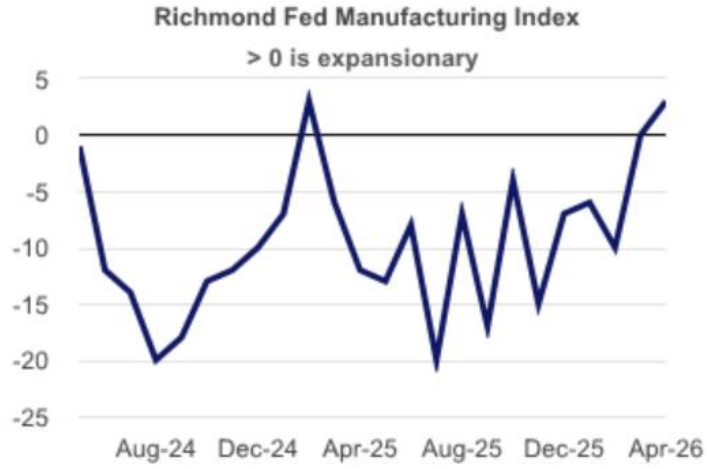
Moderate increases in production and new orders are supporting manufacturing in the Tenth District. In April, the top-line composite index held near its highest level in more than a year, reflecting broad-based demand. Strength appears concentrated in food manufacturing, while industry employment is inching higher. Overall, factories are performing well. Input price growth has accelerated, with the prices paid for raw materials index reaching its highest level in more than a year. Energy costs are a key driver - nearly 90% of survey respondents reported higher transportation costs.

Source: Moody's Economics

Manufacturing Activities Continue to be Mixed – 04-2026



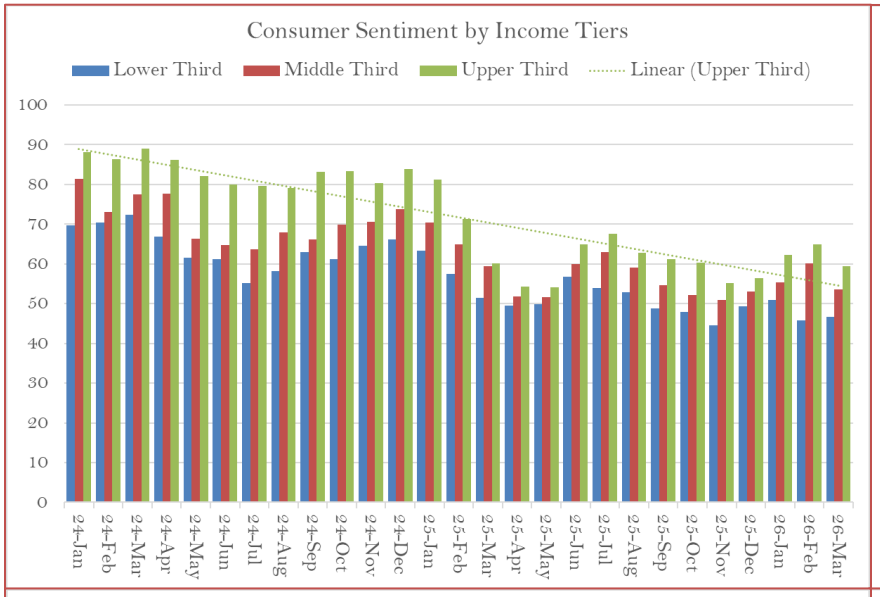
New York's manufacturers are enjoying a smooth ride, but the road ahead contains numerous potholes, according to the April Empire State Manufacturing Survey. The top-line general business conditions index rose from -0.2 to 11, representing a five-month high. Demand measures look even more impressive, with both new orders and shipments posting their best results in nearly three years. But while rising geopolitical uncertainty appears to have had little impact on order books to date, it is evident elsewhere. Both the current and forward-looking prices paid indexes increased to their highest levels since autumn, likely reflecting the surge in oil prices. Meanwhile, the six-month-ahead general business conditions index fell by double digits to a five-month low.

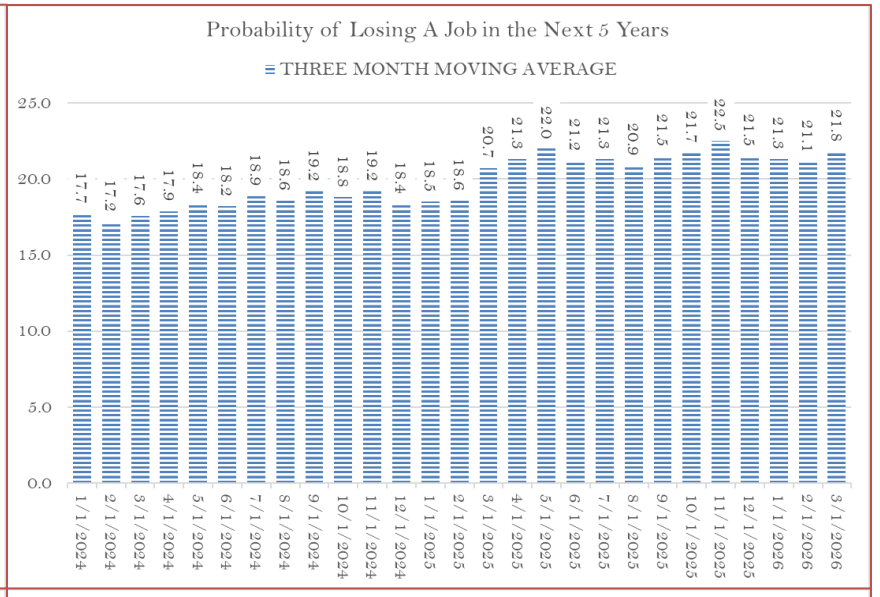


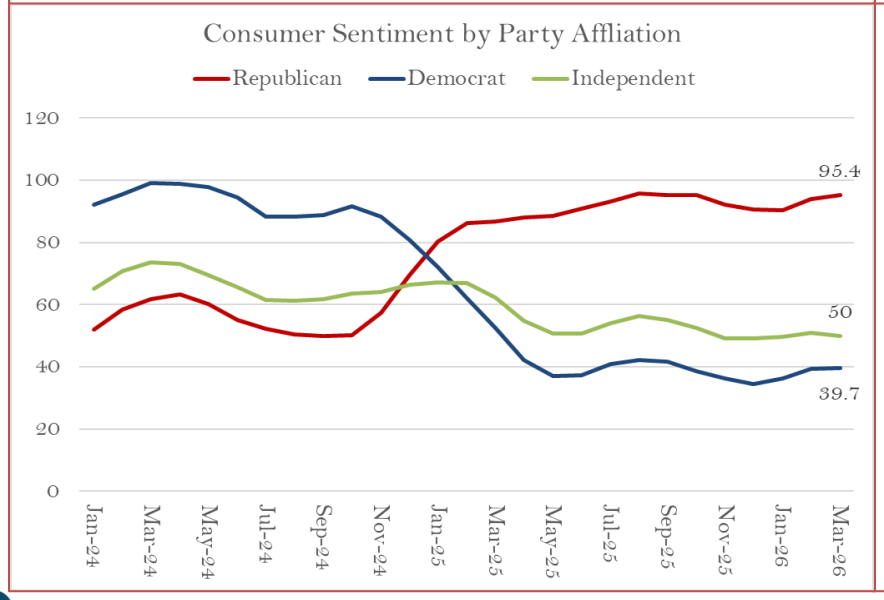
According to the Richmond Fed Manufacturing Survey, factory activity inched up in April. The top-line index increased from 0 in March to 3 in April, the first reading above zero since February 2025. Two of the three component indexes improved on the month. Demand strengthened again, with the new orders index increasing from 4 in March to 8 in April, and the employment index ticked up from -2 to 0. The shipments index held at -2 in April, the same as in March.

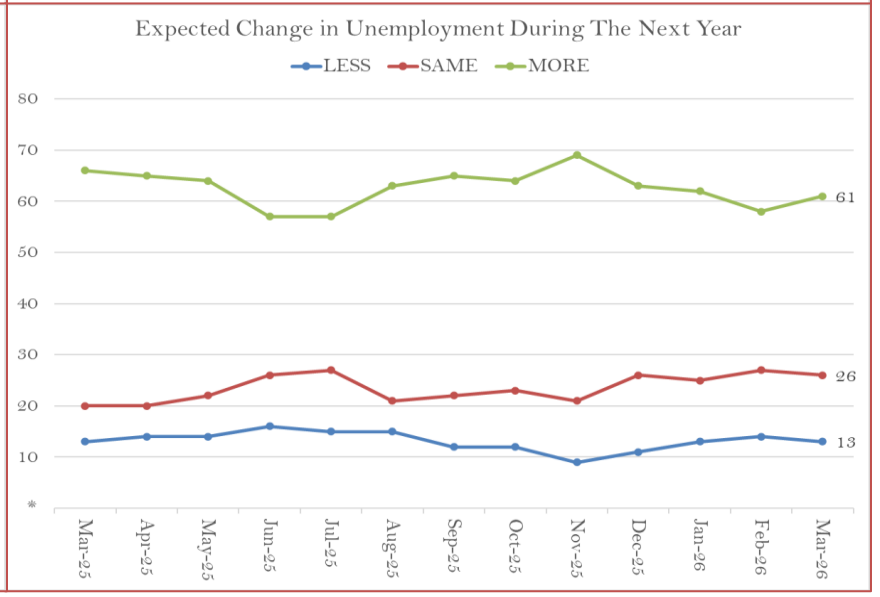
Source: Moody's Economics

UMich Consumer Surveys – 03-2026



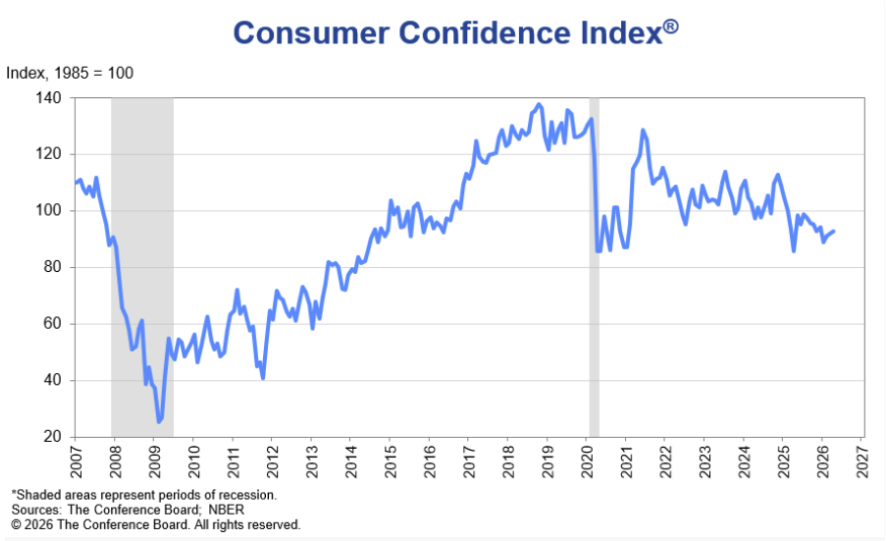






Source: https://data.sca.isr.umich.edu/tables.php

Conference Board – Consumer Confidence (04-2026)



The Consumer Confidence Survey reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes, buying intentions, vacation plans, and consumer expectations for inflation, stock prices, and interest rates. Data are available by age, income, 9 regions, and top 8 states.

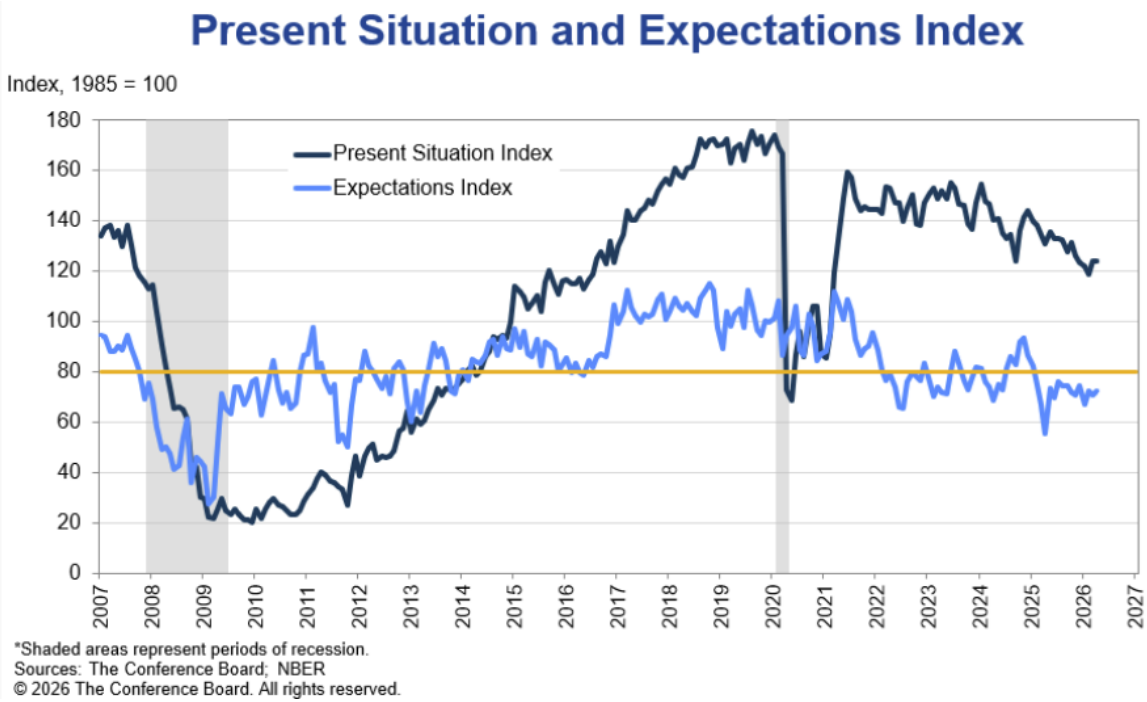
The Conference Board Consumer Confidence Index edged up by 0.6 points to 92.8 (1985=100) in April, from 92.2 in March's upwardly revised reading. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—retreated by 0.3 points to 123.8. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—rose by 1.2 points to 72.2.

