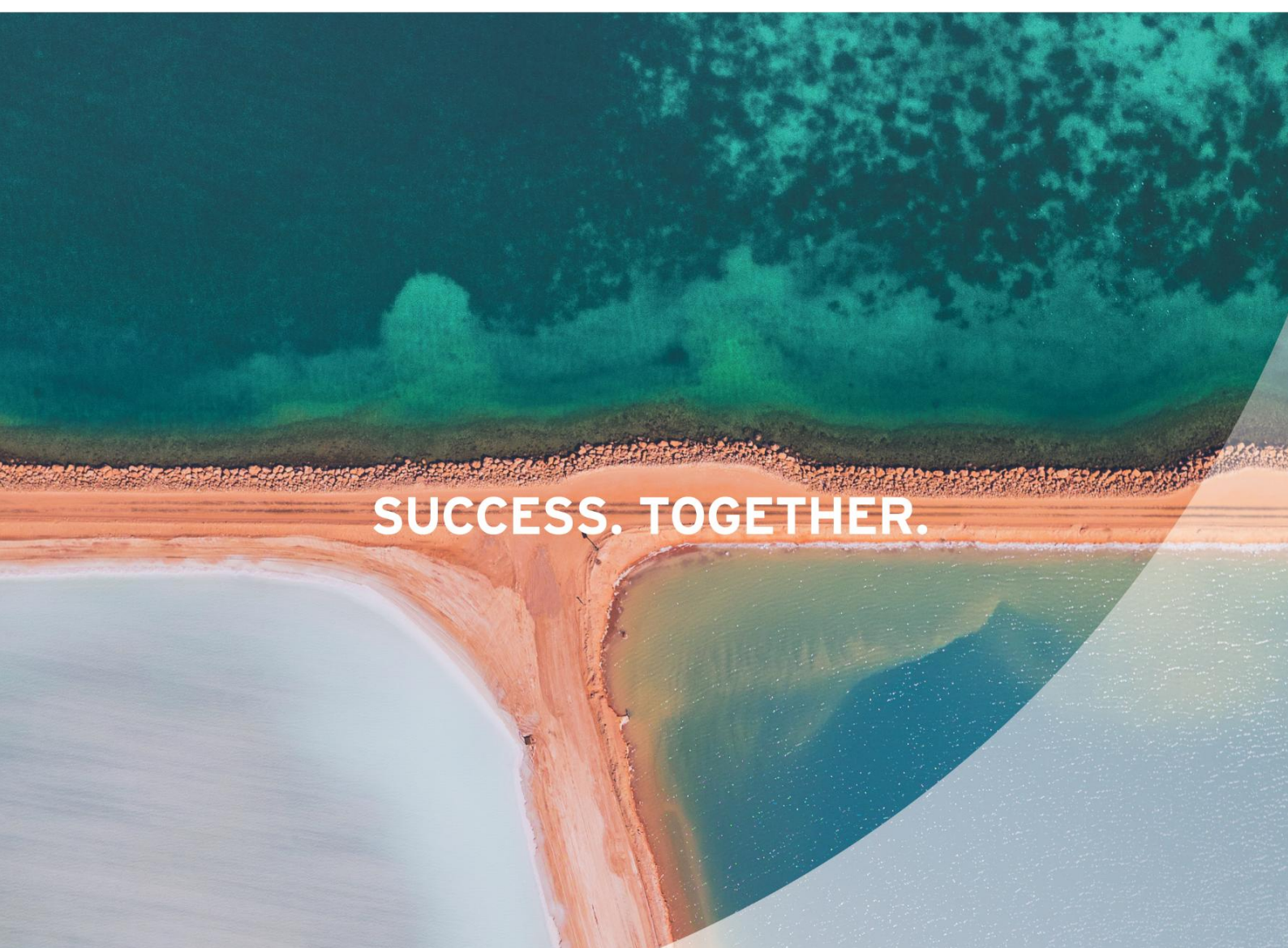


STRATEGY OUTLOOK

APRIL 2026



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Markets turn bearish.

