

	Q2 2026	YTD 2026
S&P 500	15.20%	10.21%
Bloomberg US Agg Bond Index	0.67%	0.62%

Source: Bloomberg, J.P. Morgan Asset Management

Investors entered the second quarter worried about the war with Iran and the effective closure of the Strait of Hormuz. Given the Strait's importance to the global oil market, that concern was understandable. Yet equities shrugged off the disruption, setting new highs during the quarter.

As we head into the second half of the year, two things are on my mind.

The first is unfinished business: the war with Iran. Many of the most respected oil experts predicted that if the Strait remained closed as long as it did, oil would have to trade between \$150-\$200 per barrel to balance the market. Instead, Brent crude, the global oil benchmark, traded closer to \$100 per barrel for most of the quarter and ended around \$71. That left it close to where it traded before the conflict began. So why didn't the dire predictions come true? And how should we think about the conflict's potential impact on portfolios going forward?

The second is the initial public offering (IPO) boom headed our way this year. SpaceX is headlining what could be the highest-value year for IPOs in U.S. history. The only two years that come close are 1999 and 2021, both of which occurred near major market peaks. Will this cycle follow a similar pattern?

Oil and the Iran War

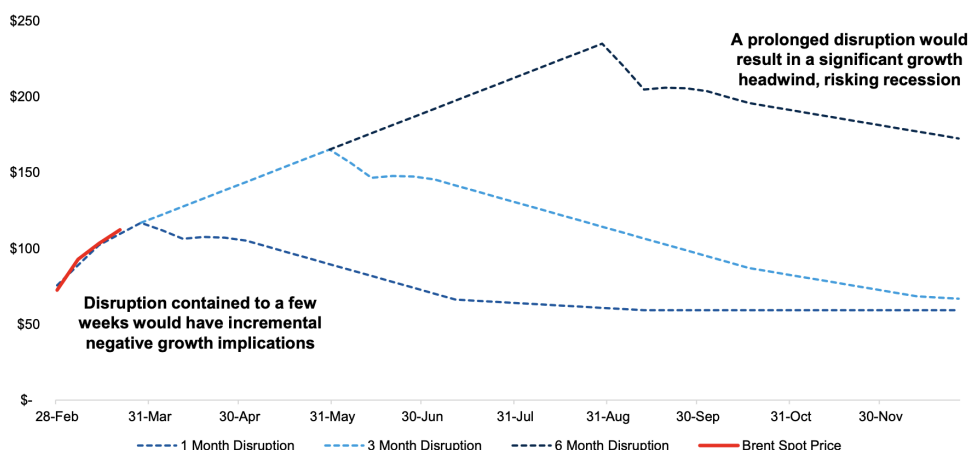
When the conflict began, the math looked alarming. The IEA estimates that roughly 20 million barrels per day of oil flow through the Strait of Hormuz, about 20% of global production. Even accounting for offsets and strategic stockpiles, analysts were projecting oil prices in the \$150 to \$200 per barrel range if the Strait remained closed for more than a few weeks. The chart below, from Morgan Stanley and issued near the start of the war, shows the range of price projections based on how long the closure lasted:

Until the Iran Conflict Ends, Oil Remains the Focal Point for Markets

A quick resolution could be the impetus for oil prices to revert to pre-war lows with an incremental negative growth impact. But a prolonged conflict could push prices higher for longer with much more significant growth implications.

Hypothetical Scenario Analysis: Strait of Hormuz Closure

Brent crude spot price forecasts (\$/bbl.)



Source: Bloomberg, IEA, EIA, MSIM. As March 23, 2026. For illustrative purposes only. Not a recommendation to buy or sell any security. It is not possible to invest directly in an index. The views and opinions expressed are those of the portfolio management team at the time of writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is not indicative of future results.**

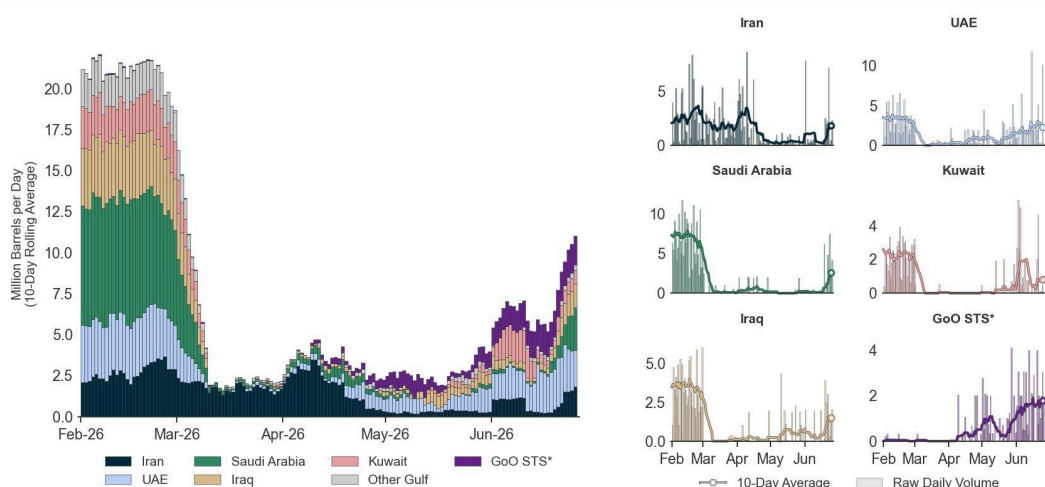
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The next chart, from Commodity Context, shows the actual flow of shipments through the Strait. Pre-war volumes averaged close to 20 million barrels per day before dropping to a trickle of roughly 2.5 million once the conflict began. Flows did not meaningfully recover until the U.S. and Iran reached a peace agreement in late June, and even now they remain only about half of pre-war levels:

