

April 6, 2026

The Iran War & the Economy: Questions for Argus Thought Leaders

The war between the U.S. and Israel on one side and Iran on the other has moved beyond the one-month mark. The chief danger at this point is that a so-far surgical war, in which both sides have been targeting mainly military assets, could widen into total war, in which the region's massive energy infrastructure along with civilian facilities would be targeted. Donald Trump's initial five-day pause on attacking Iran's energy infrastructure was positive in that it created space and time for negotiations, as was the subsequent pause through April 6.

In this fraught and dangerous time, Director of Research Jim Kelleher, CFA, asked various Argus thought leaders to weigh in on the implications of the war for the U.S. economy and U.S. markets, based on their areas of expertise. To keep the discussion focused, Jim asked two questions to each of the senior leaders. Those leaders are:

- Chris Graja, CFA, Director of Economic Research & Senior Analyst (Consumer)
- Steve Biggar, Director of Product Strategy & Senior Analyst (Financial)
- Kevin Heal, Fixed-Income Strategist & Senior Analyst (Financial)
- Kris Ruggeri, Associate Director of Research & Senior Analyst (Industrial)
- Bill Selesky, Senior Analyst (Energy)
- John Eade, Argus President

The questions and answers they supplied are below.

CHRIS GRAJA

Question 1:

The U.S. economy is now in its second year of double-digit percentage tariffs, and Producer Price Index (PPI) and core Personal Consumption Expenditures (PCE) prices were at or above the 3% level even before the war started.

The reduction in immigration, both illegal and legal, has slowed population growth, and increased population is typically a driver of gross domestic product (GDP) growth. Amid pressures to GDP growth from tariffs and immigration, what are the risks that the oil price shock is the "third strike," in baseball terms, that puts the U.S. economy into slow-growth mode or even into negative GDP territory?

Reply:

U.S. consumers are clever, resilient, and not easily toppled, especially when they are employed, but this is the third round of Jenga, not the first. With affordability already strained, consumer spending on goods rose just 0.4% in 4Q25, and that was with unleaded regular averaging less than \$3.25 during the holiday shopping season. Many families have taken steps to make ends meet, but each round of sacrifices makes the Jenga tower less stable. Some consumers have stopped paying their credit card bills in full, dipped into savings for routine expenses, deferred medical procedures, switched to store brands, and tailgated with hot dogs rather than steaks. Every month gas prices remain above \$4 is like removing another block. The tower is still standing but not rock solid. A tightening of credit conditions, an increase in weekly jobless claims towards 300,000, the 10-year Treasury yielding more than 5%, or a decline in the stock market that causes wealthier households to reduce their spending would be like removing more, and more, blocks from the tower.

Question 2:

Energy is still a big part of the U.S. economy, but in the digital age, it is no longer as significant a factor as it once was. What are some of the positives in the outlook that can keep the U.S. economy moving forward despite these new strains from the war?

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ECONOMIC & MARKET COMMENTARY (CONT.)

Reply:

According to the American Petroleum Institute, consumers spent about 5.7% of their disposable income on gasoline, natural gas, electricity, and other fuels in 2024, down from approximately 10% in 1984. The U.S. was the world's largest crude oil producer in 2023 and probably in 2024 and 2025 as well. Cars and furnaces are more efficient, lots of homes have solar panels, and many workers are willing and able to save gas by working at home. (That is not to say that the U.S. and its supply chain are fully insulated from fuel prices.) Increased tax refunds in 1H26 will offset some or all of the incremental fuel cost. Spending on artificial intelligence (AI) has boosted and should continue to boost the economy. Computer equipment, software, and R&D added a point to 4Q GDP, carrying an economy that only grew 0.7%. The Atlanta Fed's Nowcast projects that those categories will contribute three-quarters of a point to GDP growth of 2.3% in 1Q26. It is also encouraging that unemployment is low and U.S. companies are operating profitably and productively. Argus expects S&P 500 EPS to rise almost 16% in 2026 and increase by about 15% in 2027.

STEVE BIGGAR

Question 1:

What is the likelihood that higher inflation related to rising energy prices begins to impact major sources of financial sector revenue such as commercial loans, mortgages, and investment banking?