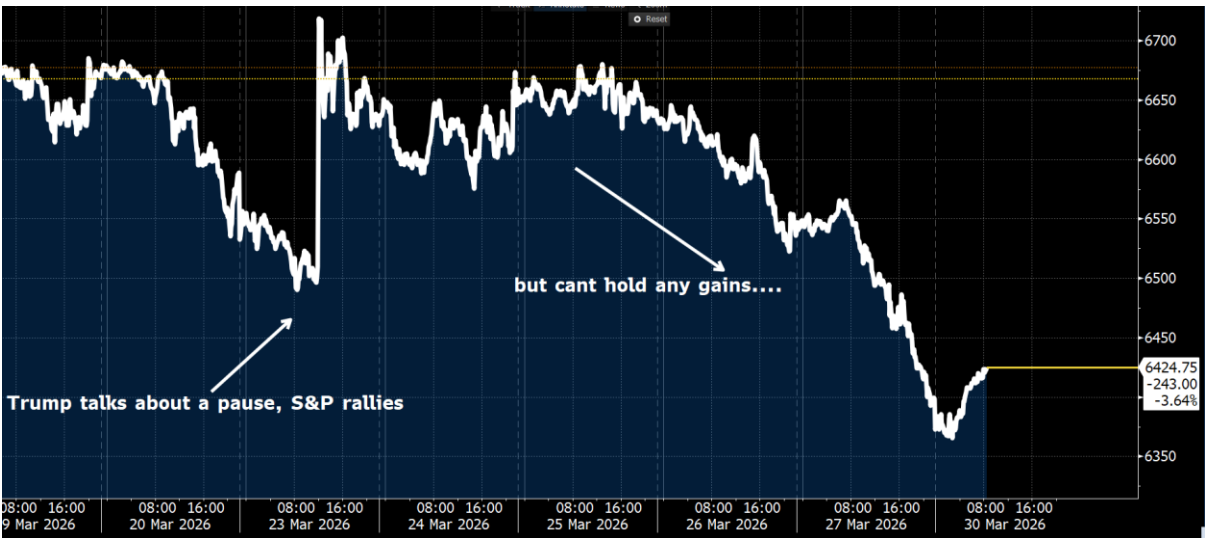
Unclear policy choices going into Mid-terms.

From its peak in late January, the S&P 500 is now down nearly 7%, with Nvidia falling closer to 10%, while Exxon has risen more than 41% year-to-date. The events in the Strait of Hormuz have been the catalyst for a market already struggling to push higher, even amid strong AI-related earnings. Outside of oil, price action across most asset classes increasingly reflects a developing bear market.

Markets had appeared confident that the Administration would ultimately de-escalate. And on the 23rd of March, the announced five-day pause and reports of “very good”

conversations with Iran delivered a short-lived relief rally. As the chart shows, that bounce was quickly sold. **The second chart becomes to the most important to watch** – how many tankers are passing through the Straits, as of today, its currently zero.

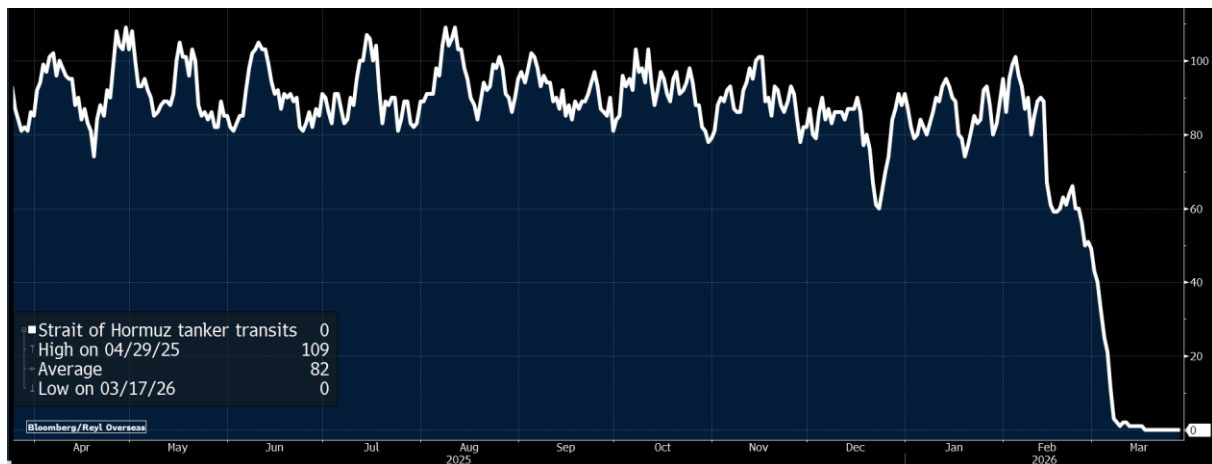
	March	YTD
S&P	-5%	-4.6%
Rest of the World	-10%	-1.5%
US Treasury	-4.4%	0%
Gold	-10.8%	9%
Bitcoin	3.4%	-21%
WTI Crude	47%	71%
USD Index	2%	1.2%