Hormuz Oil Transit Flow

June 25, 2026



Note: Volume includes liquids only (NGL/LPG inclusive); *Gulf of Oman Ship-to-Ship Transfers Without Known Origin Vessel(s)

Sources: Commodity Context, Kpler.

Disclaimer: These materials incorporate third-party data, are provided for informational purposes only, and do not constitute advice or opinion of any kind. Commodity Context does not warrant or guarantee the accuracy or completeness of these materials.



Taken together, those two charts show oil was predicted to trade close to \$200 a barrel given how long the Strait stayed effectively closed. But oil never got close to those levels. Prices peaked just above \$120 and spent most of the quarter closer to \$100, before settling back toward \$71 by quarter-end. So, what happened?

Oil market researcher Rory Johnston, founder of Commodity Context, has laid out the math in a series of recent interviews. Even with the Strait mostly closed, roughly 7 million barrels per day still reached the market through continued transit through the Strait, alternative export routes, and pipeline capacity, including Saudi Arabia's east-west pipeline. That left around 13 million barrels per day of Middle Eastern oil production shut in due to the war. In total, the world lost roughly 1.3 billion barrels of cumulative production after the conflict began.

Three sources filled that gap:

- **Strategic Petroleum Reserves (~400 million barrels):** IEA member states, led by the US and Japan, released roughly 400 million barrels from strategic reserves.
- **Floating storage and commercial inventories (~400-500 million barrels):** Another 400 to 500 million barrels came from rapidly draining Russian and Iranian oil-on-water stockpiles and depleting global commercial inventories of refined products.
- **China (~400-500 million barrels):** China cut its oil imports by roughly 5.5 million barrels per day during the war, apparently by drawing down refined product inventories and tapping reserves that were not visible to the market.

The first two sources were largely anticipated. Analysts like Johnston expected reserves and stockpiles to absorb part of the shock. What no one expected was China. As an ally of Iran, China had no obvious incentive to help stabilize the global oil market, yet its import cutback matched or exceeded the entire collective IEA response. Without that 400 to 500 million barrel swing from China, oil prices likely would have moved higher until the increased cost of oil cut demand enough to balance the market.

The open question is what happens next. As I write this, Iran struck multiple vessels transiting the Strait this week, and the peace deal suddenly looks fragile. Brent responded with its sharpest single-day move since the early days of the war, jumping nearly \$10 to around \$80 per barrel. If the conflict re-escalates, the world would be starting from a weaker position than it was a few months ago. Strategic reserves have already been drawn down, commercial inventories are largely depleted, and it is unclear whether China would be willing or able to step in again the way it did the first time.

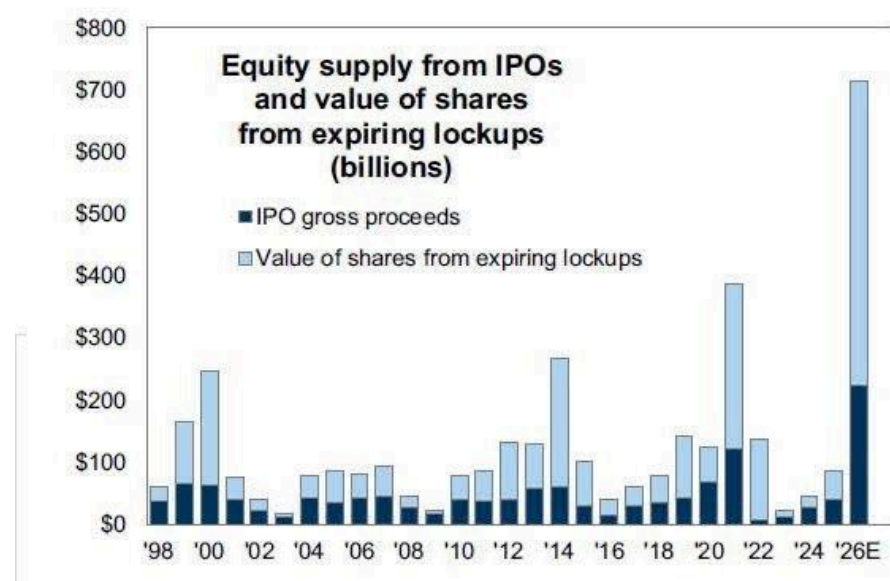
President Trump, defending his initial peace deal, described the risk plainly: "I didn't want to see economic catastrophe. If you kept this going, that could have happened." We are all hoping the peace holds. But investors should keep a close eye on this conflict and its potential impact on oil, commodities, and inflation if it does not.

