

Risk-on trade continues as markets welcome constructive comments to end US-Iran war

- **SNAPSHOT:** Equities up, Treasuries flatten, Crude down, Dollar down, Gold up
- **REAR VIEW:** US ADP (Mar), ISM Mfg. (Mar), and Retail Sales (Feb) top expectations; ISM prices paid jumps; Trump said new Iran regime President has asked for a ceasefire, US will consider when Hormuz is open; Iran rejects Trump's claim they requested ceasefire; Trump to reportedly declare Iran war 'winding down' in address tonight; Trump is reportedly strongly considering pulling the US out of NATO after it failed to join his war on Iran; Iranian Deputy Speaker of Parliament says "Strait of Hormuz will never be opened; UAE is reportedly preparing to help the US/allies open the Strait of Hormuz by force; US DoE soliciting an exchange of up to 10mln bbls of crude oil from the Bryan Mound SPR site; NKE guidance and turnaround efforts disappoint; Hawkish Musalem
- **COMING UP: Data:** South Korean Inflation (Mar), Australian Trade Balance (Feb), Swiss Inflation (Mar), US Challenger Job Cuts (Mar), Initial Jobless Claims (Mar/28), Trade Balance (Feb), Canadian Trade Balance (Feb). **Events:** UK DMP. **Speakers:** US President Trump; Fed's Logan, Bowman. **Supply:** Japan, France.

MARKET WRAP

US indices and most sectors ended the day in the green amid broader risk-on trade as participants seemingly took sentiment regarding constructive remarks from the US on the conclusion of the Iranian war, although Iranian officials pushed back on this at every opportunity. Overnight, Trump's said that the US could leave Iran in two to three weeks, which followed reports that the US could exit Iran without reopening the Strait of Hormuz, but Iran officials denied this, and comes ahead of the President's address at 21:00EDT this evening; many of the details have been touted, as he will seemingly lambast NATO, and declare 2-3 more weeks of the war. Note, reports suggest that an imminent withdrawal/de-escalation isn't expected. Geopolitics continues to dictate sentiment and price action, but there was quite a bit of US data, with the main driver being a strong ADP report, which topped expectations, ahead of the US jobs report on Friday. Retail sales and ISM also topped, with the prices metric soaring on the latter and survey respondents clearly concerned about the Iranian war. Back to sectors, Industrials and Communications outperformed, while Energy was the notable laggard and was hit by weakness in oil prices. Nike slumped post-earnings amid soft guidance and questions residing over the turnaround strategy, while Micron pared some of its recent selling. Precious metals gain, with spot gold outperforming its peers. Treasuries flatten as the ADP beat limited further upside in the short-end. Fed speak came via hawkish Musalem, Barr, and Barkin, albeit garnered little reaction. As mentioned, traders await Trump overnight.

US

ISM MANUFACTURING (Mar): ISM Manufacturing in March rose to 52.7 from 52.4, above the expected 52.3. Prices jumped 78.3 (exp. 72.5, prev. 70.5), potentially on the Iran conflict, while new orders dipped to 53.5 from 55.8. Employment was more-or-less unchanged at 48.7 from 48.8. Production and supplier deliveries edged higher to 55.1 (prev. 53.5) and 58.9 (prev. 55.1), respectively, and while inventories dipped to 47.1 from 48.8. Backlog of orders fell, but remained above 50, while new export orders and imports declined, with the former falling below 50. In survey respondents, Iran and the Middle East was a consistent topic, as it was the first report with panellists citing the Iran war as a new impact to their business. Recapping some of these remarks, 1) "The actions in Iran add a new wrinkle to energy costs throughout the world, and continue to try and plan for the unpredictable and unexpected"; 2) "Current Middle East unrest is already starting to impact business operations by increasing lead times, costs, container delays and the like." 3) "Ongoing geopolitical instability has emerged as a persistent factor influencing global trade dynamics". 4) "Middle East war has created domestic and global turmoil for the olefins and polyolefins business".

ADP (Mar): ADP employment in March rose 62k, more-or-less unchanged from the prior 66k, and above the expected 40k. Median pay changes saw job-stayers' wage growth unchanged at 4.5%, and job-changers ticked higher to 6.6% from 6.3%. The ADP employment report offsets the softer signal from Tuesday's JOLTS report, with Oxford Economics noting its points to a labour market that's cooling gradually, not cracking. Given the Iran conflict, OxEco adds that March ADP figures are likely too early to see any effects of the US/Israel-Iran conflict, which they expect will weigh on hiring via delays and reduced demand. Regarding the growth on the headline, it was broad-based, with declines limited to manufacturing and trade/transport/utilities, while small firms continued to drive most of the hiring.