The challenge now is that few—if any—observers have a clear sense of the Administration's geopolitical strategy. As days pass, consequences accumulate, and policy reversals become more difficult without appearing to concede ground. The global knock-on effects are mounting. Taiwan relies on LNG for roughly 40% of its electricity, with clear implications for semiconductor output. Dow Chemical has doubled polyethylene prices—the world's most widely used plastic. Airgas (an Air Liquide company) has declared force majeure on helium. BASF has raised prices by 30%. Qatar's major LNG facility, the largest export plant globally, suffered an attack with damage **expected to take up to five years to fully resolve**. Chevron has warned that California faces a potential fuel crunch, while Slovenia has become the first EU state to introduce fuel rationing. The world's largest aluminium smelter has begun cutting

output. Several Asian economies have reintroduced remote-work measures to conserve fuel with shortages across ammonia, methanol, sulphur and helium.

Fertiliser supply is also tightening. A substantial portion of shipments to Sudan (54%), Sri Lanka (36%), Australia (32%), Pakistan (27%) and New Zealand (26%) flow through the Gulf, leaving these countries exposed to extended disruptions.



Australia faces a particularly acute problem. With Korean diesel exports to Australia capped, shortages arrive just ahead of winter seeding across 64–67 million acres of farmland. Six of eight Australian refineries were closed over the past two decades; the country consumes 575k barrels of diesel per day while producing just 75k—an imbalance that is both politically and economically fragile. Wheat, cotton, barley, and livestock prices have only one direction under these conditions. Adding to the pressure, a recent cyclone has knocked out three Australian LNG export plants, disrupting roughly 8% of global supply.

It is increasingly plausible that the Strait will remain closed until Iran chooses otherwise. The last 300 years of naval dominance over chokepoints may be losing relevance—drones now matter more than aircraft carriers. Meanwhile, Russia—whose oil in transit has been de-sanctioned—benefits directly from higher crude prices as attention shifts elsewhere. Iran, in turn, is not acting in isolation; Russia and China both appear supportive. China supplies most rare-earth-related components critical to U.S. (and by extension, Israeli) missiles and aircraft. **The upcoming Trump–Xi meeting at month-end could therefore prove consequential.**