The IPO Boom: Echoes of 1999 and 2021

The second major theme I'm watching as we enter the second half of the year is the surge in IPOs. Public markets exist, in large part, to help growing companies raise capital. A healthy IPO market is not automatically a warning sign. But IPO booms tend to occur when investor optimism is high, risk appetite is strong, and private owners believe public investors will pay attractive prices for their businesses.

That is why IPO activity can be a useful sentiment indicator. It surged near the end of the tech bubble in 1999 and again during the speculative frenzy of 2021. Both periods were followed by significant equity selloffs. 2026 is on pace to be the largest IPO year in history by value, dwarfing both of those prior peaks. The chart below from Goldman Sachs puts the scale of this year's surge in context:

Exhibit 7: In addition to shares floated at IPO, expiring lockups can increase equity supply



Source: FactSet, Goldman Sachs Global Investment Research

The chart shows that the total IPO value expected in 2026 is nearly double the next highest IPO peak in 2021. SpaceX is headlining this cycle, raising \$85.7 billion in its IPO and listing at more than a \$1.7 trillion market cap.

It's worth comparing SpaceX to some of the most successful IPOs of the past three decades. Amazon went public in 1997 at a \$450 million valuation, trading at 3x revenues. Google went public in 2004 at a \$23 billion valuation and traded at 7x revenues. Facebook came public at a \$104 billion valuation in 2012, trading at 20x revenues (from which it immediately sold off almost 50%).

Those were expensive multiples relative to the broader market, but all three companies were reporting exceptional growth: Amazon's revenue was growing more than 1,700% year-over-year in the quarter before its IPO, Google's roughly 125%, and Facebook's roughly 45%.

SpaceX priced its IPO at approximately 94x sales, and the stock climbed above 100x sales on its first day of trading. Given that Amazon, Google, and Meta came public between roughly 3 and 20 times sales, I assumed SpaceX's growth rate must be extraordinary. Before looking at the prospectus, I would have guessed sales were growing somewhere in the hundreds of percent. Instead, Morningstar pegs SpaceX's revenue growth at 33% from 2024 to 2025, and just 15% year-over-year in the first quarter of 2026. For a stock this expensive, that is a remarkably low growth rate.

For SpaceX to work as an investment over the long run, it will need to deliver extraordinary growth from here. In its prospectus, SpaceX says that its total addressable market is \$28.5 trillion, with \$26.5 trillion of that coming from artificial intelligence and xAI. For reference, the entire GDP of the US in 2025 was around \$30 trillion according to the IMF. Maybe the AI market really will be worth \$26.5 trillion someday. But the more relevant question is how much of that value xAI will capture. I'm skeptical.

Starlink and the core space launch business are, in my view, far more compelling parts of SpaceX. But by SpaceX's own projections, their markets aren't nearly large enough to justify the current valuation, even assuming SpaceX dominates both.

Why spend this much space on a single stock I don't hold? Because the level of interest in SpaceX says something important about investor psychology. In my career, I have never seen speculative fervor concentrated in one name quite like this. I've been asked more about SpaceX over the past few months than about every other investment combined over the past few years.

Tellingly, several of the same people who told me last year they'd put meaningful money into Trumpcoin (now down ~98% from its all-time high) are the ones rolling the dice on SpaceX today. But what stands out most is how broad the interest has become. It is dads from church, parents from school, and people from my kids' sports who have never talked to me about investing before. Many of them feel like this is the one opportunity they cannot miss.

I try not to be reflexively negative, but when I point out the valuation, the response is almost always some version of: "I know it's expensive, but I bought a few shares. It's fun. It's the future. I wanted to be part of it." Virtually none of these buyers know the fundamentals, the growth trajectory, or what would need to happen for the investment to pay off. Fewer still know about the substantial lockup expirations coming in the second half of this year, which will allow existing shareholders to sell and add a wave of new supply. What happens if those shares hit the market just as other AI names come public later in the year, as many are reportedly considering?

Speculative behavior is becoming more visible across the market, and the current environment has uncomfortable similarities to 1999 and 2021. Maybe this time is different. But with valuations sitting near all-time highs, I am not betting on it.

Conclusion

Heading into the second half of the year, I see a market more vulnerable than it appears. Oil inventories and strategic reserves have been drawn down to levels that leave less room to absorb another shock, should the ceasefire fail to hold. Equity valuations sit near all-time highs. And the IPO boom, as in 1999 and 2021 before it, is a signal that risk appetite is running as hot as it has at prior market peaks.

None of these are reasons to panic. But together, they argue for a more conservative and disciplined approach: staying defensive where appropriate, knowing what you own and why, and not getting caught up in the speculative fervor of the moment.

Scott Caufield, CFA, CPA
July 10, 2026