Reply:

After several years of below-average loan growth, lower interest rates (both from the Federal Reserve [Fed] and at the longer end of the yield curve) had begun to stimulate lending demand. But the recent backup in rates, along with the uncertainty related to the Iran conflict, is likely to again put a damper on loan growth in 1Q. Fortunately for well-hedged banks, a steeper yield curve should lead to improving net interest margins and offset much of the impact from more sluggish loan demand. However, the impact is likely to be broadly negative for investment banking, as struggling equity markets, higher interest rates, and boardroom uncertainty as the Iran conflicts drag on all put the much-expected rebound in deal activity in jeopardy.

Question 2:

The war has pushed one of the big prewar concerns, strains in private credit, off the front pages of the business press. How much of a concern is the private credit issue for the big banks? And how do you see this situation resolving?

Reply:

Defaults in the private credit space have actually been quite low, with the media frenzy around a handful of admittedly higher-profile companies ramping up concerns higher than warranted, in our view. Recent redemptions for

many funds have often exceeded the 5% withdrawal rates agreed to by investors, although some funds have voluntarily increased the threshold for return of investments. Banks have scoured their lending exposure to private credit firms, particularly in the software industry, and not found worrisome exposures, so we do not expect noticeable credit deterioration in 1Q earnings results. Typically, these issues resolve when the headlines move on, and investors that stayed invested remain happy with the above-average returns available from private credit. Education around balancing liquidity (meaning sometimes being locked in to investments for long periods) with higher yields needs to be sharpened.

KEVIN HEAL

Question 1:

Even before the war with Iran began, the Fed was in a tough spot trying to honor its dual mandate to keep the workforce fully employed and to hold inflation near its 2% target range. Despite the Fed's nearly four-year battle with inflation, the double-digit shock in energy prices has sent market rates of interest higher in anticipation of renewed inflation. How will the Fed use monetary policy to balance the risks of weak jobs growth against the risks of energy-induced inflation?

Reply:

In Chairman Powell's press conference, he stated, "We don't know." There's lots of chatter about a rate hike later this year due to anticipated energy-induced inflation. I don't think that is in the cards right now. Job numbers are down, but the unemployment rate remains within a comfortable range. If the rate heads to 5%, then we have a problem.

I think that the Fed is stuck in a bit of a quandary with the dual mandate and keeping it in balance. Rate cuts/hikes do take time to run through the economy. Still looking for a rate cut later this year if the war ends in the next month or so and the energy shock dissipates.

Question 2:

In past periods of stress, the Fed has used other tools beyond monetary policy, including quantitative easing and quantitative tightening, to influence the direction of interest rates. How likely is the Fed to redeploy these or other tools in the current environment?

Reply:

After the Fed ended its quantitative tightening program in December, reducing the balance sheet from \$8.9 billion to \$6.2 billion, they reinstated a form of quantitative easing. They announced that they would purchase \$40 billion per month in short-term T-bills in order to keep the "plumbing" in the short end of the Treasury curve and maintain ample reserves. Recent events in the Middle East have caused a lot of volatility, however the short end of the curve has been stable.

ECONOMIC & MARKET COMMENTARY (CONT.)

Looking forward, the Fed may raise the issuance of T-bills in order to maintain stability in the funding markets if the current war escalates or is extended for a longer period of time. I don't expect the Fed to buy longer-dated securities.

KRIS RUGGERI

Question 1:

The Industrial sector is broad, including rails and truckers, package shipment companies, construction and agricultural machinery companies, aerospace-defense firms, diversified companies, and more. How are some of these segments being impacted by the war in Iran and the related spike in energy prices?

Reply:

So far, the Industrial sector does not appear to have felt much of an impact from the war in Iran. In February, in the final pre-war reading, the U.S. Manufacturing Purchasing Managers' Index climbed to 52.4, up from 51.6 in January, indicating stronger production and order growth. The improvement was attributed to easing tariff pressures and growing exports and imports. Should the conflict continue for any length of time, the most notable impact to Industrial segments is expected to be higher inflation. As fuel and other input costs rise, we can expect lower profitability as a result. While it is true that most railroads and trucking companies use fuel surcharges to mitigate these higher fuel expenses, inflation will find its way into other input costs and, over time, perhaps the most meaningful impact across the board will be lower demand. In an extended war scenario, higher fuel costs and other elevated expenses for consumers will trickle their way down the food chain resulting in fewer packages being shipped, fewer parts delivered to manufacturing plants, lower farm profitability, delayed construction projects, delayed investments in the business, less air travel, and fewer products ordered by retailers. In this scenario, we can expect lower sales and margins for companies operating in the Industrial sector.