The survey period for this month's preliminary results was April 1–22, a period that included the temporary two-week ceasefire in the Middle East conflict beginning April 8 and the subsequent rebound in US equities.

"Consumer confidence edged up in April but was overall little changed, despite material concern about rising gasoline prices as the war in the Middle East prompted a surge in Brent crude oil prices," said Dana M Peterson, Chief Economist, The Conference Board. "Consumer appraisals of current and expected business conditions declined moderately compared to last month. This was offset by modest improvements in consumers' perceptions of the labor market, both current and expected, as well as income expectations, which were slightly more optimistic in April."

https://www.conference-board.org/topics/consumer-confidence

Conference Board – Present & Expected (03-2026)



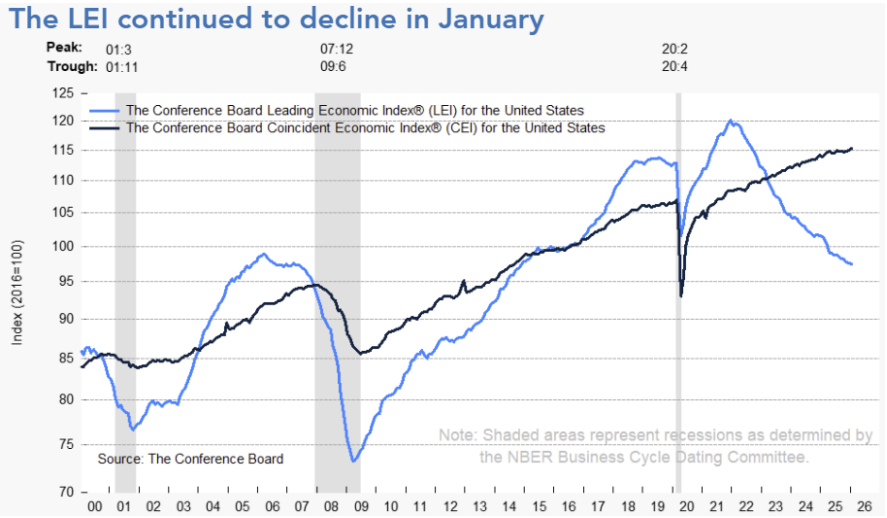
The Present Situation Index cooled slightly in April, as net views of current business conditions (the share saying conditions are "good" versus "bad") fell by 1.8 ppts to +4.1%. Perceptions of employment conditions improved slightly, with the labor market differential—the share of consumers saying jobs are "plentiful" minus the share saying jobs are "hard to get"—ticking up by 1.4 ppts to +7.5%. The Expectations Index increased by 1.2 points in April, as two of its three components—net perceptions of labor market and household income conditions six months from now—edged up. Expected business conditions were slightly more pessimistic.

Among demographic groups, confidence continued to trend downward on a six-month moving average basis for consumers aged 35 and up while younger consumers were a tad more confident in April. Respondents under 35 remained the most optimistic and those 55 and over the least.

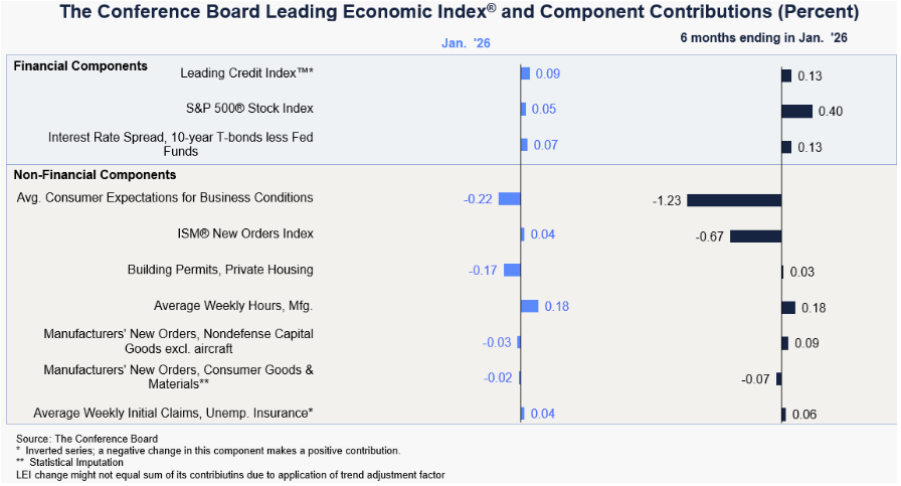
On a six-month moving average basis, confidence improved among Millennials and Gen Z but declined among older generations. By income, confidence on a six-month moving average basis varied, but most income groups expressed less optimism. By political affiliation, Republicans remained the most optimistic, while confidence fell for Independents and improved slightly for Democrats.

https://www.conference-board.org/topics/consumer-confidence

Conference Board Leading Indicators



The Conference Board Lagging Economic Index® (LAG) for the US increased by 0.3% to 120.0 (2016=100) in January 2026, more than reversing its 0.2% decline in December.



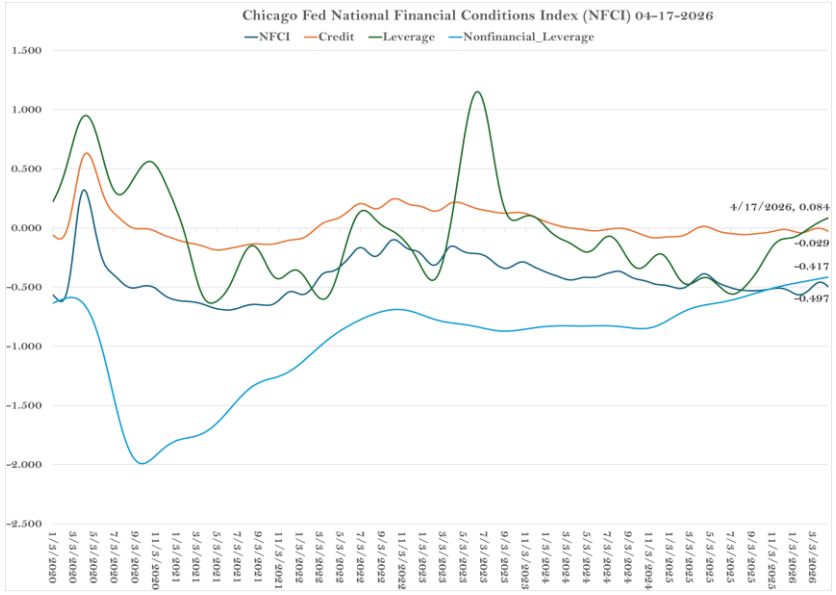
The LEI's six-month growth rate

The Conference Board Leading Economic Index® (LEI) for the U.S. inched down by 0.1% in January 2026 to 97.5 (2016=100), following a 0.2% decline in December. Overall, the LEI fell by 1.3% over the six-month period from July 2025 to January 2026, half the rate of decline compared to its –2.6% contraction over the previous six months (January to July 2025).

The 6-month chart illustrates the so-called 3Ds—duration, depth, and diffusion—for interpreting a downward movement in the LEI. The 3Ds rule signals an impending recession when: 1) the six-month diffusion index lies at or below 50, shown by the black warning signal lines in the chart; and 2) the LEI's six-month growth rate (annualized) falls below the threshold of −4.3%. The red recession signal lines indicate months when both criteria are met simultaneously—and thus that a recession is likely imminent or underway.

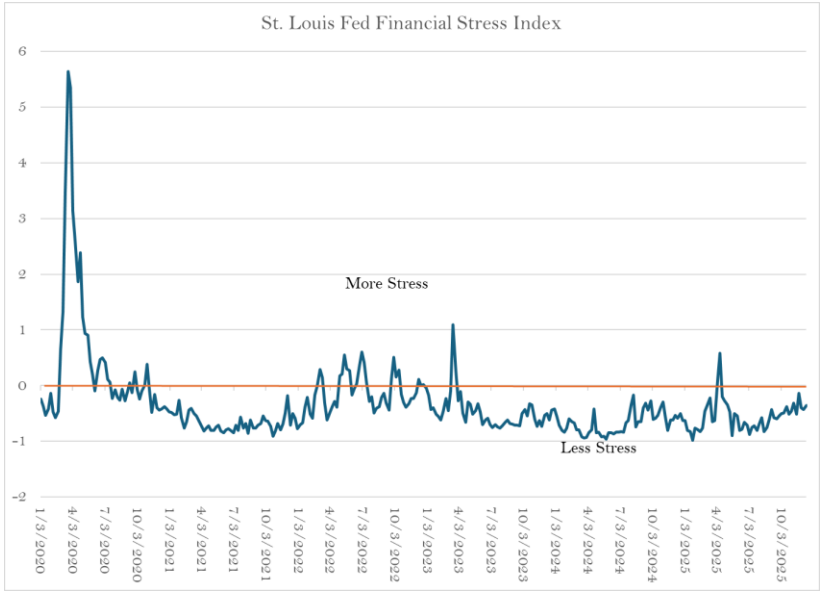
Source: https://www.conference-board.org/topics/us-leading-indicators

Financial Condition & Stress (less stress below 0) – 2026 04



Source: https://www.chicagofed.org/publications/nfci/index, Philip Chao

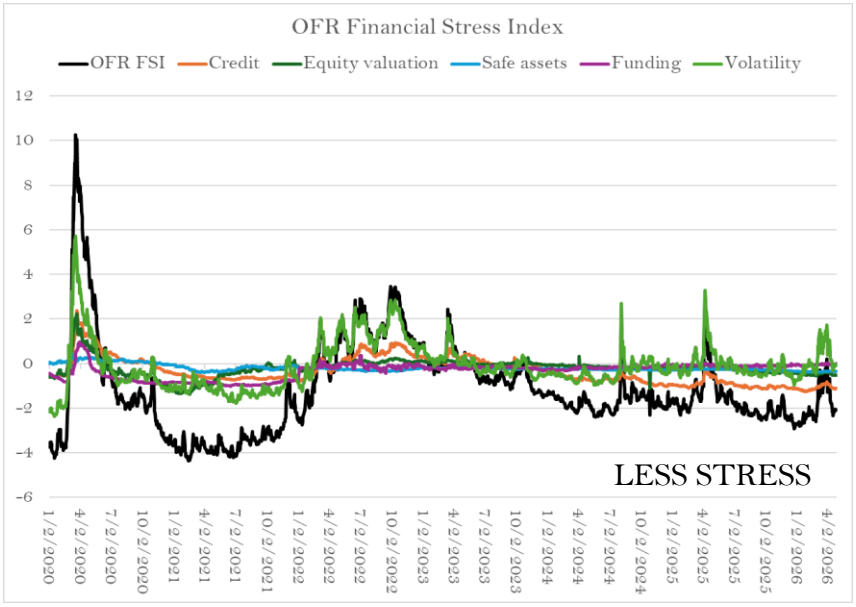
The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. Because U.S. economic and financial conditions tend to be highly correlated, we also present an alternative index, the adjusted NFCI (ANFCI). This index isolates a component of financial conditions uncorrelated with economic conditions to provide an update on financial conditions relative to current economic conditions. The NFCI decreased to –0.50 in the week ending April 17. Risk indicators contributed –0.25, credit indicators contributed –0.15, and leverage indicators contributed –0.09 to the index in the latest week.



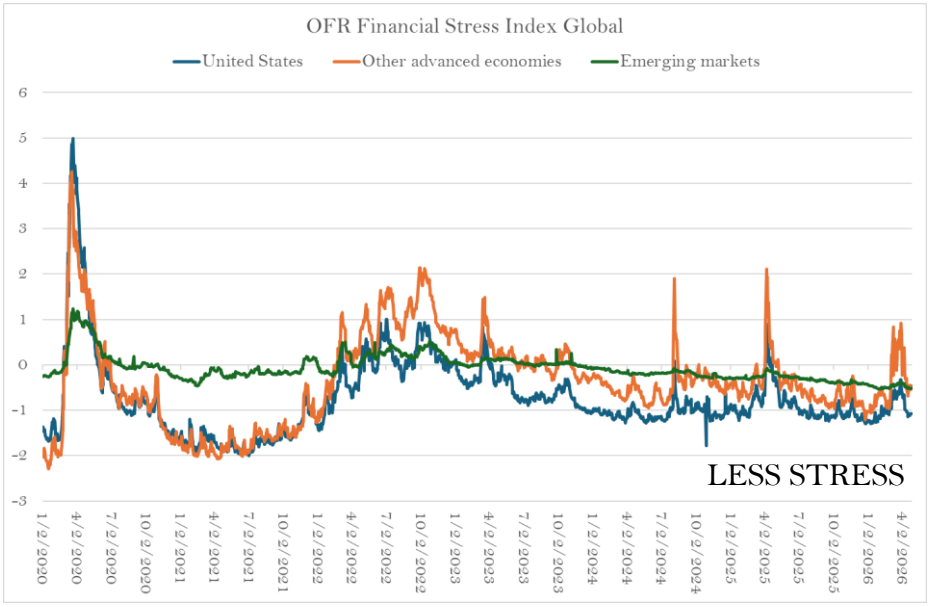
Source: https://fred.stlouisfed.org/series/STLFSI4, Philip Chao

The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. A zero value is viewed as representing normal financial market conditions. Values below zero suggest below-average financial market stress, while values above zero suggest above-average financial market stress. The Index continues to show below-average financial market stress.

