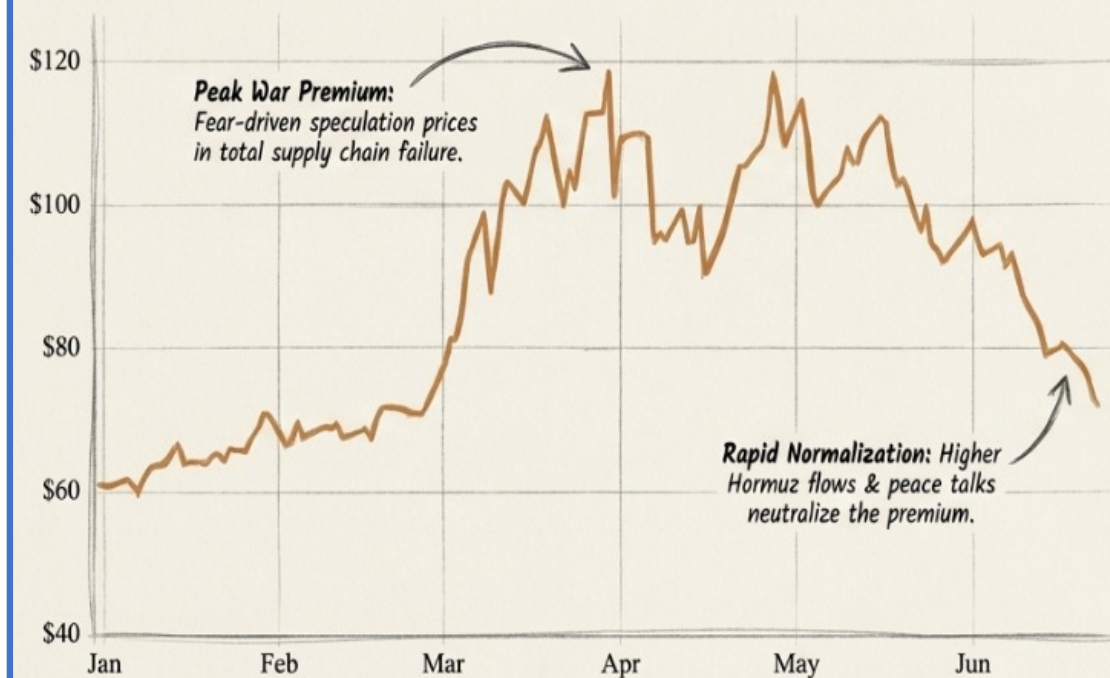




Brent Oil Erases All Wartime Gains Amid Hormuz Reopenings



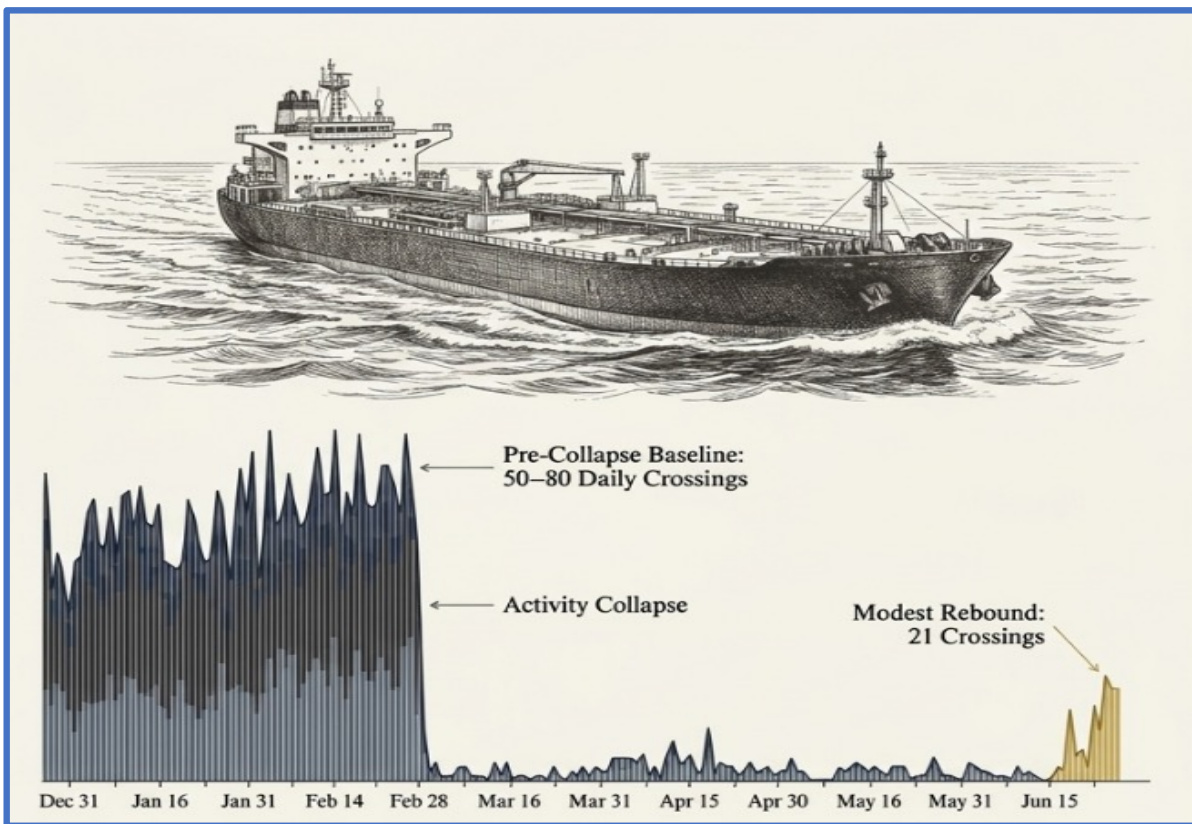
Source: Bloomberg

The oil market has largely retraced the geopolitical risk premium that emerged at the onset of the conflict. On February 28—the first day of hostilities—crude oil closed at \$71.02 per barrel. This past Friday, it settled at \$70.25, effectively returning to its pre-conflict level.

For investors, the key takeaway is the fleeting nature of conflict-driven commodity rallies when diplomatic channels remain open, and supply disruptions prove temporary. As geopolitical tensions have eased, market fundamentals have quickly reasserted themselves, replacing fear-driven speculation with a renewed focus on underlying supply and demand.

Consumers, however, have yet to see the same normalization at the gas pump. The national average price of gasoline was \$3.07 per gallon on February 28th before climbing to a peak of \$4.63 on May 11th. Although prices have since retreated to \$3.86 per gallon, they remain roughly 25% above their pre-conflict level.

This lag reflects the time required for lower crude prices to work their way through refining, distribution, and retail markets, as well as the persistence of a residual risk premium in refined fuel markets. As crude supplies continue to normalize and inventories rebuild, gasoline prices should gradually move closer to their pre-conflict levels over the coming months.