An exception would be for defense companies. Here we anticipate that the war in Iran will increase demand for missiles and other equipment expended during the conflict. This segment of Industrials is relatively immune from inflation and the impacts imposed on the economy from a demand perspective. The trend away from fixed-cost projects towards cost-plus projects should also help the defense industry recoup costs, allowing them to maintain margins.

Question 2:

The usual centerpiece of war — the massing of troops and conflicts between armies — is almost completely absent in this war. Massed troops would be at risk from unmanned aerial vehicles, which are the primary combatants in this war. The Iran conflict may be a precursor of future wars

that are mainly fought between armed drones. If this is one of the new realities of war, how will this impact the aerospace-defense companies going forward?

Reply:

The world has certainly been watching the war in Ukraine and now in the Middle East where drones have been used effectively in combat. These unmanned vehicles can be deployed from the air, sea, and land and come at a price tag in the 10s of thousands versus millions of dollars for a single missile or a hundred million for a plane. They are the new reality of war, and we are likely at the nascent stages of what is possible.

We have already seen large defense companies under Argus coverage begin to adapt. Several of these companies are producing aerial swarm drones, though it doesn't stop there. Wingman drones, or unmanned aircraft that are controlled by manned planes, have been developed. Drones have also been designed for surveillance and combat on land and sea. Going forward, we expect the U.S. government, the defense industry's largest customer, to demand more of these and other next-generation vehicles. We see this demand resulting in a long tailwind for companies in the industry for years to come as the current administration continues to build upon its defense capabilities.

BILL SELESKY

Question 1:

The U.S. is energy self-sufficient and one of the world's largest petroleum producers. In normal time, the rise in oil prices would be perceived as positive for the domestic energy complex. At the same time, the large international integrated and exploration and production (E&P) companies put their capital budgets in place several years in advance. What is the likelihood that U.S. oil and gas producers meaningfully step up their production ahead of schedule in response to the changed environment?

Reply:

The U.S. became a net exporter of crude oil (on an annual basis) in 2020, largely driven by the shale revolution (horizontal drilling and fracking), which sharply increased domestic production. Today, both integrated oil companies (IOCs) and E&P firms plan their capital spending budgets roughly 12 months in advance (down from 1-2 years in previous times), reflecting the extreme volatility of crude oil prices (and commodity prices) and the difficulty that energy companies have in planning future budgets under a scenario like that. That said, we do not expect a significantly higher increase in crude oil production (or step-up) from IOCs or E&Ps compared to our original forecast (we expect 2%-3% higher production in 2026) unless the Middle East conflict becomes more problematic or longer in duration than our forecast, which we currently categorize as a "short-term" event. If that were to happen, capital budget expenditures

ECONOMIC & MARKET COMMENTARY (CONT.)

(which typically begin in August/September) would likely trend much higher, reflecting higher price realizations (for crude oil, natural gas liquids, and natural gas).

Question 2:

With the administration anxious to roll back inflation in energy prices, the president's team has suspended the Jones Act, allowed Iranian oil at sea to proceed to market, and allowed releases from the strategic petroleum reserve. Do you see any chance that the administration might take a more positive approach to renewable energy, which might take some of the pressure off of gas prices? And as part B of this question, could the gas price shock renew interest in electric vehicles (EVs) in the U.S.?

Reply:

We see absolutely no evidence that President Trump has turned more positive on renewable energy, and we believe that the president is still focused entirely on "traditional energy" (crude oil) and its present dominance in world energy markets, not clean energy. In addition, yes, we see higher crude oil prices rekindling interest in EVs in the U.S. but, at the same time, believe that it's not automatic or one-to-one. When oil spikes, gasoline prices typically follow, and that would sharpen the economic case for EVs. This happened after the 2022 oil spike: EV demand and online search interest in EVs jumped meaningfully in the U.S. That said, customers don't switch overnight from internal combustion engine vehicles to EVs. Concerns about affordability, charging infrastructure, and range anxiety matter more than gas prices alone, in our view. The bottom line? Yes, sustained higher crude (we say \$90-\$100 per barrel) would likely boost U.S. EV demand, but it would only amplify an existing trend rather than trigger a sudden adoption surge on its own.