Financial Stress – Below Average 04-2026



Source: FSI, Philip Chao



Source: FSI, Philip Chao

The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit, equity valuation, funding, safe assets,** and **volatility**.

Overall financial stress in the U.S. continues to remain below the neutral "0" value. All categories except volatility have spiked up since the end of March 2025.

The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

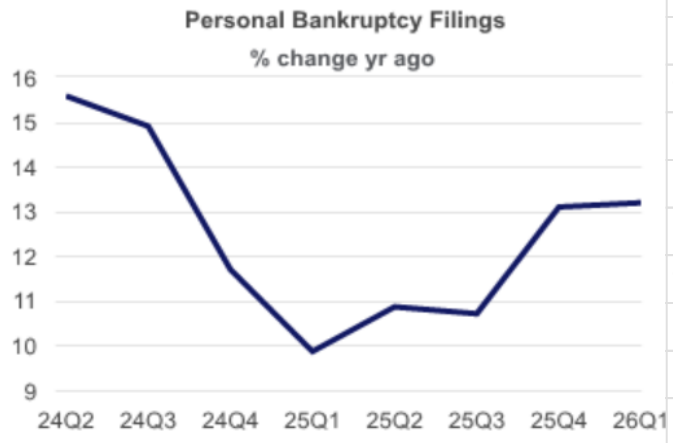
Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan

Emerging markets: Variables measuring stress from emerging markets

Overall, global financial stress continues to remain below the neutral "0" value.

https://www.financialresearch.gov/financial-stress-index/#ae

Bankruptcy Filings

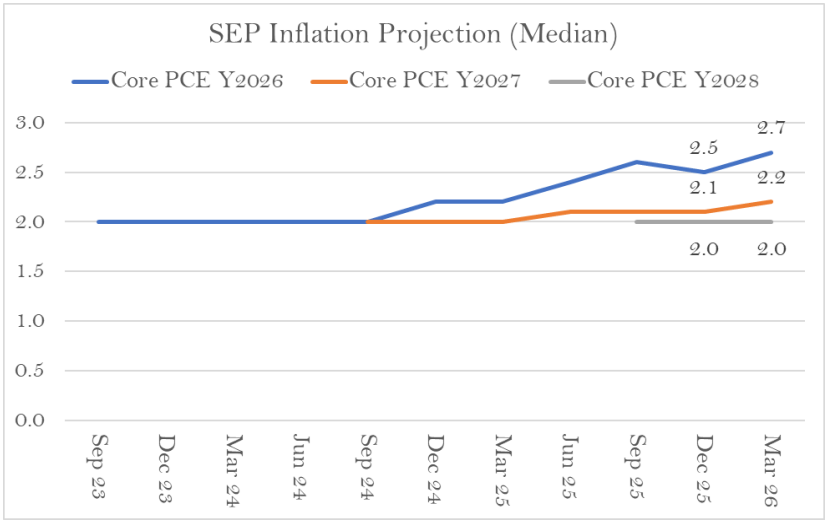


Bankruptcy filings, % change yr ago, 3-mo ending, NSA									
		26Q1	25Q4	25Q3	25Q2	25Q1	24Q4	24Q3	24Q2
Total personal		13.2	13.1	10.7	10.9	9.9	11.7	14.9	15.6
	Chapter 7	16.4	15.3	14.1	16.0	13.8	18.2	20.6	19.1
	Chapter 11	11.6	9.4	24.0	23.7	63.3	28.6	30.1	9.6
	Chapter 13	8.1	9.7	5.6	2.9	4.1	2.8	7.2	10.5
Total business		22.2	12.1	18.3	-4.6	3.3	6.5	14.5	37.8
	Chapter 7	14.5	13.4	15.7	10.3	13.1	17.2	17.7	32.6
	Chapter 11	38.2	13.2	26.5	-18.9	-5.5	-7.1	15.0	36.6
	Chapter 13	11.5	-4.6	3.2	-26.9	-19.0	-13.4	-5.7	52.8

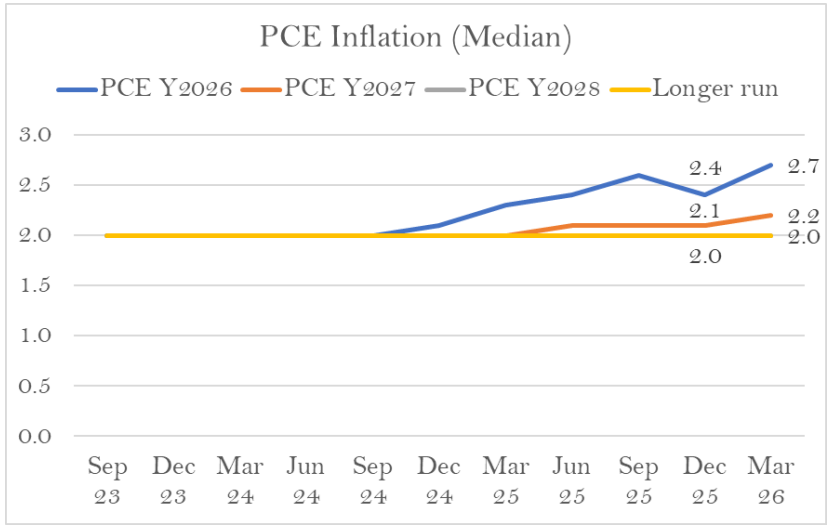
Bankruptcy filings remain low, but the trend is unfavorable. Households face mounting financial pressures from soaring energy prices, high and rising costs for goods and services, dramatically reduced job availability, and slowing wage growth. Low-income households, which historically make up the majority of bankruptcy filers, feel these pressures the most. Most years, the fourth quarter looks poor, as non-business bankruptcy filings increase due to the financial strain of holiday spending. After adjusting for seasonal movements, the upward trend in filings highlights the weakness in the job market. It has become significantly more challenging for struggling workers to pick up extra hours, take on second jobs, or recover from layoffs. Financial pressures mount as inflation drives prices higher. This situation worsens with inflation remaining elevated, or even slightly increasing now, partly due to tariffs. Although the recent spike in energy prices added to the burden, its impact was likely minor in the first quarter. Additionally, past interest rate increases are likely affecting consumer payments since the payments for most types of consumer credit are felt as loans roll over, rather than immediately. More than 80% of consumer debt has fixed rates, and this share was even higher at the start of the rate increases in early 2022. While consumers enjoy some mitigating factors, such as accumulated wealth, financial stresses are intensifying. The key question for the outlook isn't *if* filings will rise further but rather by how much and how quickly.

Source: Moody's Economics 2026 04 23

Summary of Economic Projections – Inflation



Source: Federal Reserve 2026 03, Experiential Wealth



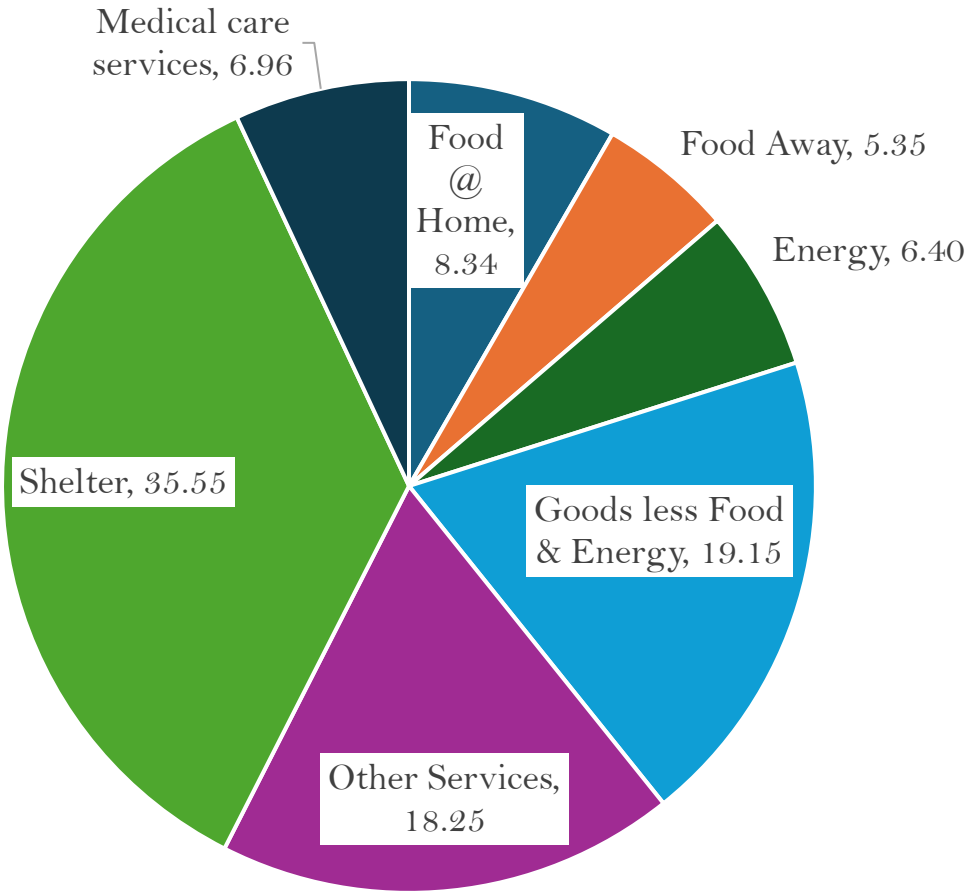
Source: Federal Reserve 2026 03, Experiential Wealth

In the latest SEP, the average member expects Personal Consumption Expenditure (PCE) inflation to move UP for 2025 and 2026. This suggests that, although the Fed believes the current policy remains restrictive, inflation projections for 2026, and 2027 moved a bit higher. The lingering global tariff reassessment post IEEPA and the ongoing US/Israel-Iran war are both inflationary.

At the same time, projections for Core PCE (ex-food and energy) inflation also moved higher for 2026, from 2.5% to 2.7%. PCE is projected to return to the 2% target in 2028.

Based on these updated dot plots for inflation, it suggests that the Fed will likely remain cautious and move at a cautious pace, even under tremendous political pressure to cut rates from the White House. Thus far, hard data suggests some slowing in the economy and the labor market may be a bit less robust, but inflation remains stubbornly higher than the 2% target. Congressional confirmation for Kevin Warlsh is moving forward, and he is expected to be the next Fed chair. If he is true to his prior hawkish stance on inflation and he will not be the "sock puppy" of the President, rates will likely remain at this level for some time.

CPI Basket & Component Contributions (03-2026)



https://www.bls.gov/news.release/cpi.t01.htm, Philip Chao

March 2026 CPI Data

	Over the Year Change from Mar 2025 to March 2026 (%) Not S.A.	Over the Month Change from Feb 2026 to Mar 2026 (%) S.A.
All items	3.3	0.90
Food at home	1.9	0
Food away from home	3.8	0.2
Energy Commodities	19.4	21.3
Energy Services	5	0.4
Commodities less food and energy commodities	1.2	0.1
Services less energy services	3	0.2
All items less food and energy	2.6	0.2

One month since the Feb 28, 2026, start of the Israel/US-Iran war, the expected rise in energy commodities prices has materialized. This has contributed to the headline inflation rate at 3.3% on a trailing 1-year basis. For core-CPI, the inflation rate was 2.6% for March. As the Strait of Hormuz "double" blockade drags on, we expect headline inflation to continue to go up, and sooner or later the impact will be felt in the core-inflation number as input costs for manufacturing have already risen. Today's "restrictive" monetary policy may not be restrictive enough under that scenario and the CME FedWatch Tool is showing the market is marginally pricing in a likelihood of a rate hike in the future.

Monthly CPI (s.a.) Changes by categories as of 03-2026

	Sesonally Adjusted Changes from Preceeding Month					Un-adjusted 12-mos. ended Mar. 2026
	Sep. 2025	Dec. 2025	Jan. 2026	Feb. 2026	Mar. 2026	
All items	0.3	0.3	0.2	0.3	0.9	**3.3**
Food	0.2	0.7	0.2	0.4	0	2.7
Food at home	0.3	0.6	0.2	0.4	-0.2	1.9
Food away from home(1)	0.1	0.7	0.1	0.3	0.2	3.8
Energy	1.4	0.3	-1.5	0.6	10.9	12.5
Energy commodities	3.4	-0.3	-3.3	1.1	21.3	19.4
Gasoline (all types)	3.6	-0.3	-3.2	0.8	21.2	18.9
Fuel oil	0.7	-0.8	-5.7	11.1	30.7	44.2
Energy services	-0.4	1	0.2	0.2	0.4	5
Electricity	-0.3	0.2	-0.1	-0.7	0.8	4.6
Utility (piped) gas service	-0.9	3.7	1	3.1	-0.9	6.4
All items less food and energy	0.2	0.2	0.3	0.2	0.2	**2.6**
Commodities less food and energy commodities	0.2	0	0	0.1	0.1	1.2
New vehicles	0.2	0	0.1	0	0.1	0.5
Used cars and trucks	-0.2	-0.9	-1.8	-0.4	-0.4	-3.2
Apparel	0.5	0.3	0.3	1.3	1	3.4
Medical care commodities(1)	-0.1	0.3	-0.1	0	-1	0.3
Services less energy services	0.2	0.3	0.4	0.3	0.2	3
Shelter	0.2	0.4	0.2	0.2	0.3	3
Transportation services	0.3	0.4	1.4	0.2	0.6	4.1
Medical care services	0.2	0.4	0.3	0.6	0	3.7

Footnotes

(1) Not seasonally adjusted.

NOTE: The Oct and Nov 2025 data values are not available due to the 2025 lapse in appropriations.

