

The fog of ceasefire

21 April 2026

Conflicting information is making it challenging to see markets clearly. In spite of this, there are attractive opportunities to be had.

The concept of the ‘fog of war’ was introduced by Prussian military strategist Carl von Clausewitz in his book *On War*, published posthumously in 1832. In it, he describes the confusion and uncertainty - the ‘fog’ - caused by incomplete or inaccurate information.

Nearly two centuries later, it’s not just war itself that reduces visibility – even supposed ceasefires are murky. As we enter Week Eight of the war in Iran and the deadline for the end of the current ceasefire draws near, we continue to grapple with contradictory statements from the participants. Furthermore, their actions do not always align with their own rhetoric. It’s an environment in which it would be easy to get caught out as an investor.

Last week ended on a high note as Iran declared the Strait of Hormuz open. Eleven oil tankers passed through on Saturday, the highest number in a day since hostilities began. But the US’s insistence on maintaining its own

Quick take:

- The threat of re-escalation of the Iran conflict is tempering investor optimism.
- Governments are focused on defence spending and shortening and securing supply chains.
- This re-engineering of supply chains presents investment opportunities.

blockade led Iran to close the strait again and Sunday’s traffic dropped back to zero. Unsurprisingly, when markets reopened on Monday, oil prices rebounded, reversing all of Friday’s losses, reminding us that for oil prices, passage (or not) through the Strait is what it’s all about. So, what should we make of this back-and-forth?

Gaining the upper hand

Our central view remains that this is all part of the negotiating process as each side tries to gain the upper hand. But the underlying direction of travel is towards some sort of resolution owing to the economic damage accruing to both sides. Damage that could eventually undermine

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their leaders' domestic political standing. It's also been suggested that this behaviour echoes that of the character George in the US TV comedy *Seinfeld*. Whenever he detects a threat of his girlfriend leaving him he decides to break up with her first to maintain his dignity. However, sometimes his best-laid plans have unexpected consequences.

There is little doubt that investors who took a strong defensive stance as war broke out are now feeling the heat. US equities led global indices back to new all-time highs at the end of last week, leading to something of a squeeze. Even so, the risk of re-escalation continues to constrain us from getting over-optimistic.

Most cargoes that were making their way out of the Gulf region as hostilities began have arrived at their destination and there are none behind them. The risk of physical supply shortages of oil and related products now becomes greater.

If shortfalls cannot be balanced by alternative energy supplies or behavioural changes, then higher prices are usually the solution. This might begin to have a greater economic impact.

Compounding works both ways

We've always thought that the longer the Strait of Hormuz was closed, the more the risks would compound. It's not as though a return to the *status quo ante* (at least in

terms of the passage of ships) would leave the world in a better place than it was previously, especially with central banks likely to keep interest rates at least flat as they await more clarity. Indeed, through all the twists and turns of US President Donald Trump's policy decisions over the last year, there's been a creeping shift in the shape of the world even after he appeared to back down. The system never quite returned to its previous equilibrium.

As investors, we know that lots of seemingly small gains can compound into very big returns over time. By the same token, many individually trivial mistakes can cause a disaster. And when moves are gradual and incremental, it's harder to notice the difference until a big shock emerges.

The current situation in the Middle East is at least the fourth major disruption to global supply chains we've experienced this decade alone. The pandemic was the first, followed by Russia's invasion of Ukraine. I'll put President Trump's 'liberation day' tariffs third.

You can add in a side order of China's threat to withhold exports of rare earth minerals. The US's intervention in Venezuela, the tightening of a blockade on Cuba and threats to Greenland's sovereignty are further signs of the US flexing its muscles in a new fashion. One notable outcome has been to push

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defence spending much higher up governments' spending priorities. There's also a much greater focus on shortening and securing supply chains for physical commodities and goods. This will entail higher levels of domestic investment as well as holding bigger inventories.

All other things being equal, that will increase inflationary pressures - and that's before adding the potential effects of climate change, ageing populations and the increasingly populist nature of politics into the mix. Thus, we continue to construct portfolios with an emphasis on ensuring that wealth is preserved and grown in real terms (after accounting for inflation).