JOHN EADE

Question 1:

Heading into 2026, the Argus base case scenario was for GDP growth in the 2% range, one rate cut by the Fed, corporate earnings growth in double-digit percentages, and core PCE falling toward 2.5% by year-end. The first three elements of that scenario continue to look doable. Can the Argus base case for 2026 survive the current shock at the gas pump and the risk that energy prices may remain elevated into year-end?

Reply:

The Argus base case calls for a below-average return in stocks this year. At the beginning of the year, we reviewed the four main fundamentals that we use to build our outlooks. These are: GDP growth, inflation/interest rates, corporate profit growth, and valuations. We found that at the time, three of the fundamentals — basically, everything but valuations — were consistent with a bull market. (The lofty valuations were the reason we thought the year's re-

turns would be less than in the three prior years.) The war in Iran has introduced a new factor: high oil prices. This wild card can upend our inflation/interest rate forecast, and if oil prices spend several months above \$100 per barrel, it can ultimately undermine our positive economic outlook and potentially lead to recession. That's what it would take, in my view, to undermine our base case for below-average, but still-positive, S&P 500 returns for the year.

Question 2:

Another element of the base case was for the S&P 500 to advance 5%-10% in 2026, less than the gains of 2023-25 but reasonable after a strong run and in the midterm election year of the presidential cycle. Has the war or other factors caused any change in our forecast for the S&P 500 at year-end 2026?

Reply:

Investors already have endured a pullback in the stock market this year. These things happen. But they don't necessarily signal that a bull market is on its last legs or that a bear market is imminent.

A pullback occurs when stock prices drop 5% from their highs. That happened two weeks ago, when, in response to the war in Iran and the spike in oil prices, the S&P 500 fell 5% below its all-time high of 7,002, ultimately closing slightly below the 6,500 level. Historically, pullbacks occur on average three times per year, or 15 times per traditional five-year market cycle. Corrections — when stocks drop 10% — are less frequent; they happen about once per year, with the most recent occurring during the buildup to President Trump's ultimately watered-down tariff plan in the spring of 2025.

Stocks have always recovered from pullbacks and corrections, as well as from bear markets. The average time to rebuild after a pullback has been one month. For a correction, it may take four months. Those recoveries are more dependent on the fundamentals in the market at the time. As we review the current market fundamentals, the economy is growing, interest rates had been falling before the oil scare, and corporate profits are increasing at a healthy pace.

It is impossible to know when the Iran war will come to an end. But post hostilities, we expect oil prices to drop significantly and interest rates to head lower. Overall, we remain optimistic that stocks can post gains in 2026, though our base case outlook calls for single-digit returns, not the 15%-25% returns investors have enjoyed for the past three years.

Question 3:

John, I promised two questions, but I think this is an important one. The AI economy has gone from small beginnings to a multi-trillion-dollar opportunity and much sooner than anyone expected three years ago, when ChatGPT launched. How can growth in the AI opportunity

ECONOMIC & MARKET COMMENTARY (CONT.)

act to offset shocks to the U.S. economy from soaring oil prices?

Reply:

Jim, take a look at the growth rates in the GDP accounts for capital expenditures and for investment into intellectual property products. Those growth rates are 5-7% per year for