Source: BLS Monthly CPI report Table A

CME FedWatch Tool – no rate cuts projected in 2026

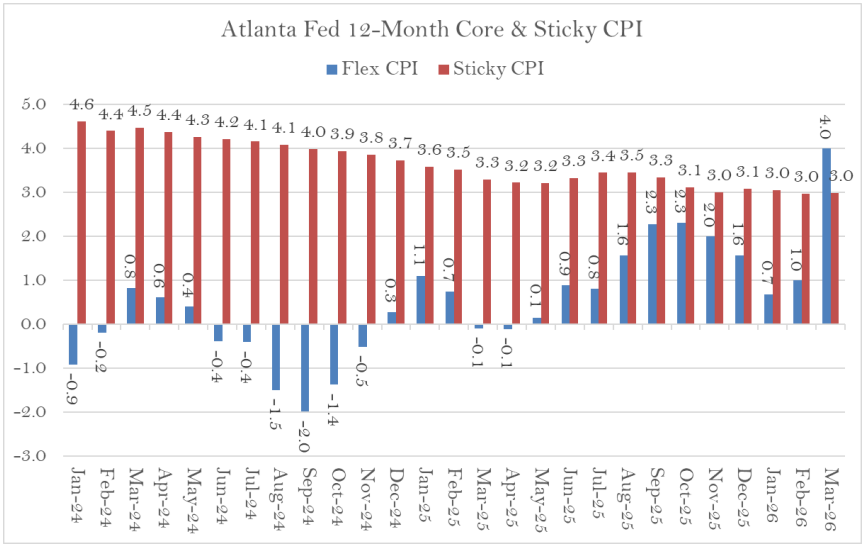
03-16-2026 Meeting Rate Probabilities											
Meeting	175-200bp	200-225bp	225-250bp	250-275bp	275-300bp	300-325bp	325-350bp	350-375bp	375-400bp		
Mar-27			0.1%	1.3%	7.0%	22.8%	**39.8%**	28.9%		99.9%	
Jan-27			0.1%	1.0%	6.3%	22.0%	**40.3%**	30.2%		99.9%	
Dec-26				0.7%	5.3%	20.6%	**40.9%**	32.4%		99.9%	
Oct-26				0.2%	2.3%	14.1%	40.0%	**43.3%**		99.9%	
Sep-26					1.1%	10.4%	38.5%	**50.0%**		100.0%	
Jul-26					0.2%	4.7%	32.1%	**63.0%**		100.0%	
Jun-26						0.8%	21.2%	**78.0%**		100.0%	
Apr-26							3.9%	**96.0%**		99.9%	
Mar-26							1.9%	**98.1%**		100.0%	

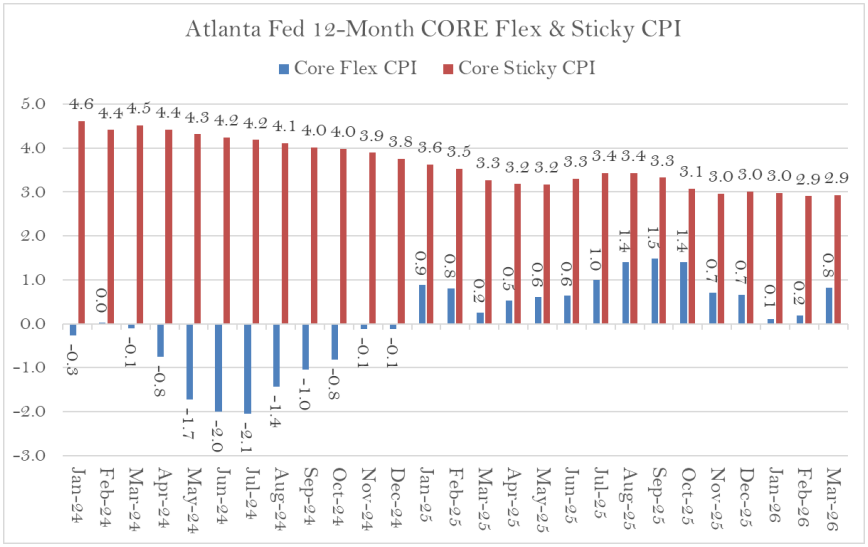
04-29-2026 Meeting Rate Probabilities											
Meeting	175-200bp	200-225bp	225-250bp	250-275bp	275-300bp	300-325bp	325-350bp	350-375bp	375-400bp	400bp - 425bp	425bp - 450bp
Apr-27							0.9%	**59.4%**	32.3%	6.7%	0.7%
Mar-27							1.0%	**66.5%**	28.2%	4.2%	
Jan-27							1.1%	**76.5%**	20.8%	1.6%	
Dec-26							1.3%	**88.5%**	10.0%	0.3%	
Oct-26							1.4%	**94.3%**	4.4%		
Sep-26							1.4%	**98.6%**			
Jul-26							1.0%	**99.0%**			
Jun-26							1.0%	**99.0%**			

What is the likelihood that the Fed will change the Federal target rate at upcoming FOMC meetings, according to interest rate traders? Use FedWatch to track the probabilities of changes to the Fed rate, as implied by 30-Day Fed Funds futures prices.

https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

CPI – Flex and Sticky – 03-2026





Source: https://www.atlantafed.org/research/inflationproject/stickyprice, Philip Chao

The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their "sticky-price" and "flexible-price" aggregates[1].

The evidence indicates that the flexible-price measure is much more responsive to changes in the economic environment while the sticky-price variant appears to be more forward looking. Sticky price setters understand that it will be costly to change prices; as such, they will want their price decisions to account for inflation over the periods between their infrequent price changes.

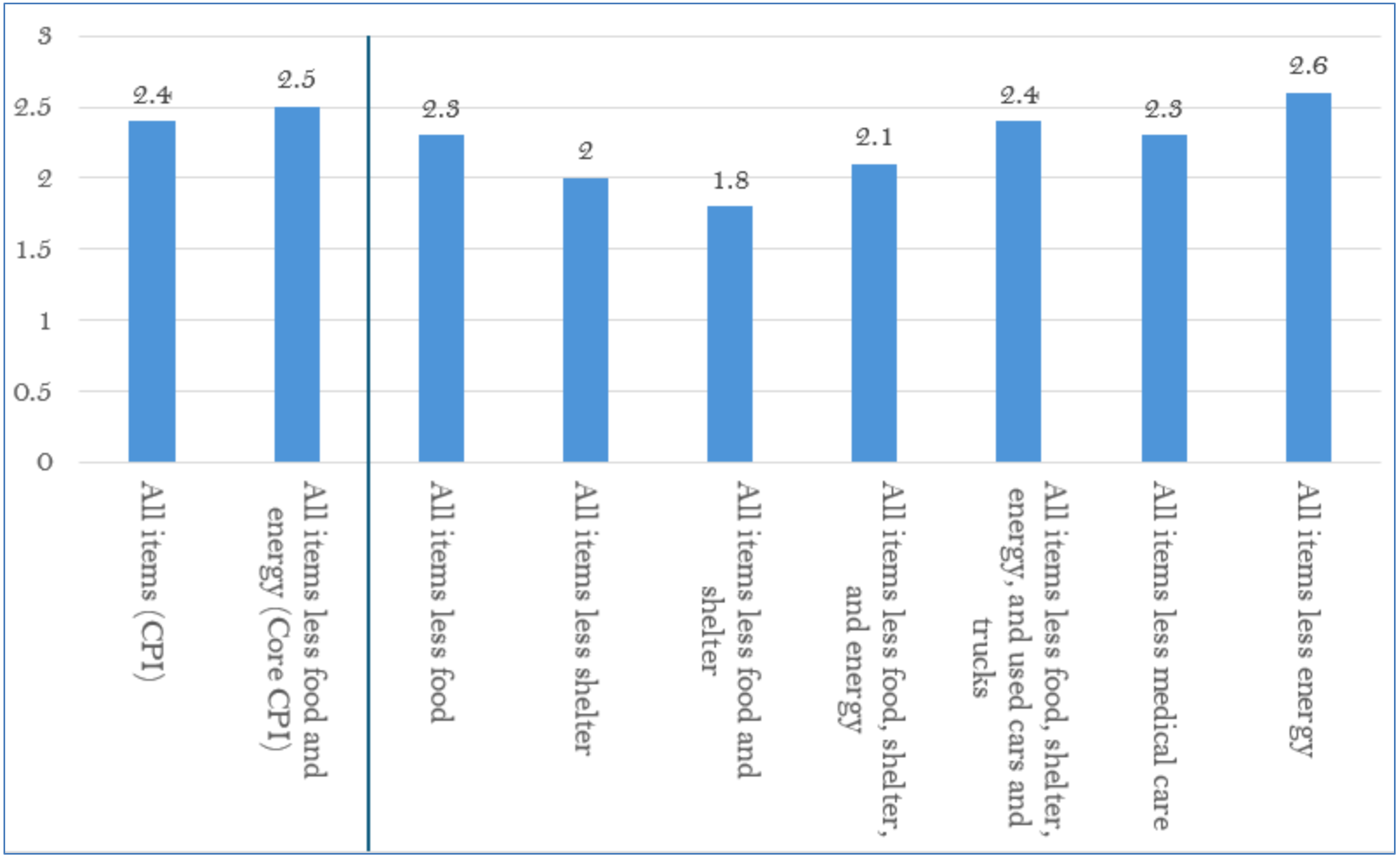
Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures.

Although imperfect, separating CPI categories into these two measures and further separating core categories from non-core provides a view of future inflation (i.e., removing the more volatile priced categories from the CPI). In March, the core sticky-price CPI rose 2.9% (on an annualized basis), following the same 2.9% increase in February. On a core flex basis (excluding food and energy), the CPI rose 0.8% (annualized) in 0.8 up from 0.2% in February.

In conclusion, "core" sticky inflation is persistently above the Fed's 2% target rate. Combining the global tariffs against all trading nations and the current Iran war, we expect inflation to rise rather than fall in the longer term.

[1] https://www.atlantafed.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf

CPI by Categories – 1 Year % Change (03-2026), not s.a.



Source: BLS CPI Table7, Philip Chao

Trimmed Mean PCE Inflation – 03-2026

The Trimmed Mean PCE inflation rate over the 12 months ending in March was 2.4 percent. According to the BEA, the overall PCE inflation rate was 3.5 percent on a 12-month basis, and the inflation rate for PCE, excluding food and energy, was 3.2 percent on a 12-month basis. The tables below present data on the Trimmed Mean PCE inflation rate and, for comparison, overall PCE inflation and the inflation rate for PCE excluding food and energy. The tables give annualized one-month, six-month, and 12-month inflation rates.

One-month PCE inflation, annual rate

	25-Oct	25-Nov	25-Dec	26-Jan	26-Feb	26-Mar
PCE	2.3	2.7	4.0	4.0	4.6	8.3
PCE ex F&E	2.8	2.2	4.0	5.2	4.5	3.6
Trimmed mean	1.6	1.7	2.2	2.8	2.0	2.9

Six-month PCE inflation, annual rate

	25-Oct	25-Nov	25-Dec	26-Jan	26-Feb	26-Mar
PCE	2.7	2.8	2.9	3.2	3.5	4.3
PCE ex F&E	2.8	2.7	2.8	3.2	3.5	3.7
Trimmed mean	2.4	2.3	2.1	2.2	2.0	2.2

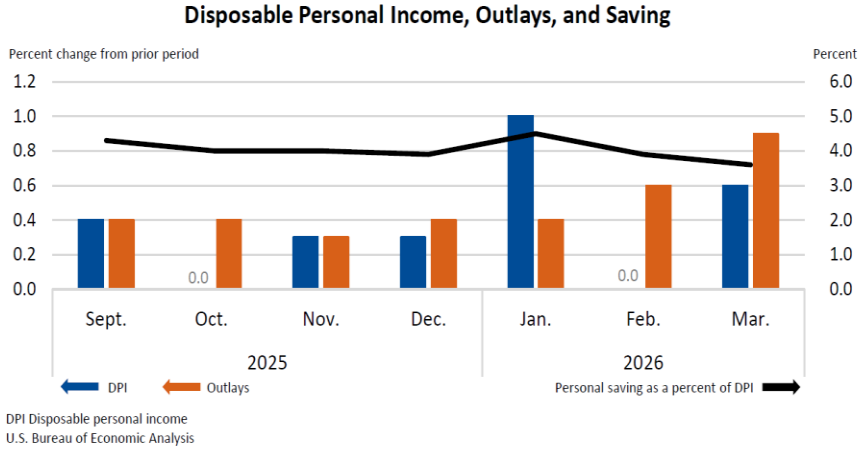
12-month PCE inflation

	25-Oct	25-Nov	25-Dec	26-Jan	26-Feb	26-Mar
PCE	2.7	2.8	2.9	2.9	2.8	3.5
PCE ex F&E	2.8	2.8	3.0	3.1	3.0	3.2
Trimmed mean	2.5	2.5	2.4	2.4	2.3	2.4

Source: https://www.dallasfed.org/research/pce#current

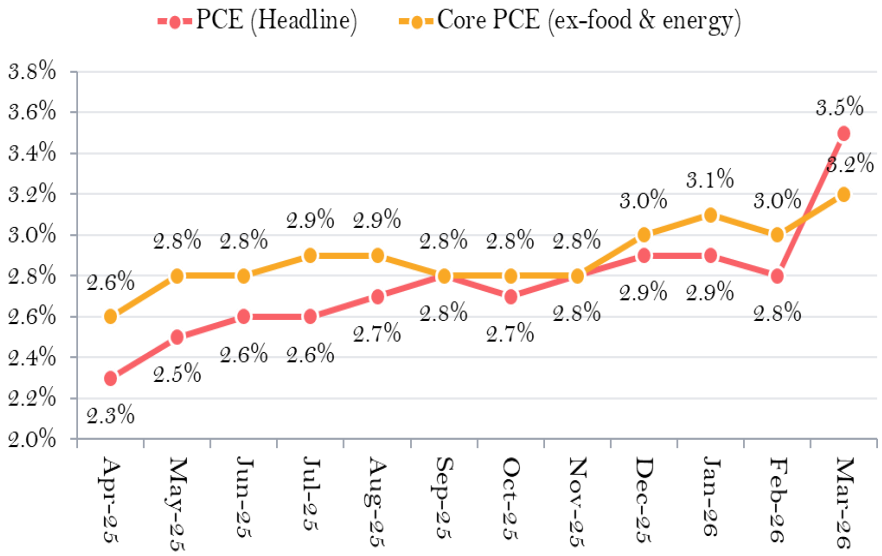
[1] https://www.dallasfed.org/~/media/documents/research/papers/2005/wp0506.pdf

