

THE CAVU COMPASS

Monthly macroeconomic insights and market commentary provided by CAVU Securities and Piedmont Crescent Capital.

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Ceasefire at the Brink: IRGC Strikes Back, April 22 Deadline Looms

April 19, 2026

The IRGC Reversed Course. The April 22 Deadline Is Now the Only Thing That Matters.

- ▲ **The IRGC has reversed the Hormuz opening and attacked commercial shipping.** Within hours of Iran’s Friday declaration that the Strait was “completely open,” the IRGC reversed course Saturday morning. Iranian gunboats fired on vessels attempting to transit — at least one tanker, the VLCC Sanmar Herald, was fired upon despite receiving prior clearance to pass. A U.S. defense official confirmed at least three IRGC attacks on commercial ships. The UKMTO reported two attacks. Brent crude surged back toward \$99-100. The 24-hour window from Hormuz opening to Hormuz re-closure is the most dangerous sequence in the conflict since the April 8 ceasefire began.
- ▲ **The U.S. port blockade remains in full force.** President Trump, while welcoming Iran’s Hormuz announcement, immediately posted on Truth Social that the naval blockade of Iranian ports “will remain in full force and effect as it pertains to Iran, only, until such time as our transaction with Iran is 100% complete.” Negotiations “should go very quickly,” he said. This is the correct posture: use Iran’s concession as leverage to close a permanent deal, not a reason to stand down.
- ▲ **This is a negotiating ploy, not a strategic reversal — but ploys have consequences.** The IRGC’s logic is reconstructable: Iran opened the Strait as a goodwill gesture tied to the Israel-Lebanon ceasefire; Washington immediately declared the port blockade would stay regardless; IRGC hardliners concluded Iran conceded too much and restored leverage by reversing. This is almost certainly tactical, not a decision to re-enter full hostilities. But Iranian gunboats have fired on commercial ships carrying prior clearance. That creates facts on the water that matter independently of intent.
- ▲ **The April 22 ceasefire deadline is now the fulcrum.** Pakistani mediators are working urgently on a second round of talks. Both sides have given “in principle” agreement to extend the ceasefire for at least two more weeks, per AP sources, but that signal predates the IRGC’s Saturday reversal. Whether the extension holds now depends on whether Pezeshkian’s civilian government or Vahidi’s IRGC has the decisive voice in Tehran this week. March Retail Sales land April 21 — the day before the deadline — which will be the definitive read on consumer health going into the most dangerous diplomatic moment of the conflict.
- ▲ **The Fed is on hold, and it is not going to hike.** FOMC minutes confirmed that almost all participants view current policy as well-positioned. With unemployment heading toward 4.6% and PCE toward 3.1%, the committee is not looking for reasons to tighten. The bar for hiking requires a wage-price feedback loop that is not present today. We still see room for at least one quarter-point cut during the second half of the year, most likely in late summer, well ahead of the midterm elections.
- ▲ **The global recession threshold is closer than the IMF is letting on.** The IMF cut their 2026 global economic forecast to just 3.1%, just above the threshold that marks a global downturn. Many large forecasting shops have forecasts closer to 2.5%. Our own is slightly higher, at 2.8%, as we see the Middle East turmoil weighing heavily on European and Asian economic growth. Our forecast for U.S. growth remains well above consensus.
- ▲ **Housing has missed its spring season.** NAHB homebuilder sentiment fell to 34 in April, lowest since September. Builders are dealing with higher diesel and material costs, rising mortgage rates, and buyers who have stopped showing up. Completed unsold inventory is back to Great Recession levels. Spring is typically the difference between a good year and a bad one in housing. This one is largely gone.
- ▲ **Our scenario probabilities, revised for the IRGC reversal.** Base Case (45%, down from 55%): IRGC reversal is a negotiating ploy; a ceasefire extension and second-round talks materialize before or shortly after April 22; Brent stabilizes \$85-\$100. Downside (35%, up from 30%): ceasefire lapses April 22, IRGC hardliners retain control of Iran’s posture, Brent re-accelerates toward \$115-\$130, consumer spending enters genuine contraction. Tail Risk (20%, up from 15%): IRGC actions against U.S. naval assets or allied Gulf port infrastructure trigger immediate U.S. military response; oil above \$140; global recession risk surges. The distribution has shifted materially back toward the pre-Hormuz-announcement balance.

MARKET SNAPSHOT

Indicator	Level	Context
Brent Crude	~\$97–100 / bbl	Surged back toward \$100 after IRGC reversed Hormuz opening Saturday and attacked commercial vessels; erased most of Friday's relief
WTI Crude	~\$93–96 / bbl	Recovered most of Friday's decline after IRGC gunboat attacks Saturday; physical markets remain extremely tight
10-Yr Treasury	4.25–4.30%	Drifted down from 4.35% peak; bond market pricing limited near-term resolution
2-Yr Treasury	~3.82%	Curve +43–50 bps (2s10s); modest steepening on growth fears
Natl Avg Gasoline	\$4.16 / gal	↑ from \$3.41 pre-war; \$10.4B weekly drain on consumer budgets
Natl Avg Diesel	\$5.67 / gal	↑ sharply; record territory; freight cost surge is now embedded
Gold	~\$4,760 / oz	Safe-haven premium holds; clearest market signal of persistent risk
Fed Funds Target	3.50–3.75%	On hold; futures markets have priced out cuts for 2026, but PCC still sees room for one to two quarter-point cuts in the second half
UMich Sentiment	47.6 (Apr prelim)	Record low; 1-yr inflation expectations 4.8%; long-run 3.4%
NAHB Sentiment	34 (April)	Lowest since September; spring selling season effectively lost
Retail Sales (Mar)	Delayed to Apr 21	Census Bureau delay; cleanest read on discretionary spending still pending
Industrial Production	–0.5% (Mar)	Third consecutive monthly decline; manufacturing down 0.1%; softening at the margin
Initial Jobless Claims	207–210k	Labor market holding; no sign yet of energy shock reaching payrolls
Empire State Mfg	Modestly negative	Early April snapshot; new orders and shipments declined
Philly Fed Mfg	26.7 (April)	Surged well above expectations of 10.0; new orders and shipments hit multi-year highs; employment fell
S&P 500	+4.8% for week	Risk-on surge on Hormuz news; Nasdaq +6.8%, DJIA +3.5%; all-time high intraday
Corp Bond Issuance	~\$100bn this week	Massive risk-on signal; banks led with BofA, JPM, Morgan Stanley each pricing \$10bn deals

Sources: Reuters, WSJ, EIA, CME Group, University of Michigan, NAHB, Census Bureau. As of market open April 19, 2026.

“Iran's 'leadership' blinked on the Strait. The war is not over. But the arithmetic just shifted decisively in Washington's favor, which the IRGC does not like.”

