



Potential Iran Settlement Sends Market To Highs

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Yes, we have been there before, only to be disappointed. But the market smells a real settlement to open Hormuz, and WTI oil briefly dipped below 90 for the first time in weeks. If an opening occurs, expect the market to continue its march upward, as the momentum trade gathers strength.

Even before this potential breakthrough the market has concluded enough replacement supply has found its way into global markets to prevent an outright economic shock. Unconfirmed reports that select supertankers are transiting the Straits after paying fees to Iran, combined with Saudi pipeline flows estimated near 7 million barrels per day, suggest the effective supply disruption may be smaller than headline fears implied. The global economy has tolerated current oil prices, which now seem set to fall.

The underlying U.S. economy remains resilient despite elevated geopolitical uncertainty. NVIDIA earnings last week were solid, not euphoric, but the broader economic data continue to point toward ongoing expansion. The Atlanta Fed GDPNow estimate climbed back into the 4% range and weekly unemployment claims remain contained. Even some of the more cautious forecasters have revised growth expectations higher. Walmart's weaker guidance last week was one of the few softer datapoints, but broader spending data shows consumer strength, not retrenchment.

The most important development may be occurring beneath the surface in liquidity conditions. Weekly deposit data surged again, and excess deposits relative to prior trend growth have now risen roughly two percentage points over the last three months. Annualized, that implies liquidity growth exceeding 8%. That is not trivial. It strongly suggests the financial system is accommodating increased borrowing and spending tied to higher energy costs and further inflation. This materially shifts the balance of risks for monetary policy. Earlier in the year, the debate centered around when the Fed would ease. Increasingly, the evidence points toward policy needing to remain restrictive for longer, and perhaps even maintain a tightening bias.

The confirmation and swearing-in of Kevin Warsh as Fed Chair adds another layer of uncertainty. President Trump refrained from publicly pressuring Warsh to cut rates immediately, instead saying only that he should "do what you have to do." Markets have gradually become more skeptical about the likelihood of near-term rate cuts. The rise in the 10-year Treasury yield earlier this week reflected that adjustment. Futures markets are pricing at least one hike, but as I have often emphasized, Fed futures frequently underestimate the persistence of inflationary pressures during periods of excess liquidity.

Warsh himself may alter the Fed's communication framework. There is growing speculation he could eliminate explicit forward policy "bias" language altogether, preferring a more flexible and data-dependent posture. His first major comments ahead of the June FOMC quiet period will therefore be extraordinarily important for markets trying to assess whether the Fed remains mildly restrictive or is preparing to harden its stance further.

This week's data calendar will provide several important tests. We will receive M2 money supply data, the Case-Shiller home price index, and the PCE inflation report. Although backward-looking, April inflation data will help determine how much of the recent increase in oil and gasoline prices is bleeding into broader core inflation measures. That transmission effect remains critical for the Fed outlook.

At the same time, enthusiasm surrounding AI, hyperscalers and potential blockbuster IPOs such as OpenAI and SpaceX continue to fuel speculative appetite. These could become some of the largest financial events of the year. The excitement itself is evidence that monetary conditions are not truly tight. We are not witnessing the extreme speculative excesses of 1999, but chip stocks and AI-related equities are increasingly pricing in extraordinary growth assumptions far into the future. Investors need to recognize that these valuations remain highly sensitive to technological competition.

Still, I continue to resist broad claims that the Magnificent 7 are universally overvalued. This remains a historically unique group of companies with unprecedented cash generation, scale and strategic positioning within the AI buildout. Their dominance complicates traditional growth market cycles. The bigger macro story remains that liquidity is still abundant, and economic growth remains surprisingly firm. The Fed may find itself unable to ease policy nearly as quickly as markets had hoped only a few months ago, but earnings momentum is offsetting the lack of Fed easing.

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