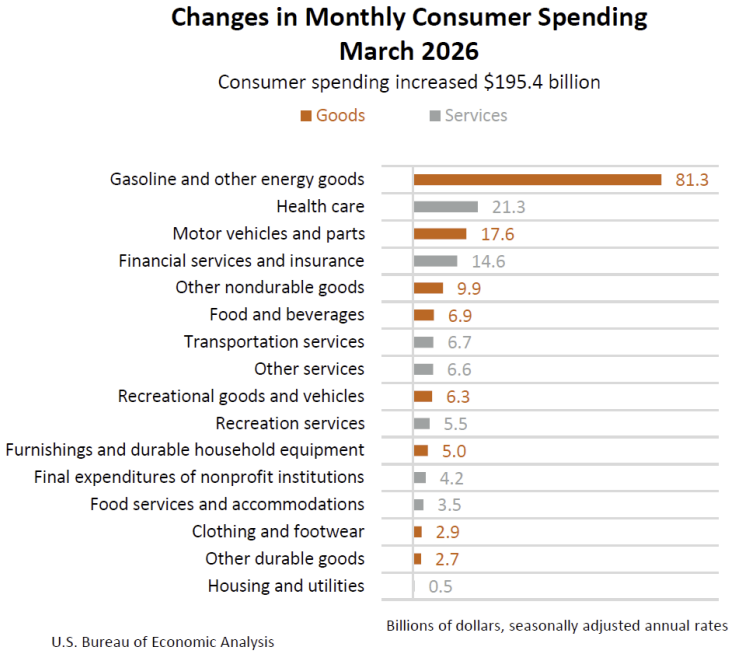
PCE Inflation Remains Elevated – May 2025



DPI Disposable personal income
U.S. Bureau of Economic Analysis

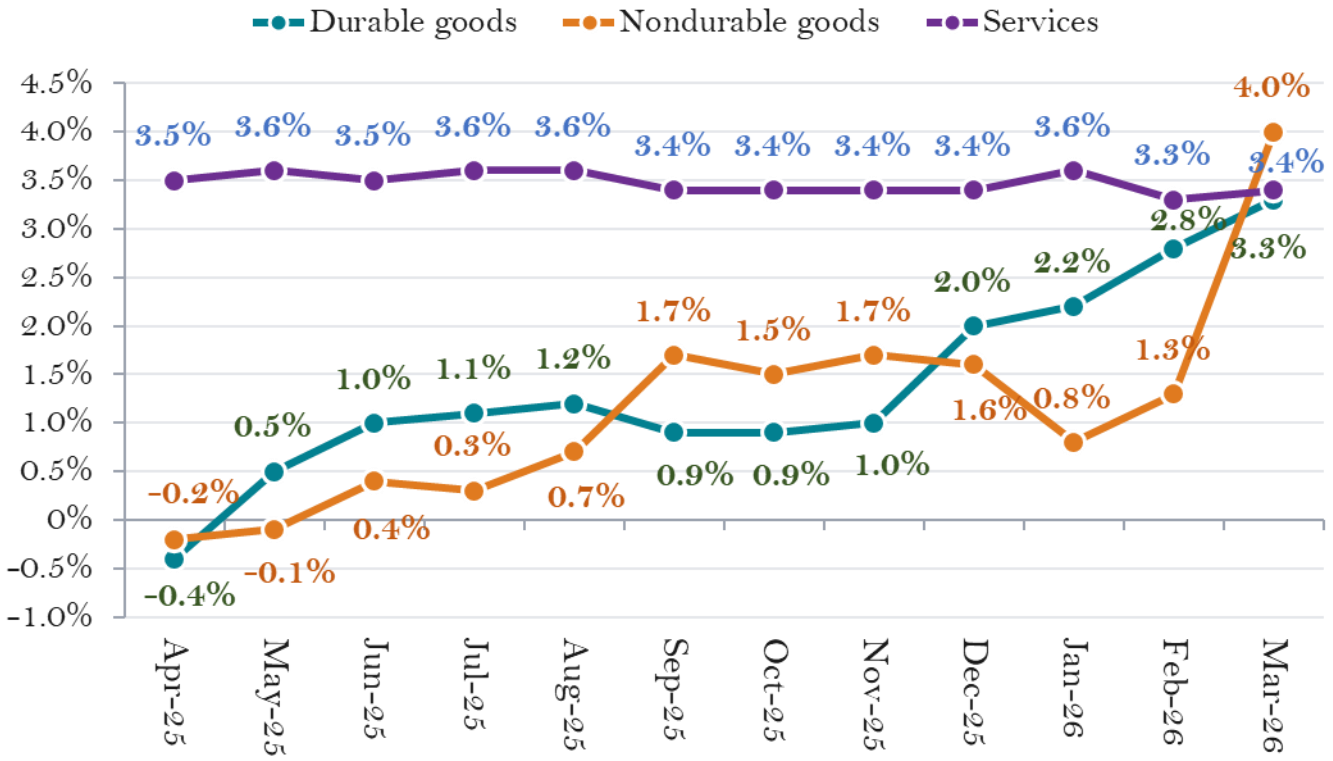
Personal income increased $149.2 billion (0.6 percent at a monthly rate) in March. Disposable personal income (DPI)—personal income less personal current taxes—increased $142.5 billion (0.6 percent), and personal consumption expenditures (PCE) increased $195.4 billion (0.9 percent).





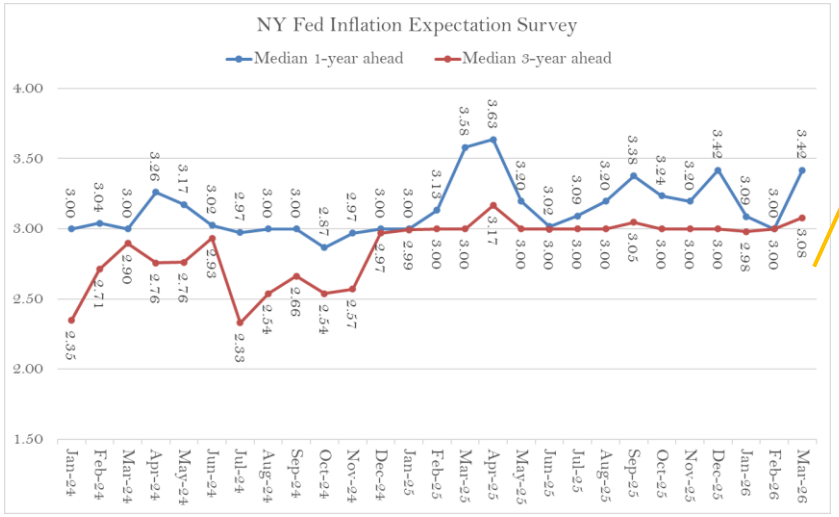
U.S. Bureau of Economic Analysis

PCE Goods & Services Inflation

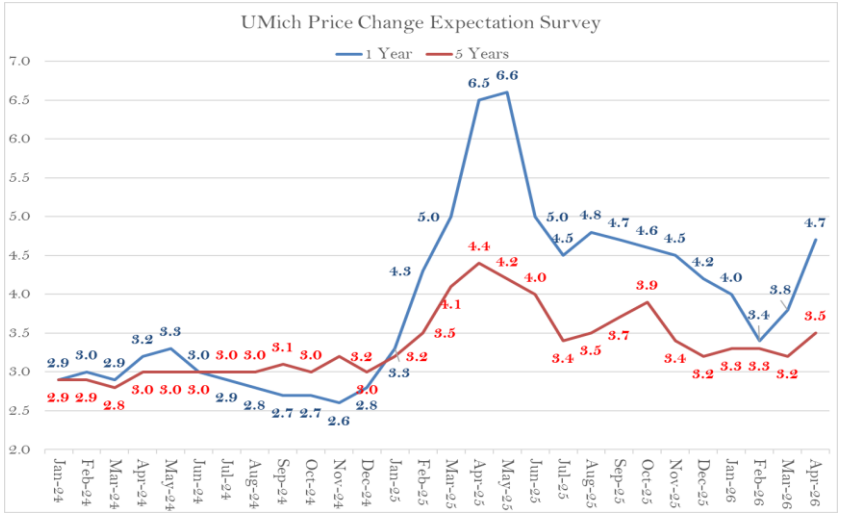


- Services' prices stayed in a narrow 3.3% – 3.6% band all year, ending March 2026 at +3.4%. This is where most consumer spending sits and reflects sticky underlying inflation that has barely budged in 12 months.
- Durable goods went from −0.4% to +3.3% and nondurables from −0.2% to +4.0%. Goods' inflation now exceeds services for the first time in years, reversing the post-pandemic pattern.
- All three components jumped in March, with nondurables (+4.0%) overtaking services. The energy spike pushed nondurables sharply higher, while tariff effects continued lifting durables — together driving headline PCE to 3.5%.

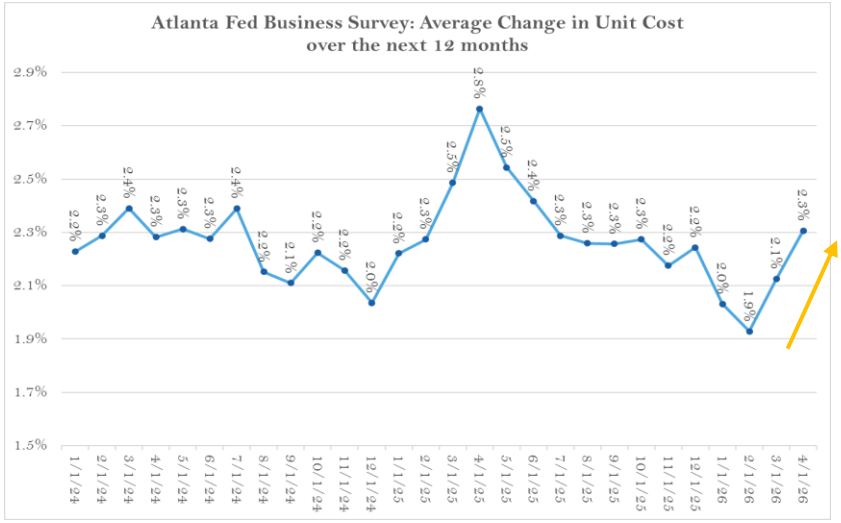
Inflation Expectation - JUMPED



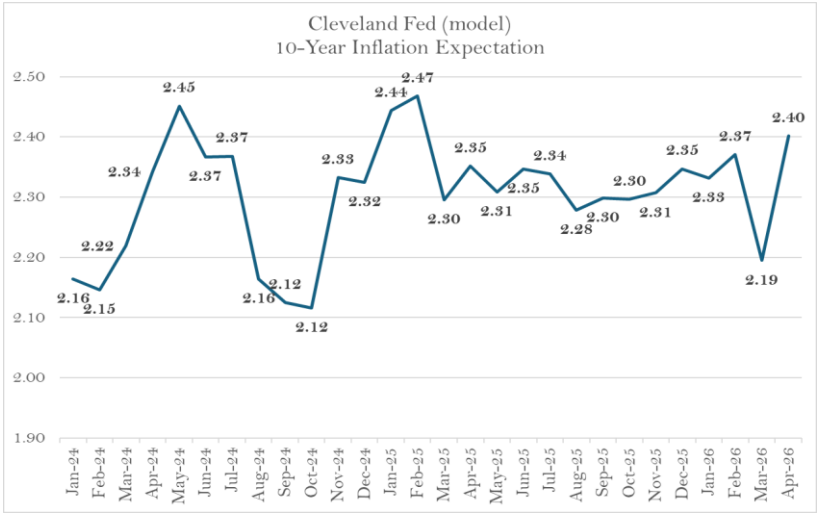
Source: New York Fed, Philip Chao
https://www.newyorkfed.org/microeconomics/sce#/inflexp-1



Source: University of Michigan, Philip Chao
http://www.sca.isr.umich.edu/tables.html