-- Mark P. Vitner, Chief Economist, Piedmont Crescent Capital

THE CONSUMER: FROM SENTIMENT TO BEHAVIOR

March Retail Sales land April 21 -- the day before the ceasefire expires -- making the timing of this data release unusually consequential. We expect control group retail sales (ex-autos, gas, building materials) to rise +0.3%, driven by the generous 2025 tax refund season, with average refunds running more than 10% above year-ago levels. The headline figure will be misleadingly strong, perhaps +1.3% to +1.5%, because gasoline prices inflated the gas-station line item. The number to watch is the control group. A reading above +0.3% means the consumer was holding in March despite the energy shock; below +0.2% signals the energy drain was already overwhelming underlying spending before the IRGC reversal raised the risk of another oil price surge. Bank of America's internal card data for March showed per-household spending up 4.3% year-over-year, with discretionary categories ex-gas still growing at 3.6% YoY, consistent with a resilient consumer, at least through March. April will be a harder test. The first full month of post-blockade energy prices, combined with the IRGC reversal and related market volatility, will show up in the April data released in May. Gasoline prices have fallen modestly in April, however, which may provide some modest relief to consumers' psyche and wallets. Do not be distracted by the headline Tuesday. The Census Bureau delayed March Retail Sales until April 21. The cleanest measure of consumer health is hours away.

Consumers do not need to see a monthly spending report to know something has changed. They feel it at the pump. At \$4.16 a gallon for gasoline and \$5.67 for diesel, the \$10.4 billion weekly income transfer from household budgets to the energy sector is large enough to matter in the aggregate. It does not cycle back into the consumer economy. It goes to refiners, producers, and governments. And unlike 2021 and 2022, when three years of forced savings gave households meaningful cushion against the 2022 energy shock, that buffer is largely gone. The personal saving rate was 4.0% heading into the conflict, well below the post-pandemic average. Middle- and lower-income households, who were already running lean, are most exposed.

Since peaking in early April, U.S. gasoline prices have fallen slightly. The national average for regular gasoline climbed as high as \$4.16 per gallon the week of April 9 -- the highest level since August 2022 -- before easing to \$4.09 on April 16 and \$4.06 as of April 18, according to AAA data. That represents a decline of roughly 7 to 10 cents from the recent high. The modest pullback follows the announcement of a two-week U.S.-Iran ceasefire, which allowed crude oil to retreat below \$100 per barrel after earlier spikes above \$110. Wholesale gasoline markets have begun to reflect that relief, and some regions are seeing early seasonal price cycling as stations transition toward summer-blend fuel. Even so, the national average remains more than \$1.00 higher than a month ago and roughly 30% above year-ago levels, keeping the energy shock's drag on real disposable income intact.

Higher gasoline prices are clearly weighing on consumer confidence. The University of Michigan preliminary April Consumer Sentiment reading of 47.6 is consistent with recent headlines from retailers, small business owners and homebuilders. The UMich survey has been more volatile and has run notably more negative on the economy overall. The more important component in this report remains inflation expectations. One-year expectations have jumped to 4.8%, the highest since 2023. Long-run expectations have moved to 3.4%, territory not seen since 2008. The Fed's entire justification for tolerating an energy-driven headline spike without tightening policy rests on the assumption that long-run expectations stay anchored near 2%. At 3.4%, that assumption is under genuine stress. That said, the Fed gives far more credence to more stable measures of inflation expectations, such as the 5-year forward breakeven rate and the New York Fed consumer survey, both of which show medium- and long-term inflation expectations remain anchored. While the Fed gives less weight to the UMich survey, they would have a hard time cutting interest rates while inflation expectations were rising.

RISK FACTOR

The Savings Rate Cannot Absorb Another Month of This

The personal saving rate was 4.0% entering the conflict, well below the post-pandemic average. The roughly 40% jump in gasoline prices from pre-war levels has already begun to offset the benefit from sizable individual tax refunds flowing from last year's tax legislation. Within weeks, the pump-price drag will likely more than offset that tailwind. Without a meaningful retreat in energy prices, the path for consumer spending in Q2 leads to something worse than a slowdown.

THE BEIGE BOOK: A GROUND-LEVEL PORTRAIT OF THE SHOCK

The Federal Reserve's April Beige Book, released Wednesday, April 15, described slight-to-moderate growth across most districts but with a wait-and-see posture that has become increasingly pronounced since the blockade took effect. All twelve districts reported the same basic pressures: energy and freight costs up, discretionary consumer spending softer, businesses pulling back on hiring and capital projects, and uncertainty rising. The Fed's own leadership has been unusually direct. New York Fed President John Williams flagged that the conflict is feeding inflation through energy channels. Governor Miran noted that the underlying inflation picture had already deteriorated before the war began, meaning the energy shock is compounding a problem that was not yet fully resolved. Against that backdrop, the Philly

Fed manufacturing survey for April was a genuine positive surprise: the headline index surged to 26.7, well above the consensus of 10.0 and the prior reading of 18.1. New orders jumped 24 points to 33.0, and shipments rose nearly 12 points to 34.0 -- both at their strongest readings since 2021 and 2022, respectively. The prices paid and prices received components both hit their highest levels since August 2025, consistent with the energy pass-through story. Employment fell. The takeaway: production and orders are holding, but firms are not adding headcount, and the cost picture is worsening. Initial jobless claims fell 11,000 to 207,000 for the week ended April 11, below the consensus of 213,000. Labor market deterioration has not yet appeared in the claims data, which is consistent with our view that oil price shocks affect employment with a two-to-three quarter lag.

Transportation and logistics contacts in Dallas, Kansas City, and Chicago reported fuel surcharges near pre-pandemic highs. Food producers in Atlanta and Richmond flagged diesel and fertilizer as their primary cost pressures. Retailers in New York and Boston reported weaker foot traffic and softer card spending since the blockade. Manufacturers across several districts flagged higher plastics and freight costs as reasons to delay capital spending. The breadth is the notable part. This is not a sector-specific problem or a regional one.

The Beige Book also documented an income split that is becoming more pronounced. Higher-income households in New York, San Francisco, and Boston continue to spend, supported by equity-market wealth effects that have been relatively resilient. Middle- and lower-income households in Kansas City, Dallas, and Atlanta are pulling back. This bifurcation existed before the war, but the energy shock has sharpened it considerably. Gasoline prices consume a proportionally larger share of lower-income budgets, and those households had less savings to draw on at the outset.