Beyond the fog

I don't want to appear terminally gloomy. There are plenty of potentially attractive investment opportunities. For example, the supply chain considerations mentioned above will lead to considerable spending. And the AI juggernaut rolls on. Indeed, despite signs that they might be running out of juice before the war began, US large-cap technology stocks are back on the front foot.

The high-profile 'Magnificent 7' US large-cap technology stocks closed on Friday within 1% of the all-time high they reached last October. There is a feeling that the market has been too aggressive in

marking down the valuations of software companies, while strong demand for tech hardware has been confirmed in the early part of the results season. Providers of large language models, which power chatbots such as ChatGPT and Claude, are reportedly restricting access owing to shortages of computing power. And the latest surveys of corporate AI adoption point to increased demand as companies build a better understanding of how they can harness AI.

The next leg will be to see which industries and companies report enhanced productivity. Of course, there's always the question of whether businesses will end up doing the same with less resource or more with the same. The former outcome would like lead to more job losses with the latter representing the economic holy grail of strong growth and higher productivity.

Without emerging from this particular fogbank, we're not prepared to make a big bet on either just yet. Scary scenarios such as those presented in a recent research paper by the US's Citrini Research, describing how AI could push the US unemployment rate above 10%, seem too apocalyptic. At the same time, the 10% real GDP growth touted by the likes of Cathie Wood, head of US tech specialist ARK Investment Management, also look like pie in the sky. But they make for excellent clickbait.

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Regional highlights

UK. We've seen some better-than-expected UK economic data, but enthusiasm is tempered by the fact that they predate the outbreak of war in Iran. GDP rose 0.5% month-on-month in February vs a forecast 0.1%. There seemed to be no special factors, with services, industrial production and construction all ahead despite the soggy weather. So at least the UK economy had better-than-anticipated momentum coming into the conflict. A fall in the unemployment rate in February from 5.2% to 4.9% brought further good news. However, we acknowledge that there are some problems with data collection, so the numbers might not be totally accurate. March's 11k fall in payroll numbers and falling job vacancies suggest underlying weakness. That has pushed average earnings growth down to 3.8%, or 3.2% ex-bonuses. Were it not for the Iran war and its implications for higher energy prices, the Bank of England would have had enough ammunition for a base rate cut this month, but now rates will remain on hold for the foreseeable future.

US. Slim pickings in the US. Positively, the labour market appears steady, with weekly jobless claims last reported at 207k, slightly below the recent average.

The Philadelphia Fed's monthly survey of manufacturers saw the index jump from 18.1 to 26.7, against a forecast decline. However, both prices paid and prices received components rose to their highest levels since August 2025. The risk of higher inflation was also evident in the Producer Price Indices, with the annual headline rate of input cost inflation rising from 3.4% to 4.0% (although lower than the forecast 4.6%). The core rate (ex-food and energy) was unchanged at 3.8%. For now, that suggests limited 'second-round' inflationary pressure. Still, market pricing suggests no change in the Fed Funds rate for at least a year.

Europe. The final headline inflation figure for the eurozone in March was slightly disappointing, at 2.6% (revised up from 2.5%), although the core rate held steady at 2.3%. Some inflationary pressure was evident in Germany, where producer prices increased by 2.5% month-on-month vs an expected rate of 1.4%. That left the annual rate at -0.2%. But the rate of decline had been much steeper, at -3.3%, in February. Traders expect the ECB to increase its discount rate by 0.25% to 2.25% by the end of the summer, with a second rise by year-end in the balance. ECB President Christine Lagarde has been

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trying to temper expectations with more of a wait-and-see attitude.

China. Q1 GDP increased by 5%, beating the 4.8% forecast and up from 4.5% in Q4 2025. The underlying details were less encouraging, with a widening K-shaped divergence. Retail sales and investment both came in below market expectations, and the unemployment rate unexpectedly rose to 5.4%. Manufacturing and exports remain the key drivers behind growth. Worries about AI-related jobs displacement seem to be hanging over the Chinese consumer too. Nominal GDP growth at 4.9%, the highest in two-and-a-half-years, has almost closed the gap with real GDP as deflation is worked out of the system.

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Greenbank

0117 930 3000

enquiries@greenbankinvestments.com

[greenbankinvestments.com](https://www.greenbankinvestments.com)

For offshore investment management services:

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