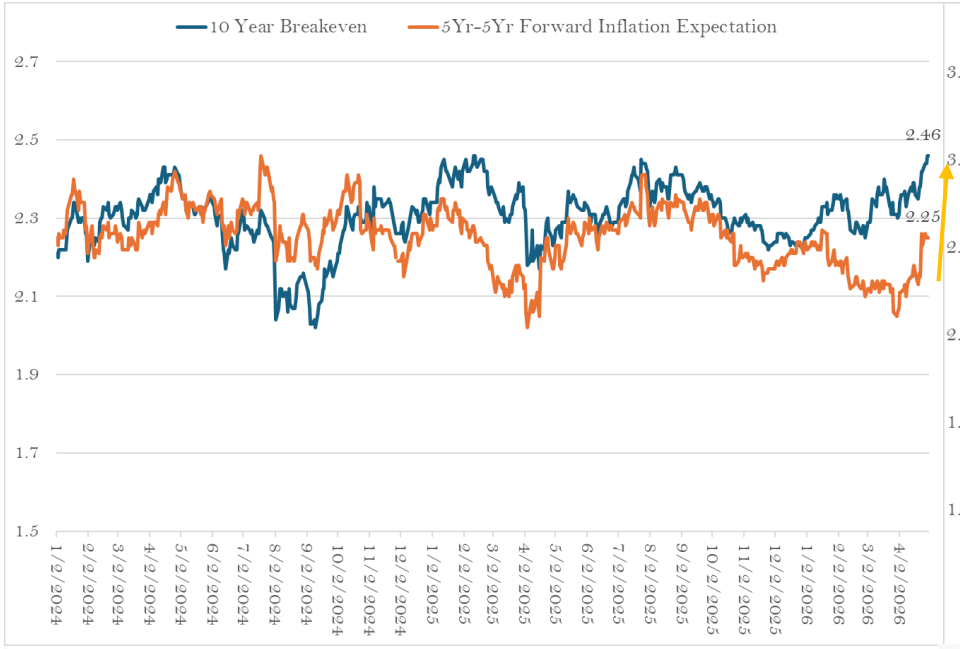


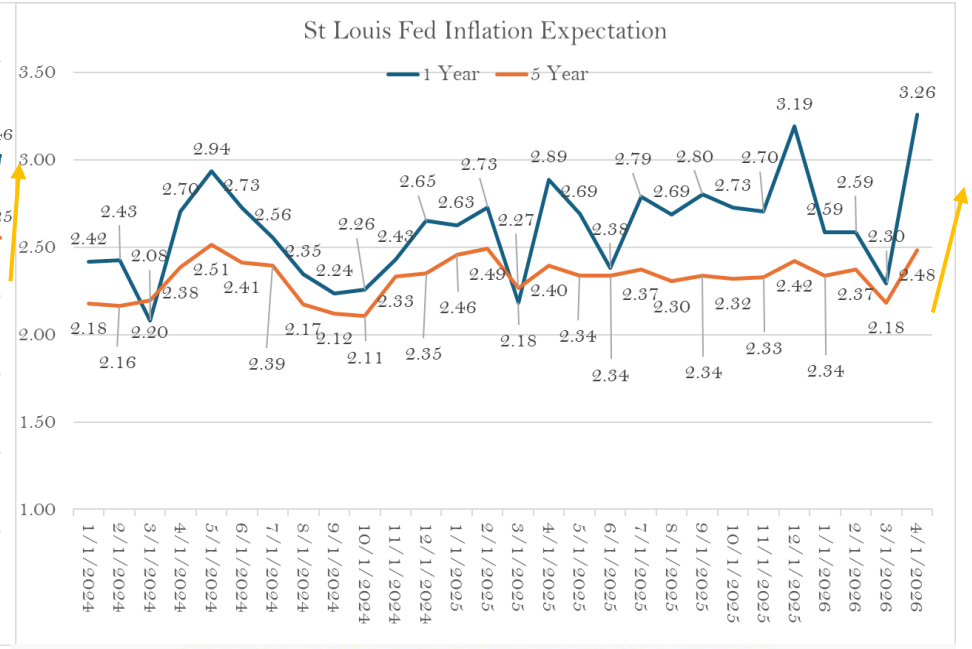
Source: Atlanta Fed, Philip Chao
https://www.atlantafed.org/research/inflationproject/bie

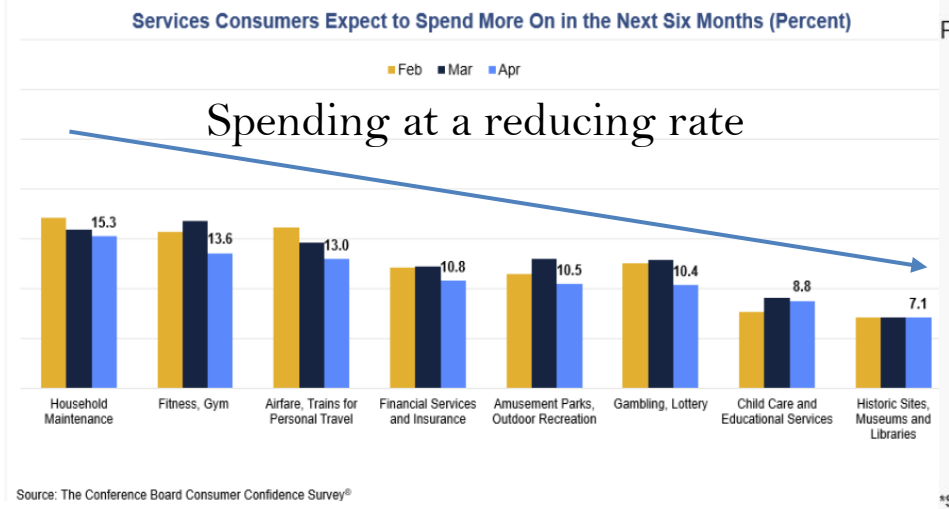


Source: Cleveland Fed, Philip Chao
https://www.clevelandfed.org/-/media/files/webcharts/inflationexpectations/inflation-expectations.xlsx?sc_lang=en

Market and Survey Based Inflation Expectation – March 2026







Conference Board – Inflation Expectation (03-2026)

Consumers' write-in responses on factors affecting the economy continued to skew towards pessimism in April. Comments about prices, oil and gas, and war increased in frequency compared to March—a likely signal of consumers' underlying worries about how the war in the Middle East will impact their pockets.

A two-week ceasefire and a rebound in stock market indices within the survey-sample period (April 1–22) likely helped ease concerns about financial indicators somewhat in April after spiking in March. Still, consumers remained warry. Consumers' average and median 12-month inflation expectations ticked downward but continued to be elevated. The percentage of consumers saying interest rates over the next 12 months will be higher on net rose to nearly 50%. Expectations for higher stock prices a year from now ticked up.

Global Inflation & Central Bank Rates

Central Bank	Interest Rate	Previous	Change
United States	3.75%	4.00%	12/11/2025
Australia	**4.10%**	3.85%	3/17/2026
Brazil	14.75%	15.00%	3/18/2026
United Kingdom	3.75%	4.00%	12/18/2025
Canada	2.25%	2.50%	10/29/2025
Chile	4.50%	4.75%	12/17/2025
China	3.00%	3.10%	5/20/2025
Czech Republic	3.50%	3.75%	5/7/2025
Denmark	1.75%	2.00%	6/5/2025
Europe	2.15%	2.40%	6/5/2025
Hungary	6.25%	6.50%	2/25/2026
India	5.25%	6.00%	12/5/2025
Israel	4.00%	4.25%	1/8/2026
Japan	**0.75%**	0.50%	12/19/2025
Mexico	6.75%	7.00%	3/26/2026
New Zealand	2.25%	2.50%	11/26/2025
Norway	4.00%	4.25%	9/18/2025
Poland	3.75%	4.00%	3/4/2026
Russia	15.50%	16.00%	2/16/2026
Saudi Arabia	4.25%	4.50%	12/10/2025
South Africa	6.75%	7.00%	11/20/2025
South Korea	2.50%	2.75%	5/29/2025
Sweden	1.75%	2.00%	9/23/2025
Switzerland	0.00%	0.25%	6/19/2025
Türkiye	37.00%	38.00%	1/22/2026

Country	Inflation Rate	Previous	Reference
Argentina	32.6	33.2	26-Mar
Australia	**4.6**	3.7	26-Mar
Brazil	**4.14**	3.81	26-Mar
Canada	**2.4**	1.8	26-Mar
China	1	1.3	26-Mar
Euro Area	**2.6**	1.9	26-Mar
France	**1.7**	0.9	26-Mar
Germany	**2.9**	2.7	26-Apr
India	**3.4**	3.21	26-Mar
Indonesia	3.48	4.76	26-Mar
Italy	**1.7**	1.5	26-Mar
Japan	**1.5**	1.3	26-Mar
Mexico	**4.59**	4.02	26-Mar
Netherlands	**2.7**	2.4	26-Mar
Russia	5.9	5.9	26-Mar
Saudi Arabia	**1.8**	1.7	26-Mar
Singapore	**1.8**	1.2	26-Mar
South Africa	**3.1**	3	26-Mar
South Korea	**2.2**	2	26-Mar
Spain	3.2	3.4	26-Apr
Switzerland	**0.3**	0.1	26-Mar
Turkey	30.87	31.53	26-Mar
United Kingdom	**3.3**	3	26-Mar
United States	**3.3**	2.4	26-Mar

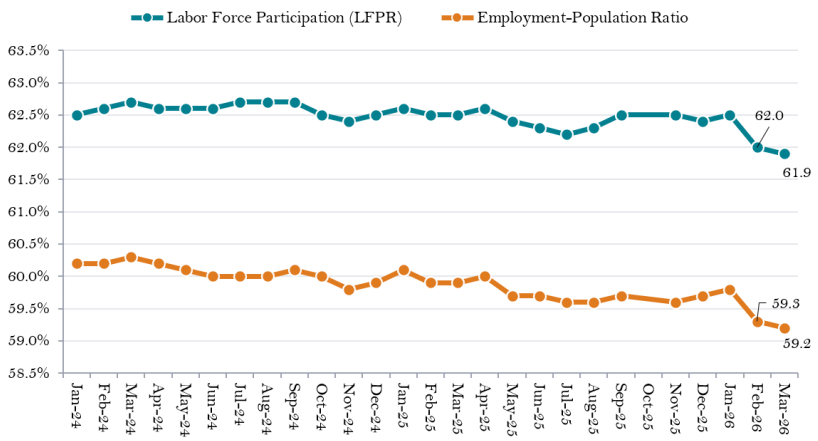
https://www.global-rates.com/en/interest-rates/central-banks
https://www.cbrates.com/
https://tradingeconomics.com/country-list/inflation-rate

Summary of Economic Projections – Unemployment

Fed Meet	U3 Y2026	U3 Y2027	U3 Y2028	Longer run
Mar 24	4.0			4.1
Jun 24	4.1			4.2
Sep 24	4.3	4.2		4.2
Dec 24	4.3	**4.3**		4.2
Mar 25	4.3	4.3		4.2
Jun 25	4.5	4.4		4.2
Sep 25	4.4	4.3	4.2	4.2
Dec 25	4.4	4.2	4.2	4.2
Mar 26	4.4	4.3	4.2	4.2

Labor Force Participation & Employment-Population Ratio

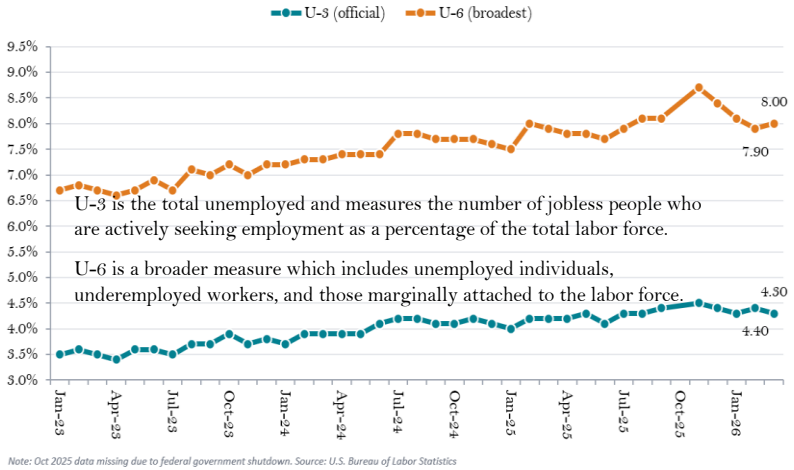
Monthly, January 2024 – March 2026 (seasonally adjusted)



Note: Oct 2025 missing (government shutdown). Source: BLS Employment Situation.

U-3 vs U-6 Unemployment Rates, Monthly

January 2023 – March 2026 (seasonally adjusted)



Note: Oct 2025 data missing due to federal government shutdown. Source: U.S. Bureau of Labor Statistics

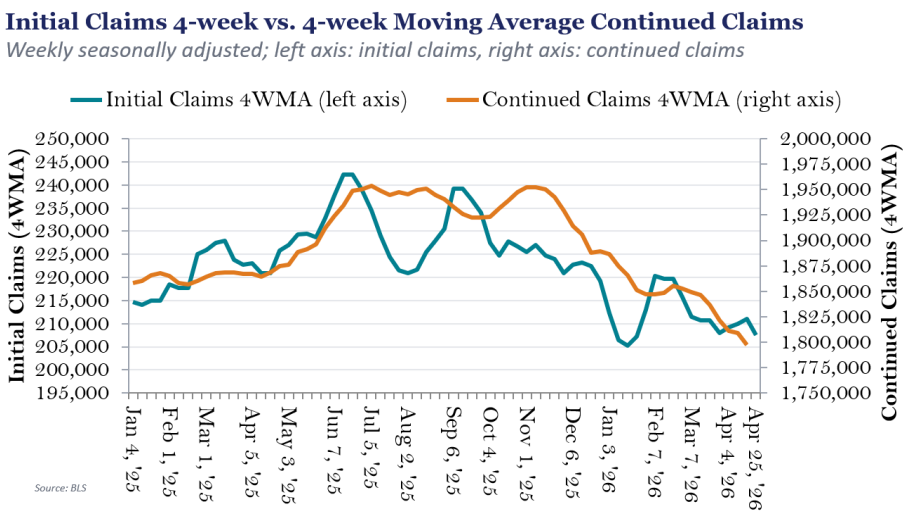
Total nonfarm payroll employment increased by 178,000 in March, and the unemployment rate changed little at 4.3 percent, the BLS reported.