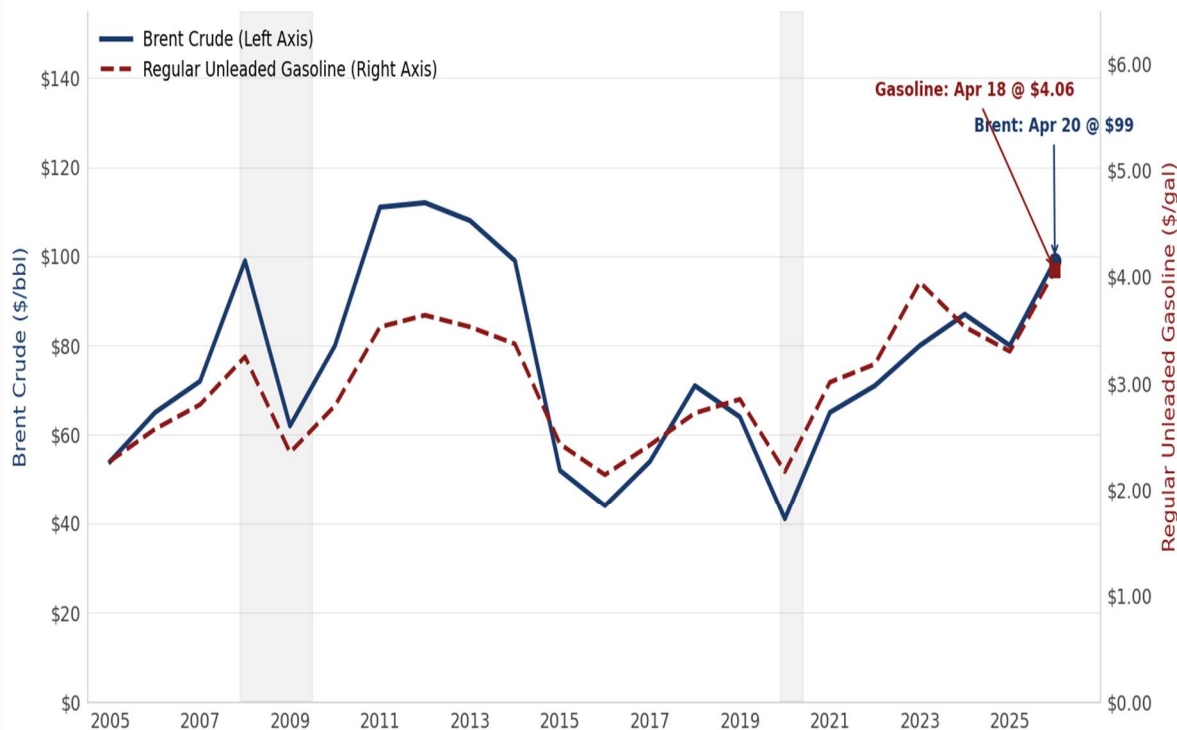
KEY SIGNAL

The Bond Market Remains the Definitive Signal

Treasury yields fell 3 to 12 basis points through Friday on the Hormuz opening announcement, with the 10-year briefly breaking below 4.25% and the 2-year trading near 3.65 to 3.69%. Corporate issuance surged to approximately \$100 billion for the week — the largest of the year — and spreads had tightened to pre-war levels. Then the IRGC reversed the Hormuz opening Saturday and Brent surged back toward \$99-100. The relief rally has partially unwound. The 10-year has drifted back above 4.25-4.30% as the IRGC news filtered through. Watch the April 21 close: yields holding above 4.30% signal the bond market is pricing a ceasefire lapse. A fall back below 4.20% would signal the market believes a last-minute extension is coming. The bond market was right on Friday — it priced the Hormuz opening at face value. It will be right on what happens next, too. Until a deal is formally signed and the blockade visibly unwinding, financial conditions remain tighter than equities are pricing.

Brent Crude vs. U.S. Average Retail Gasoline Price

Annual averages, 2005-2025; 2026 reflects April 20 level after IRGC reversal. Shaded areas = NBER recessions.



Source: U.S. Energy Information Administration (EIA); AAA. Weekly data through April 18, 2026.

Source: U.S. Energy Information Administration (EIA). Weekly data.

BREAKING: HORMUZ DECLARED OPEN — WHAT IT MEANS AND WHAT IT DOESN'T

The situation has moved sharply in the past 72 hours. Iran’s Friday announcement that the Strait of Hormuz was “completely open” for commercial traffic produced a genuine, if brief, de-escalation. Markets priced it immediately: oil fell toward the high-\$80s, equities surged, corporate spreads tightened to pre-war levels. More than a dozen commercial vessels actually transited — the most traffic since February 28. Then, early Saturday, the IRGC reversed course. Iran’s joint military command declared that “control of the Strait of Hormuz has returned to its previous state.” Iranian gunboats fired on at least one tanker that had received prior clearance to pass — the VLCC Sanmar Herald — and at least two additional attacks on commercial vessels were confirmed by both the UKMTO and a U.S. defense official. The 24-hour window from opening to re-closure is the most dangerous sequence in the conflict since the ceasefire began.

What the IRGC’s reversal reveals about Iran’s internal politics matters as much as the tactical situation it creates. Iran International has documented a widening rupture between President Pezeshkian’s civilian government and IRGC hardliners. A confrontation on April 4 between Pezeshkian and Hossein Taeb, a figure close to Supreme Leader Mojtaba Khamenei, saw Pezeshkian accuse IRGC commander Ahmad Vahidi and Central Headquarters commander Ali Abdollahi of “acting unilaterally and driving escalation” in ways that had “destroyed any remaining chance of a ceasefire” and were steering the Republic toward “a huge catastrophe.” The Soufan Center has described the negotiating dynamic at Islamabad as reflecting a structural power struggle between Vahidi’s IRGC hardliners and the more pragmatic officials aligned with Pezeshkian. Critically, the Stimson Center’s Kaitlyn Hashem has documented how Israel’s assassination campaign against IRGC leadership has had an ironic consequence: it elevated a generation of hardliners pulled from semi-retirement who are “more hardline, anti-U.S., and anti-Israel than those they replaced” and “less nimble in negotiating an end to the war.” These are not pragmatists who got outmaneuvered — they are the hardliners themselves.

The IRGC’s logic, as reconstructed from IRGC-affiliated media and Iranian government sourcing, is straightforward: Iran opened the Strait Friday as a goodwill gesture tied to the Israel-Lebanon ceasefire. Washington immediately declared the

port blockade would remain regardless. IRGC hardliners concluded this meant the U.S. was banking the concession without offering anything in return — and reversed course to restore leverage. This framing is almost certainly correct. But ‘almost certainly a negotiating ploy’ and ‘therefore risk-free’ are not the same thing. Iranian gunboats have fired on tankers carrying prior clearance. A misjudgment about how the U.S. will respond, or a single incident involving an allied-nation vessel, could trigger a response that neither the IRGC’s civilian handlers nor Washington’s diplomats can contain in real time.

What this does change is the negotiating arithmetic. The U.S. port blockade, which CENTCOM says has completely halted Iran’s seaborne trade and costs Tehran an estimated \$400 million per day, remains fully in force. Iran has now conceded the central demand (Hormuz access) without getting what it wants in return (lifting of the port blockade and a broader deal). That puts Washington in a stronger position for the next round of talks. Trump’s suggestion that negotiations “should go very quickly” reflects genuine optimism, backed by real leverage. Whether that leverage produces a durable agreement before April 22 is the question that will determine the economic outlook for the second half of 2026.

The context for Iran’s declaration is important. The U.S. port blockade, now in its seventh day, has completely shut off Iran’s seaborne trade, which powers roughly 90% of its economy. Iran’s onshore oil storage was already approaching saturation before Friday’s Hormuz declaration, with our analysis suggesting fields would begin shutting in within roughly 13 days of the April 13 blockade start. Shut-in is irreversible on a short timeline: restarting upstream production after reservoir pressure is compromised takes weeks to months. Iran had a closing window in which to act and opened the Strait Friday — then the IRGC reversed that decision within 24 hours, trading a genuine concession for a negotiating ploy.