RETAIL SALES (Feb): Retail Sales growth was 0.6%, above the expected 0.4%, showing a decent rebound and the highest print in seven months from the prior decline of 0.2%. Behind the rebound was an increase in sales at department stores (3%), health and personal care stores (2.3%), and clothing (2%). The core gauge, Control Group, rose 0.5% (prev. 0.3%). Ex-autos increased 0.5% (exp. 0.3%, prev. 0.0%), and Ex-Gas/Autos rose 0.4% (prev. 0.3%). Oxford Economics expects the war with Iran to start impacting retail sales in March, as higher personal outlays for gasoline begin to crowd out discretionary spending. The firm cautions that the impact will take longer to materialise than normal, as households are benefiting from a large increase in tax refunds.

FED

BARR (voter): Inflation has been brought down from 2022 highs to about 3% today, but emphasises the Fed has more work to do to

get it down to 2% via continued rate adjustments. Adds AI impact on labour market so far has been relatively small, and higher US productivity probably has not yet resulted from AI.

BARKIN (2027 voter): Consumer spending still seems resilient, do not see inflation expectations at risk of breaking out, and expects slow progress on inflation, not a quick return to target. Households and firms see the oil shock as short-term.

MUSALEM (2028 voter): Said US monetary policy is 'well positioned,' and views policy currently at the low end of the neutral range (very hawkish), and should hold in place 'for some time'. Similar to 2027 Goolsbee, he can see scenarios to both raise and cut interest rates. Musalem warns that supply shocks carry greater inflation risks in the current environment and is cautious about looking through the impact of energy shocks. On tariffs, he noted they are an inflation driver, but their impact should wane. His baseline case sees good growth, moderating inflation, and stable unemployment. Although he has lowered the probability of the baseline scenario and increased the likelihood of alternative scenarios. The St. Louis Fed President described financial conditions as broadly accommodative and does not see broad stress from private credit issues. He remains committed to getting inflation back to 2%, with core services inflation being high, while if you take away tariffs, you still have 2.5% inflation on a 12-month basis. He argues that taking steps to reduce demand for reserves from the financial system would be a smoother way to do it.

FIXED INCOME

T-NOTE FUTURES (M6) SETTLED 2 TICKS LOWER AT 110-31+

T-Notes flatten as the ADP beat limits further upside in the short-end. At settlement, 2-year +1.2bps at 3.803%, 3-year +1.7bps at 3.830%, 5-year +1.2bps at 3.953%, 7-year +0.8bps at 4.137%, 10-year -0.2bps at 4.317%, 20-year -1.4bps at 4.901%, 30-year -1.0bps at 4.900%.

THE DAY: T-Notes flattened on Wednesday as continued broad upside in the space was likely capped by US data, particularly ADP (Mar), which posted 62k gains in private employment (exp. 40k). Profit-taking after a good streak in gains in the short end was likely in play, as Trump's nationwide address on Iran tonight brings a fresh wave of uncertainty. As it stands, reports suggest that an imminent withdrawal/de-escalation isn't expected, with the US President to reiterate the 2-3 week timeline to exit Iran. ZN (M6) hit highs of 111-14+ in the EU morning, before US data helped the gains reverse into losses. Other US data was at play, yet had a lesser impact on price action, but all the same sent similar signals to ADP. Retail Sales and ISM Manufacturing both beat, albeit still within the forecast ranges. Within ISM, the Prices Paid component shows no sign of taking a breather after a sharp jump in February, rising 7.8 points in March to 78.3 as all six major industries posted M/M rises. It also offers an early gauge into the inflationary impacts on US data, with higher steel and aluminium prices due to supply disruption in the region contributing to the sharp increase. The street is turning towards NFP on Friday or the next gauge on the labour market in March, expected to show a rebound in employment of 48k prev. -92k)

SUPPLY

Bills

- US sold 17-wk bills at high-rate 3.615%, B/C 2.95x

STIRS/OPERATIONS

- **Fed Money Market Pricing (implied bps):** April 1.8bps (prev. 2.3bps), June 0.6bps (prev. 0.5bps), July -0.7bps (prev. -1.2bps), December -6.0bps (prev. -5.3bps).
- NY Fed RRP op demand at USD 2.11bln (prev. 15.78bln) across 9 counterparties (prev. 12)
- SOFR at 3.68% (prev. 3.63%), volumes at USD 3.280tln (prev. USD 3.082tln) on March 31st
- EFFR at 3.64% (prev. 3.64%), volumes at USD 86bln (prev. USD 105bln) on March 31st