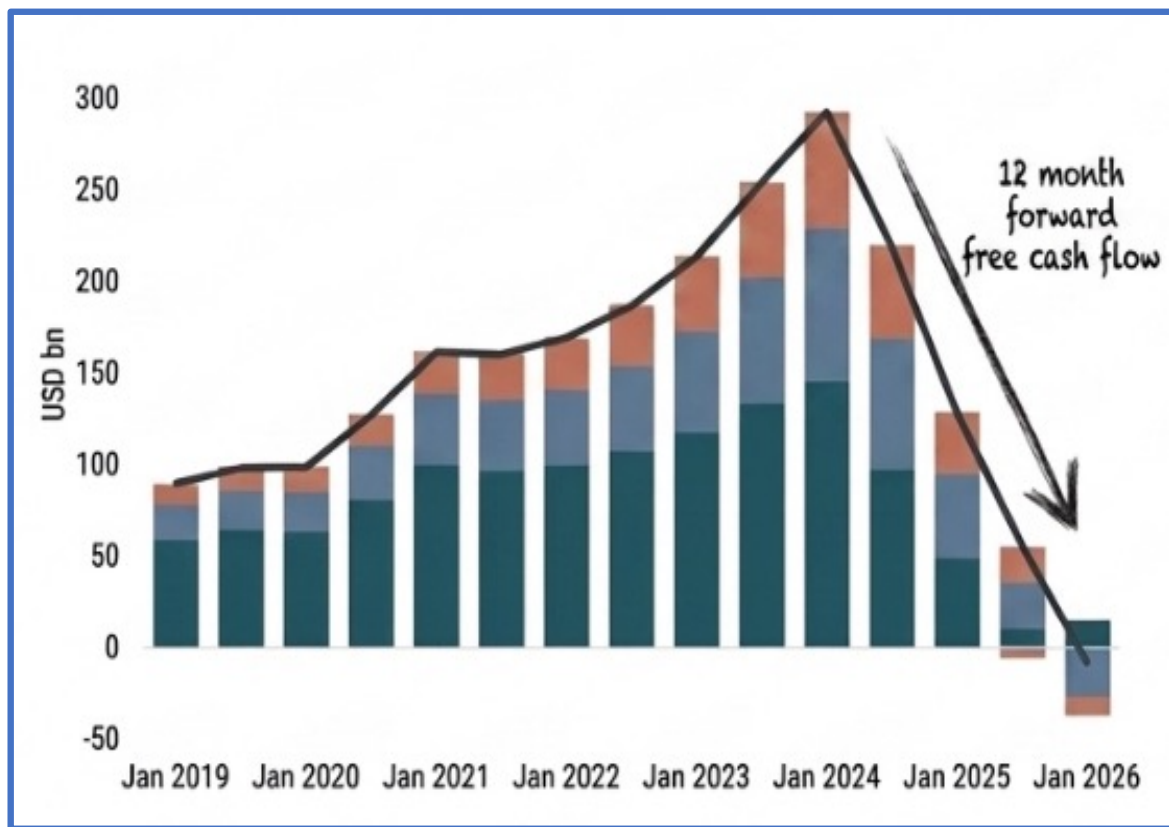


Source: @M-McDonough

Tanker traffic transiting the Strait of Hormuz is gradually recovering, although volumes remain well below pre-conflict levels.

A recent 24-hour rolling analysis recorded 21 bidirectional commercial cargo transits. While this marks a meaningful improvement from the single-digit daily crossings that characterized much of the past three months, it remains substantially below the pre-conflict average of 50 to 80 tanker transits per day.

The gradual return of commercial shipping is a positive development for global energy markets and the broader global economy. However, a full normalization of traffic will likely take several months as shipowners, insurers, and charterers regain confidence in the security of the waterway.



Source: Apollo

For much of the past decade, the world's leading technology companies were unparalleled cash-generating machines. Companies such as Amazon, Microsoft, Oracle, Alphabet, and Meta collectively produced nearly \$300 billion in 12-month forward free cash flow, peaking in early 2024. Since then, however, the landscape has shifted dramatically as these firms have embarked on an unprecedented capital expenditure cycle to build AI infrastructure.

At their current pace of investment, the group's aggregate free cash flow could turn negative as early as 2027. This represents a fundamental change in the financial profile of these companies.

The era of cash-rich technology companies that aggressively repurchased shares, paid growing dividends, and commanded premium valuation multiples may be coming to an end. In its place is a group of increasingly capital-intensive businesses characterized by higher leverage, elevated execution risk, cyclical investment spending, and pressure on margins. As these companies begin to resemble infrastructure builders rather than asset-light software platforms, investors are reassessing the valuation premiums they have historically enjoyed.

THE GREAT MARKET ROTATION: BEYOND THE AI TRADE

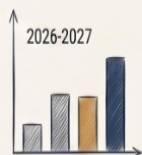
THE BROADENING OF MARKET BREADTH



Equal-Weight Outperformance