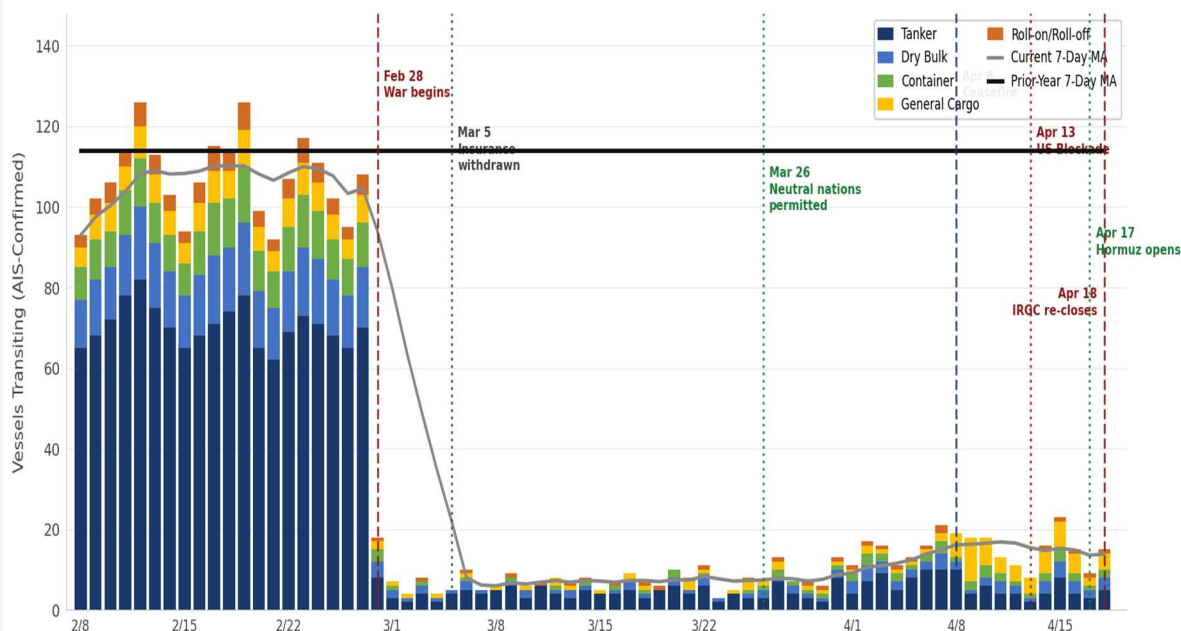
The diplomatic picture as of Sunday, April 19: Pakistani mediators are working urgently. AP sources report both sides gave an ‘in principle’ agreement to extend the ceasefire for at least two weeks, though that signal predates Saturday’s IRGC reversal. Pakistani army chief Asim Munir traveled to Tehran earlier this week with a fresh message from Washington. Iranian FM Araghchi was photographed warmly embracing Munir on arrival. The nuclear impasse at Islamabad remains: the U.S. proposed a 20-year enrichment suspension; Iran countered with five years, which Washington rejected. The port blockade is Washington’s primary leverage and will not be surrendered before a deal. Iran’s position is that the blockade itself violates the ceasefire. The gap is structural, not merely tactical — but even structural gaps can be bridged by a deadline and enough economic pain. Iran’s economy, per Pezeshkian’s own assessment on March 28, cannot withstand more than three to four weeks of current conditions without risk of collapse.

If the ceasefire lapses on April 22 and the IRGC follows through on its hardline posture, Washington’s response will be swift. The U.S. military posture in the region — more than 10,000 personnel, over a dozen warships, active mine-clearing operations, CENTCOM’s established blockade enforcement protocols — is configured for enforcement. U.S. Chairman of the Joint Chiefs General Caine confirmed last week that 23 ships had complied with U.S. blockade instructions, all turning around without requiring boarding. If the IRGC attacks a vessel under U.S. escort, or fires on a U.S. naval asset, the response will be immediate, targeted, and calibrated to IRGC naval facilities rather than Iranian civilian infrastructure. Our assessment: the most likely military response scenario does not deepen the conflict into full-scale war. It does push oil back above \$110, widen credit spreads 75 to 125 basis points, and set back any ceasefire extension by at least two weeks.

The brief relief rally does not yet signal a durable resolution to the energy shock. We expect Brent crude to average around \$100 per barrel through the middle of this year, with a potential peak near \$120 should the April 22 ceasefire expire, around \$110 during periods of heightened uncertainty, and closer to \$90 when conditions improve materially. Sustained higher energy prices are likely to add a full percentage point to global headline inflation and subtract roughly one percentage point from global growth. For the United States, the impact is more contained: we see only a 0.5 percentage point addition to headline inflation and a roughly 0.5 percentage point subtraction from GDP growth. The U.S. economy entered this shock in a far stronger position than most of its peers -- less dependent on Middle East oil, chemicals, and fertilizer, and therefore facing price shocks rather than outright shortages. Moreover, U.S. growth remains capital-driven, powered by the ongoing AI buildout, Boeing’s ramp-up in aerospace assemblies, the GLP-1 pharmaceutical and life-sciences boom, elevated defense spending and replenishment, and continued reshoring activity. These structural tailwinds leave the U.S. better insulated than Europe or Asia as the energy shock plays out.

Daily Vessel Transits Through the Strait of Hormuz, by Ship Type

AIS-confirmed transits only; actual counts likely 15-30% higher due to vessels operating without AIS.



Sources: IMF PortWatch; Windward Maritime AI; Kpler; LSEG; UKMTO. Feb. 8-Apr. 18, 2026.

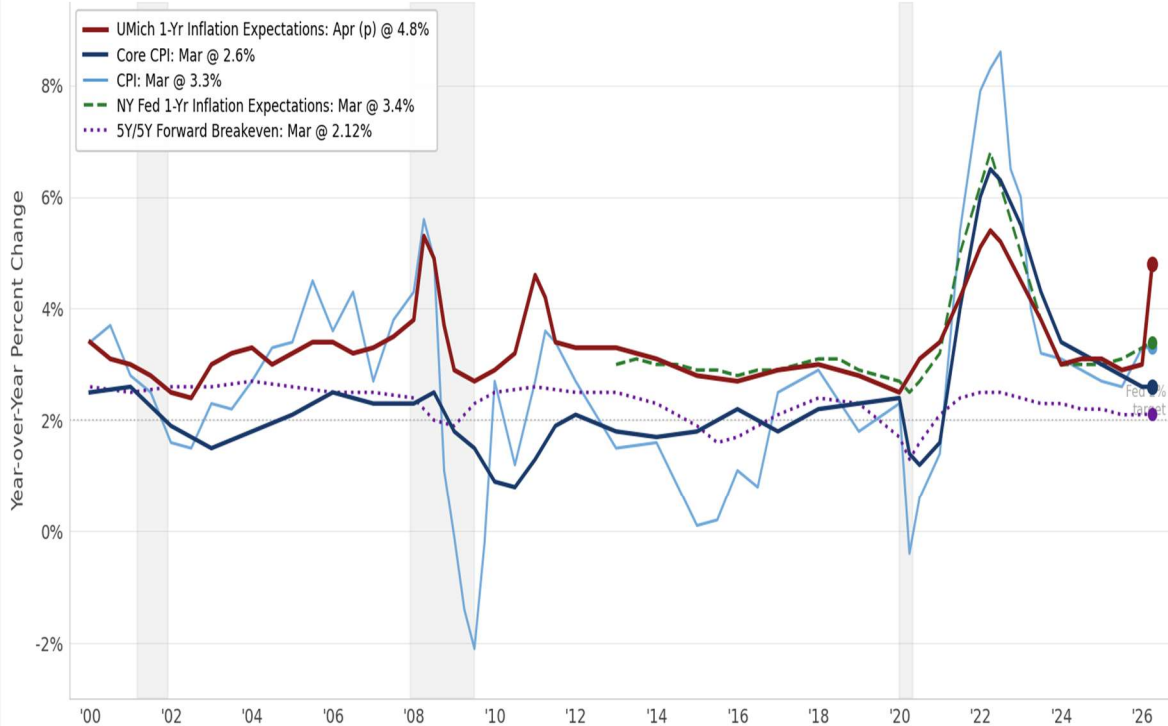
Sources: IMF Portwatch Platform, Windward Maritime AI daily intelligence reports; Windward Hormuz Daily Intelligence hub; CNBC/LSEG; Al Jazeera/Axios (Apr 18 IRGC attacks on 3 vessels, Strait re-closed).