CRUDE

WTI (K6) SETTLED USD 1.26 LOWER AT 100.12/BBL; BRENT (M6) SETTLED USD 2.87 LOWER AT 101.16/BBL

The crude complex was lower, albeit choppy, as slightly more constructive remarks surrounding the end of the war seemingly supported the downside, despite Iranian pushback. Optimism in the space was initially seen, particularly following US President Trump's overnight comments that the US could leave Iran in two to three weeks, which followed reports that the US could exit Iran without reopening the Strait of Hormuz. Despite saying that, and while benchmarks closed off lows, some of the optimism waned as the Iranian Deputy Speaker of Parliament stated, "Strait of Hormuz will never be opened, there has been no negotiation, and there will be no negotiation." Iran further pushed back on the comments, as a Foreign Ministry spokesman said there is no truth to Trump's statements that Iran requested a ceasefire, and only Iran and Oman will decide the future of the Strait of Hormuz. In more recent trade, Axios' Ravid reported that three US officials told him discussions are taking place about a possible ceasefire with Iran in return for the reopening of the Hormuz Strait, although the officials said it is unclear if a deal can be reached. Meanwhile, reports suggested an Israeli official noted talks between the US and Iran are "not progressing positively". We had a key address (a letter by Iranian President Pezeshkian to the American people), though it was more aimed at US citizens as opposed to the US admin, absent of escalatory rhetoric to reignite tensions after welcoming diplomacy-aimed remarks on Tuesday. Next up, US President Trump's nationwide address begins at 21:00EDT/02:00BST. Ahead of the addresses, we have seen benchmarks pare some losses, with some of Trump's topics of discussions widely reported; Trump to reiterate 2-3 week timetable for ending operations in Iran, and will express disgust with NATO, after Telegraph reported this morning Trump said he is strongly considering pulling the US out of NATO after it failed to join his war on Iran. WTI traded between USD 96.50-103.31/bbl and Brent USD 98.35-105.94/bbl.

EQUITIES

CLOSES: SPX +0.72% at 6,575, NDX +1.18% at 24,020, DJI +0.48% at 46,566, RUT +0.64% at 2,512

SECTORS: Energy -3.89%, Consumer Staples -0.57%, Financials UNCH, Real Estate +0.36%, Utilities +0.45%, Health +0.80%, Consumer Discretionary +0.92%, Technology +1.14%, Materials +1.16%, Industrials +1.65%, Communication Services +1.65%.

EUROPEAN CLOSES: Euro Stoxx 50 +3.05% at 5,740, Dax 40 +3.01% at 23,314, FTSE 100 +1.84% at 10,364, CAC 40 +2.10% at 7,981, FTSE MIB +3.22% at 45,736, IBEX 35 +3.15% at 17,586, PSI +1.84% at 9,300, SMI +1.44% at 13,006, AEX +1.76% at 977

STOCK SPECIFICS

- **Energy SPDR ETF (XLE):** Oil prices slip after Trump said could leave Iran within two to three weeks.
- **Nike (NKE):** Soft guidance; downgraded at JPM, GS, & BofA.
- **RH (RH):** Profit, rev. & outlook missed.
- **Calm-Maine Foods (CALM):** EPS & rev. beat.
- **nCino (NCNO):** Quarterly metrics & guidance topped expectations.
- **Target Hospitality (TH):** Secured over a USD 550mln data centre hub contract.
- **Bank of America (BAC), Wells Fargo (WFC):** Banks upgraded at HSBC to 'Buy' from 'Hold'.
- **UnitedHealth (UNH):** Upgraded at Raymond James to 'Outperform' from 'Market Perform'.
- **Rivian (RIVN):** Upgraded at DA Davidson to 'Neutral' from 'Underperform'.
- **Eli Lilly (LLY)** weight loss pill orforglipron gets US FDA approval.

FX

USD was broadly weaker as markets continued to place an optimistic significance on the Iranian President's remarks on Tuesday, which welcomed a diplomatic route to end the war. US President Trump suggested will be leaving Iran in two weeks or maybe three weeks, and could exit the war even without a deal with Iran. Risk-sentiment improved once again across assets as markets look through rebuttals from Iranian media outlets and other officials, viewing openness to end the war from both sides as a positive signal. However, in the US afternoon, USD came off lows as markets got tentative ahead of addresses from the Iranian President and US President Trump overnight. There was little follow-up from the Iranian President's remarks from Tuesday as he sent more of a diplomatic outreach in his letter to the American people as opposed to the Trump admin, which seemingly disappointed markets, waning on risk appetite. Meanwhile, US data had a limited reaction, albeit largely contained in the Treasury space, in which yields rose after the ADP (Mar) report topped expectations. Retail sales and ISM also beat. Trump is expected to give a nationwide address tonight, where he is anticipated to disparage NATO, float Iranian success, and reiterate the 2-3 week timeline left in operations. DXY came off 99.298 lows to about 99.63 at the time of writing.

GBP led gains vs USD as further retreat in European gas prices supported strength. The UK government confirmed new measures to ease the cost-of-living pressure are to come into force today. BoE Governor Bailey spoke, thinking markets are getting ahead of themselves by pricing in rate hikes. GBP/USD peaked at 1.3346 before trimming to ~1.3295.

CHF posted decent strength, reversing Tuesday's underperformance. **JPY** posted marginal weakness after a strong WTD, with the stronger-than-expected Japanese Tankan Survey supporting the case for an April BoJ rate hike. USD/JPY bounced off earlier 158.274 lows to now around 158.87.

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