

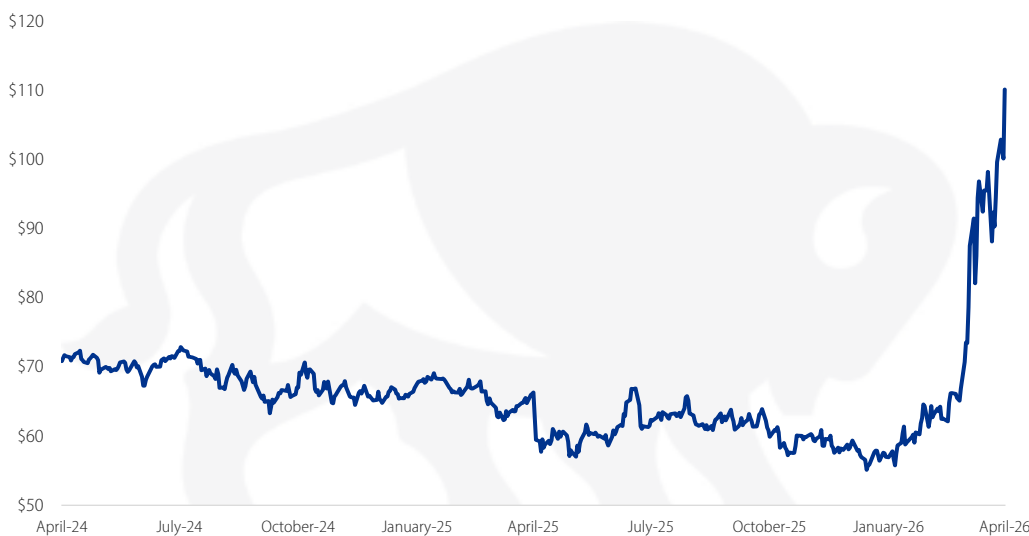
It's Deja Vu All Over Again as President's Speech Sends Crude Oil Skyrocketing

The financial markets had struck an optimistic tone the past two days in anticipation of President Trump's prime time speech Wednesday night. Stocks had staged an impressive rally on the last day of the quarter, and the rally continued on the first day of April. Bond yields fell and WTI dipped below \$100 per barrel as investors expected the president to unveil a more concrete plan to wind down U.S. involvement in the Gulf region. Instead, in an uncharacteristically short 19 minute address, the president declared the U.S. was on track to complete its objective "very fast," but neglected to outline a timeframe to end the hostilities, pledging to hit Iran "extremely hard" over the next two to three weeks. He also suggested the conflict could potentially escalate with strikes on energy and oil infrastructure if Iranian leaders did not accept the U.S. negotiating terms.

Unfortunately, the Strait of Hormuz remains closed and there is no clear indication that Iran is willing to comply. Even if the U.S. were to exit the Middle East in the coming weeks, it's extremely unlikely that operations through the Strait will return to normal anytime soon, while damage to energy infrastructure will limit future production. In the meantime, the global supply of oil, which had been historically high a month ago, is quickly draining. Since oil trades on a global market, the simple fact that the U.S. is a net oil exporter doesn't insulate Americans from high energy prices. The benefit accrues primarily to U.S. oil producers, energy companies and stockholders. Most Americans will simply pay more for gasoline in the near term. Over time, if energy remains elevated, the higher cost of transport could bleed through to the price of goods and services.

This morning, WTI crude jumped from \$100 per barrel to nearly \$114 before settling down to \$110. By comparison, WTI had traded at an average of \$62 last year and closed at \$67 at the end of February.

WTI Crude Oil Futures



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Diesel oil futures in Europe climbed above \$200 for the first time since 2022. The sharp spike in energy costs has rerouted what had been an encouraging decline in price pressure overseas.

Because containing inflation is the sole mandate of the European Central Bank (ECB), policymakers across the pond may be forced to reduce consumer demand by raising interest rates. Given the already fragile economic conditions in the EU, this action could tip Europe into recession. In an emergency meeting on March 31, the European Commission urged member nations to encourage citizens to work from home, drive and fly less, and for EU countries to urgently roll out renewables, as it warned of a prolonged energy crisis as a result of the conflict in the Gulf (Politico).

U.S. stocks plunged in early trading this morning but have since rebounded on news that Iran is drafting a protocol with Oman to monitor traffic through the Strait. Bonds could have sold off this morning, anticipating the rise in inflation, but have staged a small rally in what is either a flight-to-quality or expectations that the domestic economy will be negatively impacted.

The markets are jittery, which suggests no real trend and a possibility that this commentary could be stale before the morning concludes.

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Market Indications as of 10:39 A.M. Central Time

DOW	Down -52 to 46,513 (HIGH: 50,188)
NASDAQ	Up 1 to 21,842 (HIGH: 23,958)
S&P 500	Down -6 to 6,569 (HIGH: 6,979)
1-Yr T-bill	current yield 3.67%; opening yield 3.65%
2-Yr T-note	current yield 3.79%; opening yield 3.80%
3-Yr T-note	current yield 3.81%; opening yield 3.83%
5-Yr T-note	current yield 3.94%; opening yield 3.95%
10-Yr T-note	current yield 4.30%; opening yield 4.32%
30-Yr T-bond	current yield 4.89%; opening yield 4.90%

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