GEOPOLITICAL FRAMEWORK

Scenario	Probability	Macro & Market Implications	Corporate Finance Action
Base Case	45%	Iran's Hormuz declaration, combined with the port blockade, produces a framework agreement before or shortly after April 22. Mine-clearing begins under IMO coordination. Commercial traffic resumes through coordinated routes. Ceasefire formally extended. Brent falls toward \$75-\$95 as supply-risk premium compresses. Consumer spending stabilizes in Q2, recovers in H2. The economic damage from the seven-week shock is real but bounded.	If a deal closes quickly, the fixed-rate issuance window reopens. Monitor Brent closely: a sustained move below \$85 changes the cost-of-capital calculus materially. Hold liquidity buffers in place until a formal agreement is signed. Do not unwind hedges. The IRGC reversal showed how quickly the situation can shift.
Downside	35%	Ceasefire lapses April 22 with no extension. IRGC hardliners retain control of Iran's posture. Hormuz remains effectively closed. Brent re-accelerates toward \$115-\$130. Consumer spending enters genuine contraction. Fed policy becomes nearly impossible to calibrate. Credit spreads +75-125 bps.	Accelerate fixed-rate issuance ahead of wider spreads. Model demand destruction in revenue forecasts. Limit new floating-rate exposure. Review covenant headroom urgently.
Tail Risk	20%	Iranian military retaliation against U.S. naval assets or Gulf port infrastructure. Oil \$140+. Global recession risk surges. Dollar surges; EM stress. Possible Chinese air-defense weapons delivery to Iran adds great-power dimension. Fed caught between 5%+ inflation and recession.	Maximize liquidity immediately. Draw revolvers preemptively. Halt discretionary capex. Model severe demand contraction. Accelerate supply-chain diversification away from Gulf-dependent inputs.

Inflation Expectations vs. Actual Inflation

1-year inflation expectations (UMich, NY Fed); Core CPI; Headline CPI; 5Y/5Y forward breakeven. Dotted line = Fed 2% target. Shaded areas = NBER recessions.



Sources: University of Michigan Survey of Consumers; Federal Reserve Bank of New York; Bureau of Labor Statistics; Bloomberg. Monthly data.

Source: University of Michigan Survey of Consumers. Monthly data. Shaded areas denote NBER recessions.

INFLATION & MONETARY POLICY: A STAGFLATIONARY BIND

The March CPI and PPI together confirm that the energy shock is now embedded in the producer pipeline, not merely at the consumer level. Final Demand PPI rose 4.0% year-over-year, the hottest reading since February 2023. Goods prices jumped 1.6% month-over-month on energy; services prices were flat. That composition tells a specific story. Margins are being squeezed, not prices being passed through broadly. Small businesses are absorbing the cost hit rather than raising prices, which is exactly what the NFIB data shows: net profits dropped 11 points in March, and NFIB Chief Economist Bill Dunkelberg pointed directly at the oil price spike as the cause. A business can absorb that for a quarter. Sustained at current oil prices through Q3, it becomes a hiring and investment constraint.

The March CPI and PPI data align with what we have been projecting. March CPI rose 0.9% for the month, with the 3.3% year-over-year reading driven almost entirely by the 21.2% surge in gasoline prices. Our year-end 2026 headline PCE forecast of 3.1% and core PCE forecast of 2.5% reflect the pass-through of energy costs into goods prices and, eventually, services. We expect PCE to peak near 3.5% year-over-year in April before energy base effects begin pulling it lower in the second half. On growth, the energy shock subtracts roughly 0.5 percentage points from our 2026 GDP baseline, with the drag primarily reflecting the hit to real income and consumer spending from higher oil prices. Consumer inflation expectations have moved sharply across multiple surveys: UMich 1-year expectations rose to 4.8%, the New York Fed survey moved up 0.4 points to 3.4%, and the Conference Board survey rose 0.7 points to 6.2%. The breadth of that shift across independent surveys is notable. The FOMC minutes from the March meeting show a genuinely divided committee. Our view is that the unemployment channel wins: the demand destruction from sustained energy prices is more likely to force the Fed's hand than the inflation pass-through.

Gasoline prices have declined modestly since peaking in early April, which may slow or even partially reverse the rise in inflation expectations. The impact of the CPI could be even more dramatic, as gasoline prices typically rise in April as

driving increases for springtime activities. A small decline or even a stall in price gains would result in a seasonally adjusted decline in gasoline prices in the April CPI, which would produce a head-scratching report for the month.

PCC's view has not changed. The Fed will not hike. The current shock is narrower than 2021 to 2022, the labor market is in better balance, and the funds rate already sits 50 to 75 basis points above the FOMC's own median neutral estimate. Hiking into a demand-destructive energy shock with unemployment rising toward 4.6% would be a policy error. Futures markets have completely priced out any cut in 2026, which we view as too pessimistic. We continue to see room for one or two quarter-point cuts in the second half of the year, most likely beginning in late summer, with a possible second cut after the midterm elections. The FOMC blackout period begins this weekend ahead of the April 28 to 29 meeting, so there will be no Fed speakers next week. The Senate Banking Committee holds a confirmation hearing for Kevin Warsh next week, which may provide early signals on the next Fed Chair's views on monetary policy and central bank independence. Trump's stated intention to fire Jerome Powell if he stays on carries no legal authority; the more consequential test of Fed independence is the ongoing Supreme Court case over the White House's attempt to remove Governor Lisa Cook.