the past two years. We think they are sustainable, as more industries spend increasing funds on AI projects. That part of the economy, coupled with the consumer sector's benefiting from low unemployment, as well as with the fact that the U.S. is now a net exporter of energy products, can in our opinion keep the economy growing despite soaring oil prices.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The \$31 trillion U.S. economy remains on course for productive long term growth, powered by corporate investments in AI and outsized spending by wealthy households. Nvidia CEO Jensen Huang estimated, in November, that \$3 - \$4 trillion will be spent on AI infrastructure in the next 5 years.
- Real Potential GDP – the sustainable speed limit of the US economy is poised to increase to 2.1%, on average, through 2030 according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The war in Iran is affecting millions of lives. Oil supply disruptions are a risk to affordability for companies and consumers. We recently raised our 2026 oil price forecast to \$75 per barrel from \$60.
- The U.S. economy has become more resilient, more diversified and less oil dependent, but it is managing additional supply headwinds from tariffs and reduced immigration. This triumvirate could raise inflation, slow growth, and complicate Fed policy. Tax benefits and AI should help the economy.
- A simple rule of thumb: National gasoline prices above \$4.00 begin to hurt consumer spending.
- We are monitoring financial conditions and high-frequency indicators including Nowcasts and weekly job-less claims. We recently reduced our 2026 forecast for GDP growth to 2.3% from 2.5%.
- Argus expects S&P 500 EPS to rise almost 16% to \$315 in 2026 and increase about 15% to \$363 in 2027. EPS is helped by an increase in operating margins to about 18.0% this year, well above 13.9% in pre-pandemic 2019. Growing tech giants such as MSFT and NVDA have operating margins of 47% and 60% respectively while Dow stalwarts Walmart and Caterpillar earn 4% and 17%, respectively.
- Argus Fixed Income Strategist Kevin Heal expects the Fed to reduce the funds rate by 25 basis points in 2026 and by another 25 basis points in 2027 taking the target range to 3%-3.25%. We expect the dollar to be slightly stronger in 2026 driven by foreign demand for shares of innovative U.S. companies and economic resilience.
- Gold is likely to remain at elevated levels. The ancient safe-haven asset recently reached an all-time record above \$5,000 an ounce. We expect gold to trade in a range of \$4,000 - \$6,000 in 2026.
- Despite last year's economic-and-policy "uncertainty," the Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 6.8%, well below the average of 9.2% since 1949. According to consensus estimates, the Misery Index could reach 7.2% in 2Q26.
- What could go right? Big tax refunds, spending by wealthy consumers, strong S&P earnings, capital investment, productivity gains, inflation expectations remaining anchored, and ongoing innovation.
- Risks: Elevated Inflation, high fuel prices, weak housing market, low income consumers are struggling, spending by affluent may depend on stock market gains, AI may reduce entry-level hiring.
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CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
31-Mar	Consumer Confidence	March	91.0	89.0	88.0	91.8
1-Apr	ISM Manufacturing	March	52.4	52.3	52.2	52.7
	ISM New Orders	March	55.8	54.0	NA	53.5
	Retail Sales	February	3.2%	3.2%	NA	3.7%
	Retail Sales ex-autos	February	3.9%	3.4%	NA	3.6%
	Business Inventories	January	1.5%	1.3%	NA	1.0%
2-Apr	Trade Balance	February	-\$54.5 Bln.	-\$54.0 Bln.	-\$59.2 Bln.	NA
3-Apr	Nonfarm Payrolls	March	-92K	47K	60K	NA
	Unemployment Rate	March	4.4%	4.4%	4.4%	NA
	Average Weekly Hours	March	34.3	34.3	34.3	NA
	Average Hourly Earnings	March	3.8%	3.8%	3.7%	NA
6-Apr	ISM Services Index	March	56.1	55.0	55.0	NA
	Total Vehicle Sales	March	15.8	15.8	NA	NA
7-Apr	Durable Goods Orders	February	9.7%	3.3%	NA	NA
9-Apr	GDP Annualized QoQ	4Q "Final"	0.7%	0.7%	NA	NA
	GDP Price Index	4Q "Final"	3.8%	3.8%	NA	NA
	PCE Deflator	February	2.8%	2.7%	NA	NA
	PCE Core Deflator	February	3.1%	2.8%	NA	NA
	Personal Income	February	4.4%	4.5%	NA	NA
	Personal Spending	February	5.3%	5.4%	NA	NA
	Wholesale Inventories	February	1.0%	1.2%	NA	NA
10-Apr	Consumer Price Index	March	2.4%	3.3%	NA	NA
	CPI ex-Food & Energy	March	2.5%	2.7%	NA	NA
	Factory Orders	February	4.4%	2.2%	NA	NA
	U. Michigan Sentiment	April	53.3	53.0	NA	NA

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