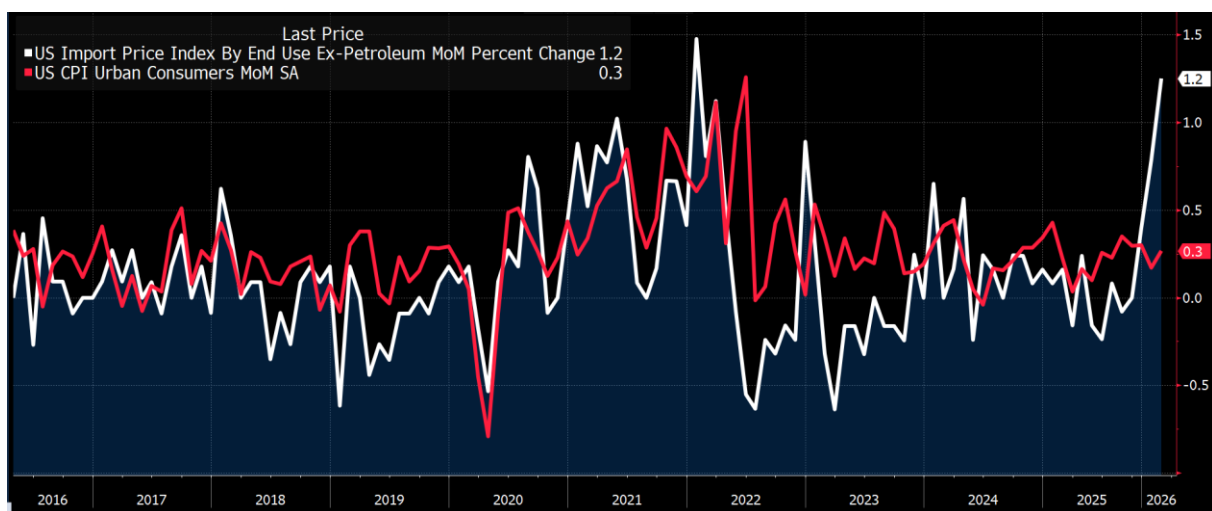
Another underappreciated vulnerability is the U.S. bond market. Energy-deficit nations—many now facing economic stress—hold roughly 40% of foreign-owned Treasuries. With 77% of global lending tied to bond-based collateral, declining bond prices raise the risk of a broader flight to safety. Yields have moved 50 bps higher on deficit concerns (the Pentagon is reportedly seeking an additional \$200bn) and rising inflation expectations. Import-price pressures are beginning to feed through to CPI as the last graph indicates. Treasury auctions have also been notably weak, reflecting waning demand for U.S. government paper.

What happens next? A full withdrawal would be interpreted as a strategic setback and would leave an ongoing chokepoint risk in the Strait. An invasion, on the other hand, risks a long,

grinding conflict akin to Vietnam, Gallipoli, or Afghanistan—an outcome that would push oil higher and bonds and equities lower. Body bags would kill the Mid-terms.

Gold fell 11% in March, yet under scenarios involving default or large-scale monetary debasement—both plausible outcomes of extended liquidity injections—gold demand would likely surge again. Since the seizure of Russian assets following the Ukraine invasion, **the S&P 500 has fallen nearly 40% when measured in gold terms.**

Away from geopolitics, domestic credit conditions continue to weaken (not helped by the Private Credit story). Financials are under pressure, inflation expectations are rising, and prospective Fed rate cuts are being pushed further into the future. Employment growth too has been effectively flat over the past year. While earnings remain resilient, the accumulation of headwinds is increasingly obvious.



As with the Russia-Ukraine conflict, the real difficulty lies in interpreting both the geopolitics and the direction of the conflict. **The Administration was elected, in part, on promises to reduce inflation and avoid new wars.** With midterms approaching and strategic options narrowing, the situation is becoming more binary—and markets do not react well to clear uncertainty. Yet investors also know that liquidity support can arrive quickly and aggressively when required.

We reduced U.S. equity exposure into T-bills in late February, largely before the Strait became a major issue. In hindsight, reducing gold might have been the more effective hedge, **but our long-term view remains strongly constructive on the metal.** Looking ahead, the probability of a significant market dislocation has clearly increased, and positive catalysts are difficult to identify. We want to deploy capital into AI hardware, robotics, space, silver, copper, and related secular themes, but for now we remain patient. That patience may need to extend well beyond the summer. The positive is that, historically, going back to the 1950s the average return one year after Mid-terms is over 30% with the decline going into the elections typically around 17%.

Another positive may be this is the last “oil shock”. Governments, particularly the Australians, wake up to simply having a Plan B. But also, the advent of small modular nuclear reactors is coming. Last month the first ever air transport of a nuclear microreactor occurred between

California and Utah by a C-17 Globemaster of the US Air force. Such a reactor could power 5000 homes.

In the short term we are worried about the options available geopolitically in a conflict we, frankly, don't understand. Portfolios are defensive and may need to get more defensive.

J. Loudoun

Chief Investment Officer, Reyl Overseas.

CONTACTS

SWITZERLAND

REYL Overseas Ltd

Talstrasse 65

8001 Zurich

T +41 58 717 94 00

F +41 58 717 93 01

www.reyl-ovs.com

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