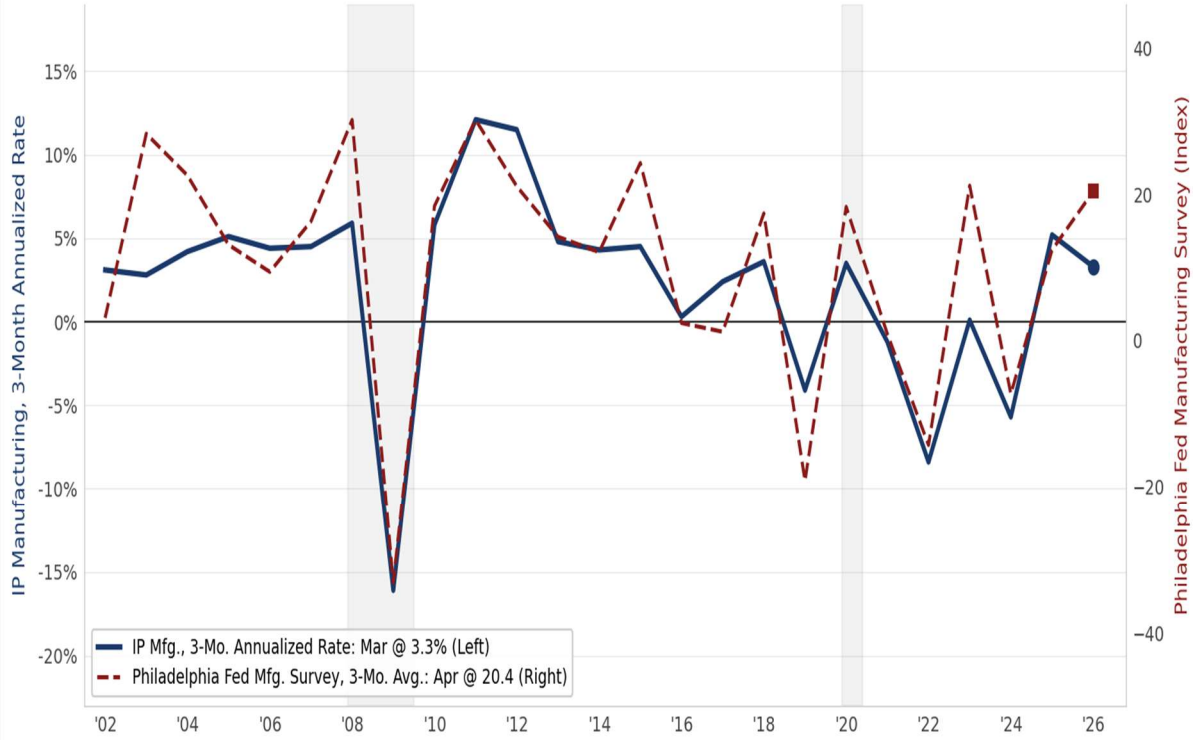
KEY SIGNAL

This Is Not Yet a Generalized Inflation Breakout

Core CPI at 2.6% and flat PPI services prices tell us the energy shock has not yet run into wages or broad services costs. Small businesses are absorbing the hit through lower margins. Second-round inflation effects should be smaller than in 2022, given looser labor markets and more financially stretched lower-income households. The April CPI release will be the next meaningful test. If core clears 2.8% year-over-year, the argument for rate cuts this year becomes very hard to sustain.

Manufacturing Output vs. Philadelphia Federal Reserve Survey

Both series are 3-month moving averages. Shaded areas denote NBER recessions.



Source: Federal Reserve Board of Governors; Federal Reserve Bank of Philadelphia. Seasonally adjusted.

Source: Federal Reserve Board of Governors; Federal Reserve Bank of Philadelphia. Seasonally adjusted.

HOUSING & CAPITAL INVESTMENT: WAR CASUALTIES IN THE SPRING SEASON

The NAHB homebuilder sentiment index fell four points to 34 in April, its lowest reading since September and well below the consensus of 37. Every component was down: current sales, expected sales six months out, and buyer traffic. Builders cited the familiar trio of problems: higher energy-related material costs (diesel especially), higher mortgage rates, and buyers who are simply not showing up. The share cutting prices held near 36%, but the share offering incentives (rate buydowns, closing cost help, option upgrades) fell from 64% to 60%. That tells you margins are already too thin for builders to give anything more away.

The Census Bureau's housing data lag the conflict by six to eight weeks, a legacy of reporting delays from last fall's government shutdown. Housing starts for February and March will be released April 29; new home sales on May 5. In the interim, the NAHB survey gives us the real-time picture. Spring accounts for a disproportionate share of annual builder volume. This spring is largely gone. Completed but unsold inventory, which had been rising steadily since mid-2025, was at its highest level since the post-financial crisis period as of January. It will go higher.

Capital investment is the most bifurcated sector in the economy right now. AI-linked infrastructure, semiconductor manufacturing, aerospace, defense-tech, and advanced manufacturing reshoring are holding up well; commitment on those projects has not wavered. Private credit has stepped in where bank lending has pulled back, supporting equipment and software investment at mid-sized firms. On the other side, projects tied to supply-chain normalization are being staged and delayed, particularly those dependent on Gulf commodity inputs: nitrogen fertilizer, sulfur, and naphtha. AI investment alone is likely to contribute close to half a percentage point to U.S. GDP growth this year, providing a meaningful structural offset to the energy drag. That offset is real, but it does not insulate the broader economy from the shock.

THE GLOBAL PICTURE: DOWNGRADE CASCADE

The global growth outlook has deteriorated sharply. Our own forecast puts world GDP growth at roughly 2.8% for 2026 on a dollar-weighted basis, depending on how quickly the Strait situation resolves. The U.S. at 2.5% (2.7% Q4/Q4 basis) is well above consensus; the Eurozone and UK are tracking closer to 0.7% and 0.3%, respectively, given their far greater dependence on Middle East energy. The IMF, even on a more optimistic oil price assumption, has already cut Germany's 2026 growth outlook to 0.8% and the Eurozone to 1.1%. Similar caution is evident across emerging Asia and the Middle East. The Gulf Cooperation Council faces a GDP contraction of roughly 8% relative to the pre-war baseline. The only economies avoiding meaningful downgrades are China, India, and a narrow group of commodity exporters.

The Eurozone faces a particularly acute version of the same stagflationary squeeze. Eurozone headline CPI was revised up to 2.55% year-over-year in March, with core at 2.29%. The ECB is widely expected not to hike at its April meeting and is likely to delay any rate increases to June and September at the earliest, with the path entirely dependent on whether oil prices stay elevated. UK GDP surprised strongly to the upside in February, rising 0.5% month-over-month. But the Bank of England is expected to hold rates unchanged through most of 2026, with any cuts pushed out toward 2027 if oil prices decline further. A notable development in Europe this week: Hungary's opposition Tisza party won a decisive parliamentary victory, ending Viktor Orbán's 16-year rule. The change in government is immediately positive for EU-Hungary relations and potentially unlocks the vetoed 90 billion euro loan to Ukraine.

China's direct exposure to the Hormuz disruption is limited. Roughly half of its crude oil imports transit the Strait, but coal accounts for about 60% of China's primary energy consumption and is sourced almost entirely domestically. Oil through Hormuz represents only about 5% of total Chinese energy consumption. The indirect risks are more significant: weaker global demand for Chinese exports, tighter financial conditions, and the possibility that U.S. intelligence reporting on Chinese air-defense weapons deliveries to Iran proves accurate. That last development would give the conflict a great-power dimension that Beijing has so far avoided.

CFO & TREASURER CORNER: THE ACTION CHECKLIST

Focus Area	Action & Rationale
Funding & Liquidity	The window for advantaged fixed-rate issuance is closed. The 10-year at 4.25% to 4.30% is likely to reprice toward 4.50% if the blockade stalemates or the April 22 ceasefire lapses without extension. Draw revolvers now. Build cash buffers against a scenario where EBITDA weakens 20% to 30% in the second half. Floating-rate borrowers should model credit spread widening of 75 to 125 basis points. For many CFOs, the question has shifted. It is no longer whether to lock in rates. It is whether the market will still be open at acceptable spreads by May.