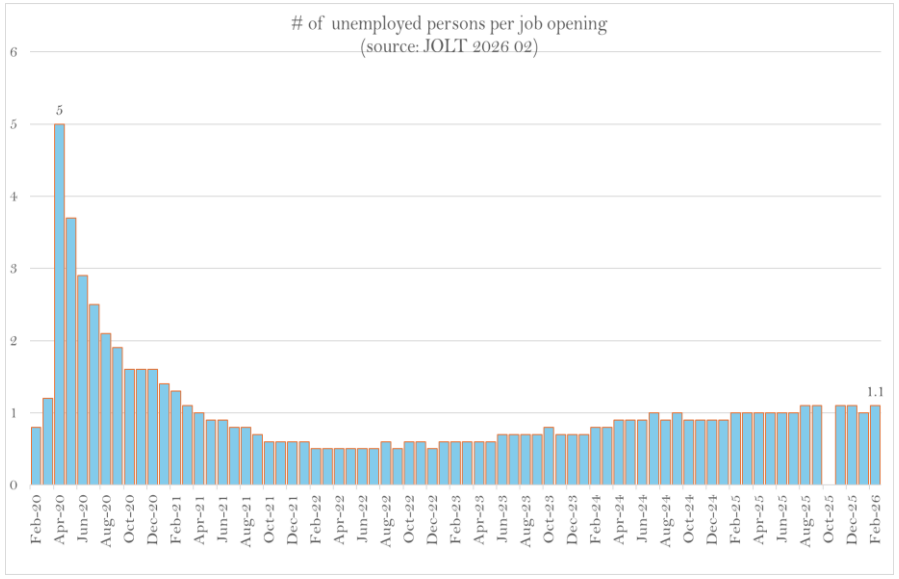
Job gains occurred in health care, in construction, and in transportation and warehousing. Federal government employment continued to decline.

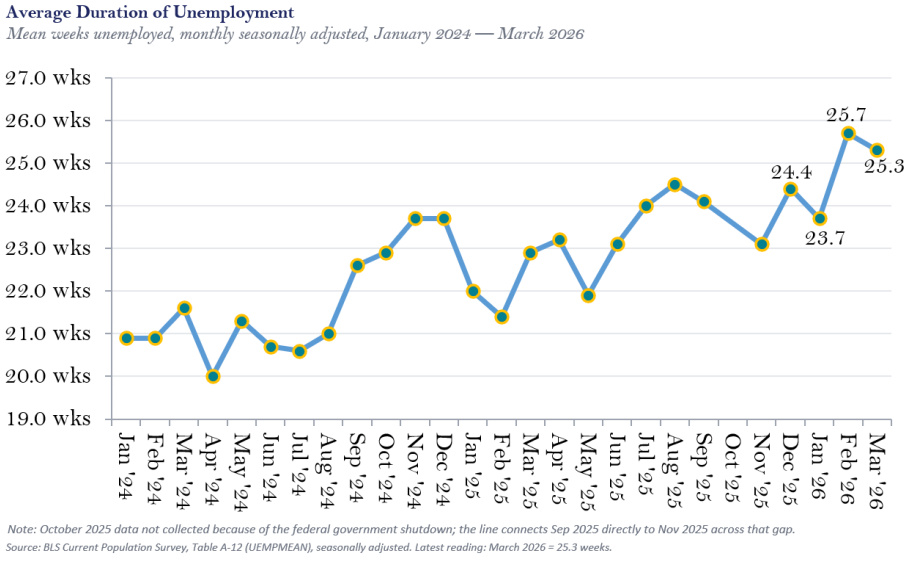
Source: BLS, Philip Chao

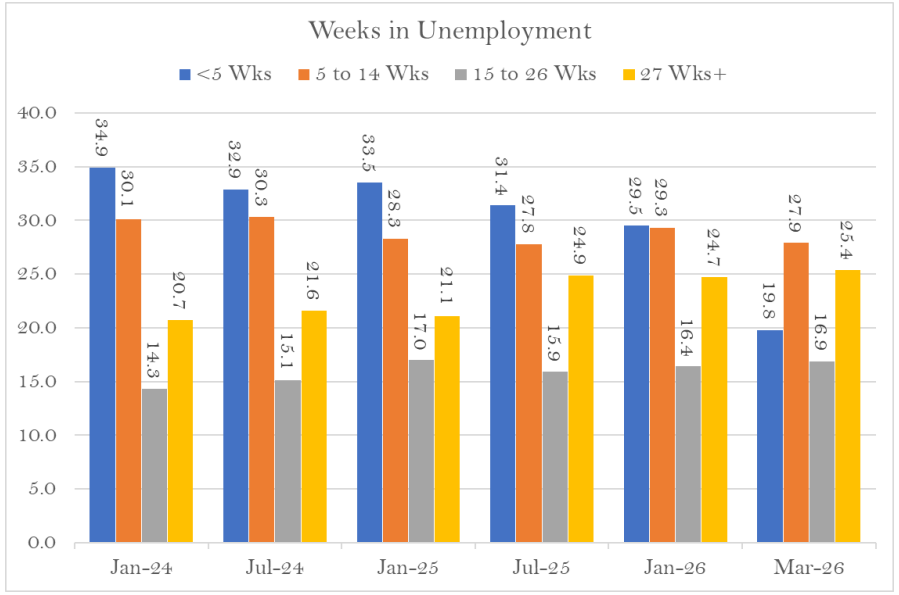
https://www.bls.gov/ces/data/employment-situation-table-download.htm

Labor Market Data





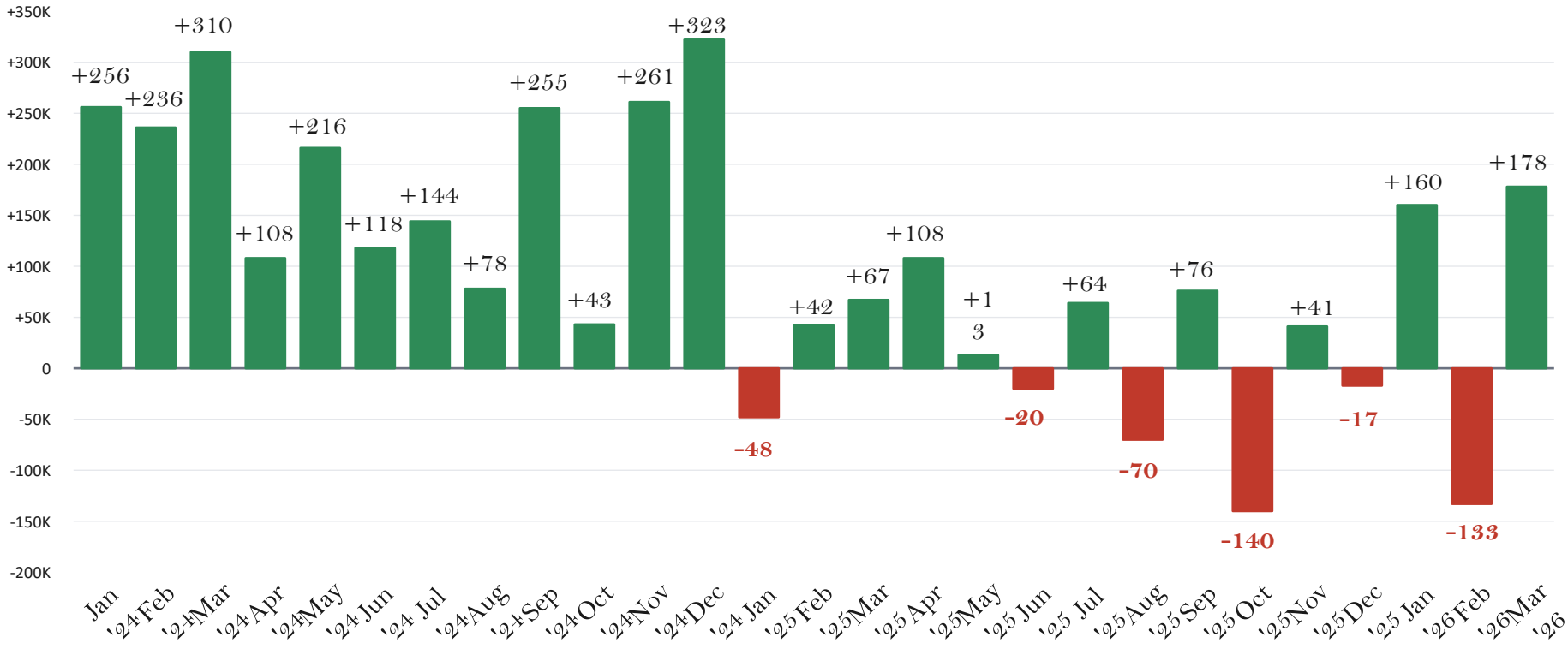




Source: BLS, Philip Chao

Monthly Change in Nonfarm Payrolls

Over-the-month change in total nonfarm employment, seasonally adjusted (thousands of jobs)



Green bars = job gains; red bars = job losses. 2025 monthly figures reflect the BLS February 2026 annual benchmark revision, which lowered total 2025 payroll growth by ~403K. Jan–Mar 2026 remain preliminary and subject to revision.

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES), Table B-1, seasonally adjusted. Latest data: Mar 2026 release (April 3, 2026).

NFIB Small Business Employment 03-2026

ACTUAL EMPLOYMENT CHANGES

Net Percent ("Increase" Minus "Decrease") in the Last Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	0	-3	-2	1	-5	-2	-6	-8	-1	-2	-1	1
2022	-1	1	-2	-2	-4	-2	-4	-8	-4	-2	-3	1
2023	2	4	2	-2	-4	-2	-2	-4	-2	-3	-2	-2
2024	0	-1	-2	0	-2	-5	-3	-6	-4	-3	-1	-3
2025	1	-3	-1	1	-2	-8	-2	-5	-3	-4	-3	-1
2026	1	3	-1									

QUALIFIED APPLICANTS FOR JOB OPENINGS

Percent Few or No Qualified Applicants

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	46	51	51	54	57	56	57	60	62	58	56	57
2022	55	57	55	55	61	60	57	57	57	55	54	51
2023	52	54	53	55	55	54	56	54	57	55	50	49
2024	49	51	48	51	51	51	49	56	52	46	48	49
2025	47	48	47	47	48	50	48	43	50	49	50	48
2026	44	46	45									

JOB OPENINGS

Percent With Positions Not Able to Fill Right Now
(Seasonally Adjusted)

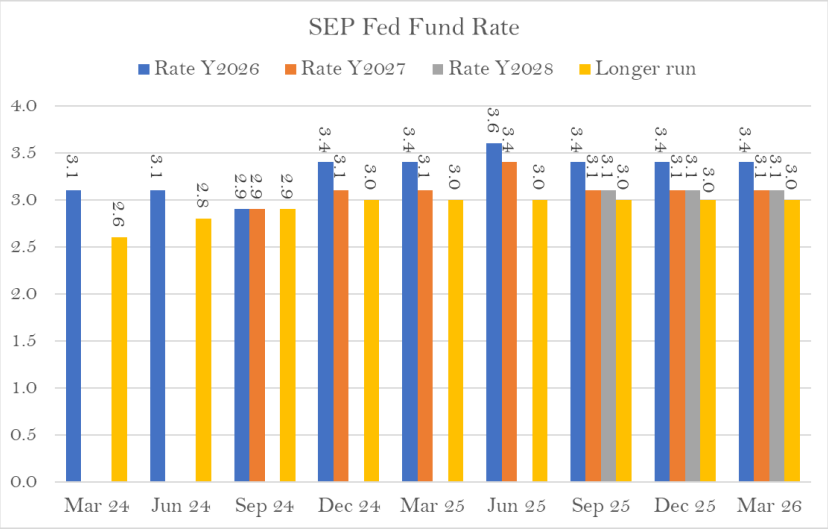
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	33	40	42	44	48	46	49	50	51	49	48	49
2022	47	48	47	47	51	50	49	49	46	46	44	41
2023	45	47	43	45	44	42	42	40	43	43	40	40
2024	39	37	37	40	42	37	38	40	34	35	36	35
2025	35	38	40	34	34	36	33	32	32	32	33	33
2026	31	33	32									

HIRING PLANS

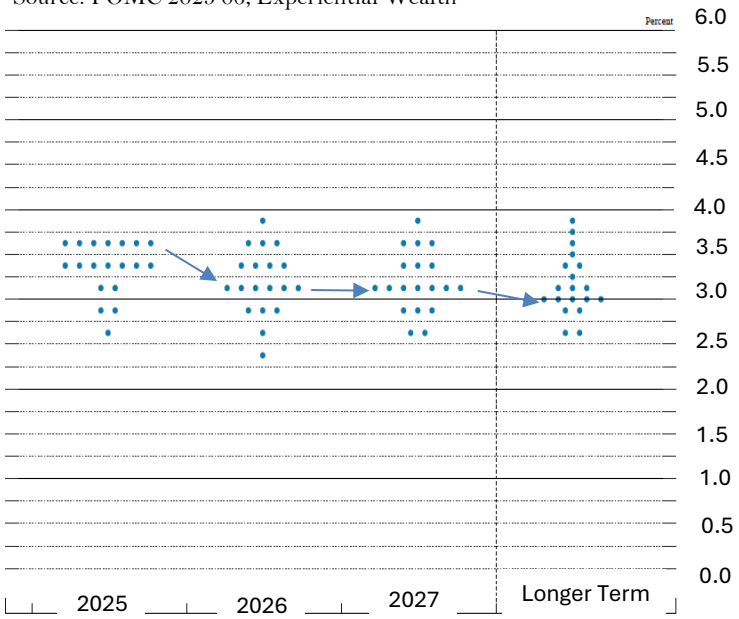
Net Percent ("Increase" Minus "Decrease") in the Next Three Months
(Seasonally Adjusted)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	17	18	22	21	27	28	27	32	26	26	25	28
2022	26	19	20	20	26	19	20	21	23	20	18	17
2023	19	17	15	17	19	15	17	17	18	17	18	16
2024	14	12	11	12	15	15	15	13	15	15	18	19
2025	18	15	12	13	12	13	14	15	16	15	19	17
2026	16	12	12									

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC 2025 06, Experiential Wealth



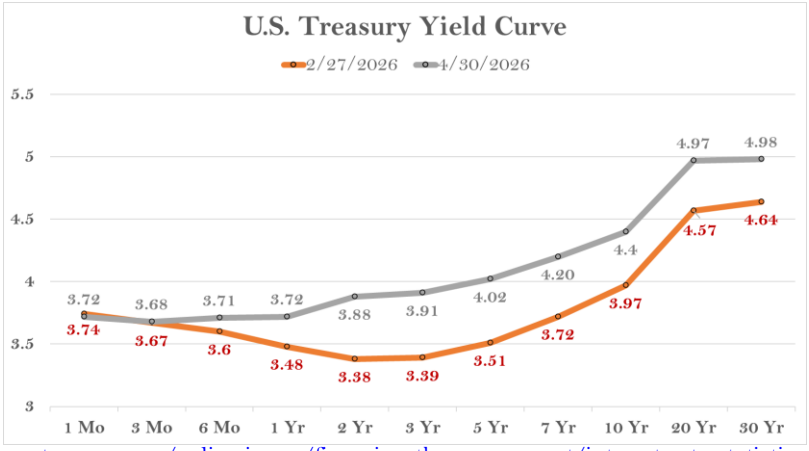
https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20260318.htm

The Fed continues to be cautious in managing the maximum employment and price stability mandates. The labor market has remains stable while inflation and short-term inflation expectation have been rising. The April 29 press conference, last one for Chair Powell, stated that the FOMC is comfortable in the current "high end of neutral or perhaps mildly restrictive" rate. Due to the uncertainty of the Iran war and its duration, the fed's action in the future is naturally uncertain also. Chair Powell stated that the FOMC members are more comfortable with a neutral policy stance rather than a dovish or hawkish stance. Typically, the Fed can look through oil driven inflation as the increase is reversable and temporary. Whereas monetary policies works with long and variable lags, so the desired impact does not happen right away. As usual, the Fed is data dependent. The FOMC is in a good position to determine the extent and timing of additional adjustments to its policy rate based on the incoming data, the evolving outlook, and the balance of risks.