The RSP (Equal-Weighted S&P) is hitting all-time highs while the Mag 7 has seen its worst relative performance since 2023.



Leadership Outside of Tech
Top-performing industries now include banks, transports, and consumer durables rather than semis and hardware.

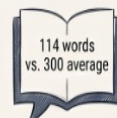


Small-Cap Resilience
Small-cap earnings estimates for 2026-2027 are at yearly highs, driven by improving ISM manufacturing data.

MACRO CATALYSTS & THE FED DISCONNECT



Tactical Yield Decline
10-year yields dropped from a 4.68% peak toward a tactical target of 4.25% or lower.



The "Less is More" Fed Policy
A shift toward shorter, data-dependent FOMC statements creates a disconnect between hawkish words and dovish market data.



Asymmetric Inflation Risk
Crashing commodity prices—with oil near \$69 and gas under \$4—suggest inflation data will continue to surprise to the downside.

MARKET DISCONNECT INDICATORS	Recent Trend	Market Impact
Fed Speak Hawkishness	↑ Rising	Potential Volatility
1-Year Inflation Swaps	↓ Falling	Pricing in Rate Cuts
10-Year Treasury Yield	↓ Falling	Support for Broadening Trade

A meaningful rotation is underway beneath the surface of the financial markets. Investors are broadening their focus beyond the AI-driven "Magnificent 7" and increasingly rewarding the other 493 companies in the S&P 500.

Market leadership is shifting away from semiconductors and hardware stocks toward financials, consumer durables, and transportation companies. At the same time, small-cap stocks have climbed to all-time highs, supported by improving manufacturing data and earnings estimates that have risen to their highest levels of the year for both 2026 and 2027.

Meanwhile, Treasury yields have continued to decline, providing a tailwind for interest-rate-sensitive sectors such as real estate and utilities. Falling commodity prices are also easing inflationary pressures, which could give the Federal Reserve greater flexibility to keep interest rates at current levels rather than resume rate hikes.

Source: What's Next For Markets Podcast

Disclosure

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