Focus Area	Action & Rationale
Energy & Input Costs	The pre-buy and hedge window for Q2 is gone. Firms that did not act during the ceasefire week missed the best entry. The priority now is revising stress-test assumptions and modeling 2026 cost scenarios at \$115 and \$140 Brent. Prices are likely to stay elevated through year-end regardless of how the conflict resolves. Clearing mines, repairing infrastructure, and rebuilding inventories takes time regardless of when a ceasefire takes hold. Energy Secretary Wright confirmed this week that prices will be high and possibly rising until meaningful ship traffic resumes.
Working Capital	Higher energy and freight costs are working their way through supply chains in waves. Transportation and warehousing have taken the first hit. Consumer goods manufacturers, food producers, and light industrials are next. Companies with just-in-time supply chains and thin inventory buffers are most exposed in Q2 and Q3. Map those exposures now, lengthen your cycle-time assumptions, and get the cost impact into Q2 cash flow models before the next board meeting.
Consumer Demand	March Retail Sales were delayed to April 21, so we do not yet have the cleanest read on the consumer. What we do have points in one direction. Industrial production declined sharply in March. The Beige Book shows discretionary spending softening across most districts. UMich sentiment is at 47.6, a level historically associated with spending contraction. At \$4.16/gal gasoline and 4.8% one-year inflation expectations, middle- and lower-income households are not in a position to absorb further price pressure. Revenue forecasts built on 2025's trajectory need to be revised to reflect the lagged impact of higher fuel costs on consumer spending and discretionary capex. The one mitigant: higher-income consumers, supported by equity-market wealth, are still spending. Firms with concentrated higher-income exposure in luxury goods, premium travel, and financial services are better insulated than mass-market peers.
Scenario Planning	Update Q2 board scenario materials. Build three explicit scenarios aligned with our probability framework: Base Case — Deal or Extension (45%), Downside — Ceasefire Lapses (35%), Tail Risk — Full Escalation (20%). For the downside, use Ken Griffin's framing from the Semafor Summit as your calibration point: a 6 to 12 month Hormuz shutdown makes global recession inevitable. All three are live today and even if an agreement is reached normalization of energy markets and supply chains will take time.

VARIABLES TO WATCH

Variable	Why It Leads
1. IRGC attacks reversed the Hormuz opening — is the ceasefire survivable?	The IRGC reversed Iran's Friday opening within 24 hours and fired on tankers. This is best read as a negotiating ploy by hardliners who concluded Iran conceded too much without U.S. movement on the blockade. But the danger is real: any IRGC attack on a U.S.-escorted vessel or naval asset triggers an immediate U.S. military response. Watch three signals: (1) whether IRGC gunboat activity ceases in the next 24-48 hours (de-escalation); (2) whether a second round of talks is confirmed before April 22 (extension pathway); (3) whether any attack touches a U.S. asset (Tail Risk activation). The ceasefire expires Wednesday. An extension is possible but contingent on one side moving first. Our view is the IRGC is trying to strengthen their current weak hand going into the 'final' negotiations.
2. March Retail Sales (April 21, 8:30am ET)	Headline will be inflated by gasoline prices -- possibly +1.3% to +1.5% MoM. Focus on the control group (ex-autos, gas, building materials). We project +0.3%, driven by the tax refund tailwind. Above +0.3% means the consumer was holding in March; below +0.2% signals genuine contraction already underway. BofA card data for March showed spending per household +4.3% YoY, with ex-gas still +3.6% YoY. The data lands the day before the ceasefire deadline, which makes the political read as important as the economic one.
3. Retail pump prices	The \$10.4 billion weekly transfer from household budgets to fuel costs will not reverse until the Strait reopens. Track AAA daily and GasBuddy regional data, which has fallen 7 to 10 cents from its peak. A national average below \$4.00/gal on gasoline is the first genuine consumer relief signal, and remaining there requires oil to fall durably below \$85/bbl.

Variable	Why It Leads
4. April CPI (May release)	The April print will be the first to capture a full month of post-blockade gasoline prices. We expect headline PCE to peak near 3.5% year-over-year in April before energy base effects pull it lower. The key number is core CPI. A move above 2.8% year-over-year signals the energy shock is propagating into services and broad goods prices, making rate cuts this year very difficult to sustain.
5. 10-Year Treasury yield	At 4.25% to 4.30%, the bond market is pricing a diplomatic pause. A move above 4.50% signals the market has given up on near-term easing and is pricing persistent inflation into 2027. A decisive move below 4.20% tells you growth fears are overtaking inflation concerns and opens the door for Fed cut pricing to return. Our base case has the 10-Year averaging 4.25%.
6. UMich long-run inflation expectations	At 3.4%, the long-run anchor is loosening but not broken. Two more readings at this level would narrow the Fed's room to support growth without triggering a credibility question. While the Fed gives other inflation expectations more credence, they are unlikely to cut interest rates when UMich long-term inflation expectations are rising.

PIEDMONT CRESCENT CAPITAL ECONOMIC FORECAST

US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2024				2025				2026				2023	2024	2025	2026	2027	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Actual	Actual	Forecast	Forecast	
Output																		
Real GDP	0.8	3.6	3.3	1.9	(0.6)	3.8	4.4	0.5	2.0	2.8	3.1	2.9	2.9	2.8	2.1	2.5	3.0	
Year-to-Year Change (4th Qtr/4th Qtr for annual data)	2.9	3.1	2.8	2.4	2.0	2.1	2.3	2.0	2.7	2.4	2.1	2.7	3.4	2.4	2.0	2.7	3.0	
Final Sales to Domestic Private Purchasers	2.0	3.4	3.5	2.7	1.9	2.9	2.9	1.8	2.5	2.5	2.8	3.0	2.7	3.0	2.6	2.4	2.8	
Consumer Spending	1.7	3.9	4.0	3.9	0.6	2.5	3.5	1.9	1.5	1.2	1.7	1.9	2.6	2.9	2.6	2.0	1.9	
Nonresidential Fixed Investment	1.5	2.5	3.5	(3.7)	9.5	7.3	3.2	2.4	4.7	5.0	5.0	5.2	4.9	2.9	4.1	3.8	4.5	
Residential Investment	8.2	(2.0)	(4.8)	4.3	(1.0)	(5.1)	(7.1)	(1.7)	(0.5)	1.2	1.8	2.5	(7.8)	3.2	(2.2)	(1.8)	4.0	
Light Vehicle Sales	15.5	15.7	15.7	16.4	16.4	16.2	16.6	15.7	15.6	16.0	16.3	16.5	15.5	15.9	16.2	16.1	16.8	
Industrial Production, Manufacturing (Yr/Yr)	(2.0)	1.1	(2.3)	(2.1)	0.1	0.5	1.8	1.7	2.6	2.5	2.7	2.8	(0.8)	(0.9)	1.0	2.7	3.0	
Unemployment Rate (Qtrly Avg)	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.3	4.5	4.6	4.6	3.6	4.0	4.3	4.5	4.4	
Housing Market																		
Housing Starts (Units, thous)	1,415	1,343	1,338	1,387	1,401	1,354	1,346	1,328	1,350	1,350	1,370	1,390	1,421	1,371	1,357	1,365	1,480	
New Home Sales	677	685	707	671	655	665	688	709	690	730	760	770	665	685	679	738	790	
Existing Home Sales	4,143	4,023	3,937	4,163	4,087	4,013	4,047	4,157	4,043	4,120	4,200	4,270	4,090	4,067	4,076	4,160	4,350	
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	6.4	6.0	4.4	3.8	3.9	2.4	1.5	1.2	1.1	1.4	1.8	2.0	2.5	5.1	2.2	1.6	2.3	
Inflation (Year-to-Year % Change)																		
Consumer Price Index (CPI)	3.2	3.2	2.7	2.7	2.7	2.5	2.9	2.8	2.7	3.3	3.0	2.8	4.1	3.0	2.6	3.0	2.4	
Core CPI	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.8	2.5	2.8	2.6	2.4	4.8	3.4	2.8	2.6	2.3	
Personal Consumption Deflator	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.8	3.1	3.3	3.0	2.7	3.3	3.0	2.9	3.0	2.5	
Core PCE Deflator	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.7	3.0	3.1	2.9	2.6	4.2	2.9	2.8	2.9	2.4	
Employment Cost Index	4.2	4.0	3.8	3.8	3.6	3.6	3.6	3.4	3.5	3.4	3.4	3.4	4.5	3.9	3.5	3.4	3.5	
Interest Rates (Quarter End and Ann Avg)																		
Fed Funds Target Range	5.25-5.50	5.25-5.50	4.75-5.00	4.25-4.50	4.25-4.5	4.25-4.5	4-4.25	3.5-3.75	3.5-3.75	3.5-3.75	3.25-3.5	3-3.25	5.02	5.14	4.21	3.44	3.38	
10-Year Treasury Note	4.21	4.33	3.81	4.58	4.23	4.24	4.16	4.18	4.20	4.30	4.25	4.20	3.96	4.21	4.29	4.24	4.40	
Conventional Mortgage Rate (Freddie Mac)	6.79	6.86	6.08	6.85	6.65	6.77	6.10	6.15	6.10	6.20	6.15	6.10	6.81	6.72	6.60	6.14	6.20	