A Kevin Warsh is expected to be the incoming Chair and if we believe in his words, he will continue to be cautious about inflation and not bend to the will of any political pressure.

https://experientialwealth.com/fomc-april-29-2026-press-conference-qa-summary/

U.S. Treasury Yield Curve Repricing



https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics

This shows a bear flattener where yields rise and prices fall; and the curve compresses. Each driver below contributes differently to the front end vs. the back end of the yield curve:

1. Repricing of Fed rate-cut expectations. Before the war, the futures market was pricing in two-to-three cuts for 2026. With oil up and headline PCE running at 3.5%, those cuts have been priced out. The 2-year Treasury, which is essentially a forecast of the average Fed funds rate over the next two years, went from 3.38% in late February to 3.88%, a 50 bp move.
2. Higher inflation breakevens (more concentrated in the belly).TIPS breakevens have widened materially. Nominal yield = real yield + expected inflation. When expected inflation rises, nominal yields rise dollar-for-dollar holding real yields constant. This lifts the entire curve, but it lifts the 2- to 5-year part most because that's where the bulk of the oil shock is expected.
3. Term premium re-emerging. Term premium is the extra yield investors demand for holding long-dated bonds. This is to compensate for uncertainty about the path of rates and inflation. Term premium has been rebuilding for a couple of years and the war accelerated it.
4. Foreign reserve managers selling Treasuries to pay for oil. When oil goes from $70 to $120, oil-importing countries need more dollars to pay their bills. They get those dollars by drawing down reserves by selling Treasuries and pressures the long end where foreign official holdings are concentrated.
5. Heavy Treasury supply meeting weaker demand. The U.S. is still running large deficits and Treasury auctions remain large. When marginal buyers (foreign central banks, banks under deposit pressure, leveraged funds) step back simultaneously, the auction-stop levels drift higher to clear the supply. This is a long-end effect.
6. Fiscal and tariff concerns at the long end. Tariff revenue uncertainty, the One Big Beautiful Bill Act fiscal projections, and a war-driven defense spending outlook are concerns. Fiscal worries lift the long end through both supply expectations and term premium.

Conclusions & Expectations

- We are living through a highly uncertain period for the U.S. and global economy. A global economy that is defined by the convergence of trade conflict, supply chain fragility, geopolitical realignment, and active warfare. These uncertainties rarely operate in isolation; they have cumulative and often unexpected effects, where one disruption amplifies another in ways that are difficult to model in real time. The most visible at this moment is the blockade of the Strait of Hormuz and the physical damage sustained by oil and gas producing infrastructure across the GCC, which together have removed a meaningful share of global energy supply from reliable circulation. The secondary effects of the Israel/US–Iran war, from on shipping, insurance and routing, on petrochemical and fertilizer inputs, on inflation expectations, on central bank policy paths, and on the willingness of capital to move across borders are only beginning to be felt, and the rippling consequences across emerging markets, energy-importing economies, and global manufacturing supply chains have not yet been fully recognized or priced. These forces will have human, financial, economic, and geopolitical consequences that extend well beyond the immediate combatants. It goes without saying that the longer the blockade continues, the more intense the disruption becomes and the longer the recovery will take, as damaged infrastructure, displaced trade flows, and shaken counterparty trust do not return to prior baselines on a predictable schedule, if at all.
- The United States, by virtue of its energy independence, deep capital markets, and the structural advantages, has thus far suffered the least direct economic harm. This is a relative cushion that distinguishes the U.S. from Europe and much of Asia, where energy intensity and import dependence make the shock far more acute. That relative insulation, however, should not be confused with immunity. America's reputation, reliability, and global leadership are all being re-examined in real time by allies weighing the durability of U.S. security commitments, by trading partners absorbing the unpredictability of tariff policy, by foreign creditors holding Treasuries amid questions about fiscal trajectory and central bank independence, and by emerging economies considering whether to continue anchoring their reserves and trade in dollars. The economic ledger and the strategic ledger are diverging: the former still favors the U.S., while the latter is accumulating costs that may not show up in this quarter's data but will shape the operating environment for years to come.
- For investors, this argues for humility about forecasts, questions the correlation across regions and asset classes, and a clear-eyed recognition that the post-Cold War assumptions are being tested in ways we have not seen in decades.
- US economy continues to grow with limited labor market deterioration, thus far. The US stock market also continues to make new highs against a world of chaos and unknowns. The durability of these two trends will be tested and challenged, and investors must manage their return and portfolio volatility expectations in the short and medium time frame.

What we have observed and learned about Trump 2.0

- Donald Trump's second term's governing style operates on a principle of saturation. By flooding the zone with simultaneous controversies, executive orders, tariff threats, personnel purges, legal fights, and rhetorical provocations, he ensures that no single story can fully metabolize before the next one arrives. This is not disorganization — it is a method. When every day produces multiple crises, the political opposition, the press, the courts, and even allied institutions are forced into permanent reactive mode, never able to mount a sustained response to any one thing. The old aphorism about muddying the water to catch fish captures it well. Chaos, in this framework, is not a byproduct of governance; it is the governance.
- Underneath the noise sits a consistent emotional architecture: grievance and payback braided together with a nationalism theme that casts Trump as the embodiment of the country. Enemies are pursued and punished; loyalists are tested and rewarded; fence-sitters are pressured into submission. Trump is the family patriarch who demands tribute, remembers every slight, and positions himself as both protector and punisher.
- If the first eighteen months are prologue, the next two years are likely to deepen rather than moderate this line of conduct. The incentives all point in the same direction: disruption generates attention, attention generates leverage, and leverage generates compliance. Guardrails that have bent tend not to spring back on their own. Expect more tariffs as negotiation theater, more loyalty tests inside the executive branch, more confrontations with courts and universities, more personalization of foreign policy around Trump's relationships and resentments, and more moments engineered to demonstrate that he alone sets the tempo. The through-line is everything, everywhere, all at once and with him in the center, and the rest of the system is expected to orient itself accordingly.

In addition to the end of IEEPA, more disruptions: USMCA

- The USMCA's first mandatory joint review is now formally underway with a hard statutory deadline of July 1, 2026 — roughly ten weeks away. Formal negotiations were launched on March 18, but only bilaterally between the U.S. and Mexico with separate U.S.-Canada talks proceeding on a parallel track. USTR Jamieson Greer has made clear that a rubber-stamp extension is "not in the national interest," citing structural shortcomings. The core U.S. demands center on (1) tightened rules of origin to block Chinese-made goods routed through Mexico, (2) stricter automotive content requirements and energy sector governance in Mexico, and (3) non-trade linkages including defense spending from Canada and fentanyl interdiction from both neighbors. The Supreme Court's February 20, IEEPA ruling has reduced Washington's most aggressive tariff leverage, but Section 232 and new Section 301 investigations against both countries remain active pressure tools. An unencumbered extension by July 1 is widely considered unlikely given the late start, the breadth of unresolved issues, and deeply complicated political atmospheres in all three capitals.
- The consensus expectation among trade economists and policy analysts is a messy but functional outcome: the three parties notify each other of intent to extend before July 1, preserving the agreement and resetting the 16-year clock while substantive negotiations on rules of origin, automotive content, Chinese supply chain disciplines, and labor enforcement continue well into late 2026 or 2027. Full termination remains the least probable outcome, given that the agreement underpins an estimated 56 million jobs across North America and Canada and Mexico represent the United States' two largest individual trading partners. The greater risk is prolonged uncertainty such as the serial annual review scenario which, without resolution, will continue to suppress investment in all three economies, particularly in long-cycle sectors like automotive manufacturing.

25% Tariff on European Autos and Exiting NATO

- More uncertainty is introduced almost daily. On May 1, Trump posted on Truth Social announcing that he will raise tariffs on cars and trucks from the European Union to 25%, claiming the bloc "failed to fully comply" with a trade agreement negotiated with the U.S., effective next week. The backdrop matters: Trump and European Commission President von der Leyen agreed to the so-called Turnberry Agreement last July, which set a 15% tariff on most goods. The EU says it is following standard legislative practice and keeping the U.S. administration informed, while EU lead negotiator Bernd Lange criticized the announcement as showing "clear unreliability." The timing is also conspicuously tied to broader political tensions. Trump renewed criticism of German Chancellor Merz on Thursday and called Spain and Italy "absolutely horrible" for refusing involvement in his Iran military operation. This suggests the tariff announcement is as much a diplomatic punishment for European non-compliance on Iran and defense as it is a genuine trade grievance.
- Trump has escalated his NATO withdrawal rhetoric significantly in recent weeks, telling Britain's Telegraph that he would reconsider U.S. membership in NATO and telling Reuters he is "absolutely" considering withdrawal, framing the alliance as a "paper tiger" that failed a critical test when European members declined to contribute military forces to the U.S.-Israeli war against Iran or help reopen the Strait of Hormuz. Secretary of State Rubio has since echoed Trump's sentiment, saying the alliance's value for the U.S. must be "reexamined" after allies refused to support the Iran campaign. Trump's stated public grievance is straightforward: Europe has freeloaded on American military protection for decades, refused to meet defense spending commitments, and then, when the United States needed allied support for a military operation it considered vital, European partners stood aside. In his framing, NATO is a one-way street that costs America enormously and delivers nothing in return when American interests are actually at stake. However, a law passed by Congress in 2023, Section 1250A of the 2024 NDAA, explicitly bars the president from withdrawing from NATO without either the advice and consent of the Senate, with two-thirds of senators concurring, or an act of Congress. The legal barrier is real and was deliberately constructed precisely to constrain Trump. Republican Senator Thom Tillis, top Republican on the Senate NATO Observer Group, acknowledged the president "can poison the well" and "make it functionally defunct" through rhetoric and troop repositioning alone. Whether it is sincere intent, tactical leverage over European defense spending, cover for the deeper resource ambitions around Greenland, or simply punitive theater directed at allies who defied him on Iran, the threat is real in its consequences even if it cannot be legally consummated. Trump continues to chip away the post-WWII American constructed Liberal World Order.

Likely more Geopolitical Adventures to come …

- It is not looking like the U.S. will have a decisive win over Iran any time soon. Trump is caught between diminished military capacity and political incentive to claim a decisive win. Those two forces push in opposite directions. A small, clean win in the hemisphere (e.g., limited Colombia strikes, a Cuba transition) resets the narrative from embarrassing stalemate to Donroe Doctrine working.
- The "Donroe Doctrine" was announced in the 2025 National Security Strategy as the "Trump Corollary" to the Monroe Doctrine by treating the Western Hemisphere as a U.S. sphere of influence. That doctrine offers the framework that any country in the hemisphere with a hostile or weak government, strategic resources, or a choke point is on the table.
- Mid-Term win by Democrats is a definitive limiting factor.
- The following are some candidates for next military actions:
    - Venezuela — Already in motion. "Operation Absolute Resolve" launched January 3, 2026. Low munitions cost, Maduro already removed, and Trump has floated 51st-state framing. This is the cleanest "win" available where Trump can declare victory whenever he wants.
    - Panama Canal — One of Trump's earliest and most persistent targets. In December 2024, Trump demanded Panama return control of the canal, and on January 7, 2025, he stated he had not ruled out the use of military force to take it.
    - Canada — Repeatedly floated as the "51st state." Trump said he would use "economic force" to acquire Canada, saying "you get rid of that artificially drawn line."
    - Beyond the Gulf of America renaming, Trump has threatened military action against cartels on Mexican soil and enacted heavy tariffs as coercive pressure.
    - Colombia — A newer target. Trump said, "Colombia is very sick too, run by a sick man who likes making cocaine and selling it to the United States, and he's not going to be doing it very long." When asked if he was threatening a military operation in Colombia, he replied, "It sounds good to me."
    - Gaza Strip — Trump has suggested taking control of the Gaza Strip (his earlier "Riviera of the Middle East" proposal to displace Palestinians and have the U.S. own the territory).

Disclosures and Limitations

- Experiential Wealth is an investment advisory and investment management firm.
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