Piedmont Crescent Capital - April 19, 2026

(% change unless noted)	2024 Actual	2025 Actual	2026 Forecast	2027 Forecast	2028 Forecast
Output					
Real GDP	2.8%	2.1%	2.5%	3.0%	2.8%
Consumer Spending	2.9%	2.6%	2.0%	1.9%	2.4%
Business Fixed Inv.	2.9%	4.1%	3.8%	4.5%	4.0%
Residential Inv.	3.2%	-2.1%	-1.8%	4.0%	3.5%
Housing Market					
Housing Starts (000s)	1,371	1,357	1,365	1,480	1,460
New Home Sales (000s)	685	679	738	790	820
Existing Home Sales (000s)	4,067	4,076	4,160	4,350	4,480
Inflation (Year-over-Year)					
CPI	2.9%	2.7%	3.0%	2.4%	2.2%
Core CPI	3.2%	2.6%	2.6%	2.3%	2.2%
PCE Deflator	2.6%	2.6%	3.0%	2.5%	2.0%
Core PCE Deflator	3.0%	2.8%	2.9%	2.4%	2.0%
Labor Marke					
Unemployment Rate (%)	4.1%	4.3%	4.6%	4.4%	4.2%
Nonfarm Payrolls (000s/mo)	122	10	40-70	60-90	90-120
Interest Rates					
Fed Funds Target (EOP)	4.25-4.50%	2.75-3.00%	3.00-3.25%	3.25-3.50%	3.50-3.75%
10-Year Treasury (EOP)	4.58%	4.18%	4.20%	4.20%	4.10%
Conv. Mortgage Rate	6.72%	6.42%	6.25%	6.10%	5.90%

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Census Bureau, NAR, NAHB, Piedmont Crescent Capital estimates. April 19, 2026.

STRATEGIC TAKEAWAY

The situation as of Sunday, April 19 is materially more dangerous than it was 72 hours ago. Iran opened the Strait of Hormuz on Friday – a genuine strategic concession that markets priced immediately and correctly. Then the IRGC reversed course within 24 hours, fired on commercial shipping, and declared the Strait back under its previous control. The brief opening was real; more than a dozen vessels transited. The reversal is equally real, and it reveals something important: the IRGC hardliners, not President Pezeshkian’s civilian government, hold decisive authority over Iran’s military posture. Stimson Center analyst Kaitlyn Hashem has documented how Israel’s assassination campaign against IRGC commanders elevated a generation of hardliners pulled from semi-retirement who are more hardline and less nimble than those they replaced. These are not pragmatists constrained by hawks. They are the hardliners.

The economic damage from the seven-week shock is real and already embedded. The factory sector, which had been one of the bright spots for the U.S. economy, saw industrial production decline in March. Output still rose solidly for the first quarter as a whole, however. The April Beige Book shows a wait-and-see posture on hiring and capital spending across all twelve Fed districts going into. Housing has missed its spring selling season, causing us to reduce our second half GDP forecast. PPI and NFIB data confirm the shock has moved into wholesale prices and small business margins. Oil price shocks of this magnitude tend to weigh most heavily on business investment and hours worked with a lag of two to three quarters, meaning the employment and capex consequences of the past seven weeks will not be fully visible in the data until Q3 and Q4. Even if a ceasefire is signed this week, that damage does not reverse. And even if oil futures fall to \$85, physical crude -- the price that actually clears in the market -- was still trading roughly \$20 above generic futures as of this writing, meaning actual fuel cost relief will lag the futures move by weeks.

We are revising our probability distribution back toward the pre-Friday balance. The Base Case falls from 55% to 45% -- not because a deal is impossible, but because the IRGC's reversal has made it harder to achieve before April 22 and raised the cost of failure if the deadline lapses. The Downside rises from 30% to 35%, and the Tail Risk rises from 15% to 20%,

reflecting the IRGC's demonstrated willingness to attack commercial shipping. A ceasefire extension remains possible. AP sources report both sides gave an in-principle agreement before Saturday's reversal but that agreement is now under stress. Pakistani mediators are carrying the negotiations almost entirely. An extension would likely require either a U.S. signal on the blockade (which Washington has declined to give) or an Iranian civilian government assertion of control over the IRGC (which Pezeshkian has tried and failed to achieve). The April 22 deadline is the fulcrum.

Five indicators will tell you which scenario is materializing. First: whether IRGC gunboat activity ceases in the next 24 to 48 hours. A stand-down — even without a formal announcement — would signal that hardliners made their point and are prepared to let diplomacy run. Continued attacks on commercial shipping, or any action against a U.S. naval asset, signals the Tail Risk scenario is activating. Second: whether Pakistani mediators confirm a second round of talks before April 22. Even a meeting announcement would be a material de-escalation signal. Third: March Retail Sales on April 21 — watch the control group, not the headline. Above +0.3% means the consumer was holding in March; below +0.2% means contraction is already underway. Fourth: where Brent oil closes on April 21, the day before the deadline. Above \$105 means the market is pricing a lapse; below \$95 means the market expects an extension. Fifth: any signal from Washington of flexibility on the port blockade as leverage to empower Iran's civilian government. Such a signal would be the most consequential diplomatic development since the ceasefire began and would materially reopen the path to a deal before Wednesday.

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