

State of the Markets

From the desk of Darrell L. Cronk



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Strait talk — The most important questions

The Strait of Hormuz is 31 miles wide at its entrance and exit, and it is 104 miles long. It connects the oil-rich Persian Gulf with the Gulf of Oman.

Through two-mile-wide shipping lanes, outbound ships normally carrying 20% of the world's crude oil supply, 33% of the world's fertilizer, 30% to 35% of the world's helium supply, 20% of the world's liquefied natural gas, and 9% of the world's aluminum supply navigate these waterways, destined for China, India, Japan, South Korea, and other Asian markets.

Iran and Oman have claimed territorial sovereignty over the Strait of Hormuz since the 1970s. Following today's news makes it clear that this relatively tiny piece of geography is a critical economic lever that will go a long way in telling the story of 2026 market performance.

Let's walk through what we believe are the most important questions today for markets and investments:

Should we expect a renewed outbreak of military conflict following these fragile and tenuous ceasefire efforts?

While the outlook remains uncertain, it increasingly appears that neither Tehran nor Washington is seeking a return to full scale military confrontation. That said, important risks remain. The expanding U.S. naval presence in the region raises the likelihood of miscalculation, particularly in an environment where, historically, accidental encounters or limited skirmishes have had the potential to escalate unintentionally. As a result, overall risk levels remain elevated.

Separately, Israel continues to apply pressure and views its mission as incomplete — particularly with respect to Iranian backed proxies such as Hezbollah in southern Lebanon — and may seek to reassert military action to achieve its remaining objectives. An adjacent but important area of conflict for investors to continue to monitor.

Who is making the decisions in Iran today?

Decision making in Iran remains firmly concentrated within the Islamic Revolutionary Guard Corps (IRGC), which continues to exert decisive influence over both security policy and strategic negotiations.

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The IRGC has taken a consistently hardline stance toward engagement with the U.S., viewing concessions as strategically premature and politically destabilizing.

Despite the imposition of a U.S. naval blockade and the cumulative economic strain Iran is experiencing from extensive military damage, the regime has not fractured. Instead, it has doubled down, adopting an even more uncompromising posture. From Tehran's perspective, the failure of external pressure to trigger regime collapse reinforces its core strategic belief: that Iran can endure economic and social pain for longer than the U.S. and its allies are willing to pay the military and political price.

This confidence appears rooted in a long standing asymmetry in tolerance for disruption. Iranian leadership views time as an ally — expecting pressure on global energy markets, ruptures in allied political cohesion, and impatience in the West to build more quickly than internal dissent at home. As a result, the IRGC remains inclined to resist near term compromise, betting that a prolonged standoff ultimately strengthens its negotiating leverage rather than weakens it.

What role are the other Persian Gulf countries playing in this process?

Saudi Arabia, Oman, the United Arab Emirates (UAE), and Qatar share a clear and immediate strategic interest in preventing Iran from exerting undue control over the Strait of Hormuz. Ensuring the safe and uninterrupted passage of energy shipments and commercial vessels through this chokepoint is essential to protecting their economic and financial stability.

As a result, these Gulf countries are likely to play an important role in any regional or international coalition seeking a longer-term path toward de-escalation and settlement. Their involvement is driven not only by security concerns, but also by the need to restore confidence in the reliability of regional trade flows and energy infrastructure.

At the same time, signs of internal strain within the Gulf's regional cooperation framework are emerging. The UAE's announcement on April 28 of its intention to exit the Organization of the Petroleum Exporting Countries (OPEC) coalition highlights broader fractures and divergent national priorities. Rebuilding damaged energy infrastructure across the region will require substantial time and capital, and the latest conflict has further eroded trust among Middle Eastern powers whose cooperation is critical to long term stability.

Above all, these countries are seeking regional calm. The escalation of hostilities and the heightened risk of supply disruption have been deeply unsettling, reinforcing a shared preference for stability over prolonged confrontation. We believe, however, that the path to a durable political and security framework remains complex and uncertain.

What are the most plausible deal points for a U.S.-Iran agreement, and how soon can it come together?

A short term, tactical de-escalation could emerge relatively quickly. The simplest near term arrangement would involve Iran reopening the Strait of Hormuz in exchange for a partial curtailment of the U.S. naval blockade at the mouth of the Gulf of Oman. While such a deal could temper immediate geopolitical and energy market risks, it would almost certainly be insufficient as a durable framework for normalization.

A more sustainable agreement would need to address Iran's nuclear program alongside broader security and economic considerations. Several core components would likely anchor any longer term deal:

1. Uranium enrichment moratorium

A central issue would be an agreed upon duration for a moratorium on uranium enrichment. The U.S. has reportedly pushed for a long-term suspension — on the order of 20 years — while Iran has countered with a significantly shorter period, closer to five years. These positions appear less like deal breakers and

more like opening offers, suggesting room for compromise as negotiations progress, potentially via a graduated or renewable framework.

2. Disposition of existing 60% enriched uranium stockpiles

Any agreement would also need to address Iran's existing stockpile of uranium enriched to roughly 60%. Several models exist. One option would mirror elements of the 2015 Joint Comprehensive Plan of Action (JCPOA), or even Ukraine's early-1990s denuclearization after the fall of the Soviet Union, with enriched material transferred to an agreed-upon third country for secure storage. An alternative would involve down blending the material domestically to levels consistent with civilian, non-weapons use, under strict international oversight.

3. International verification and inspection regime

Credible verification would be essential. This would almost certainly require the return — or expansion — of independent international nuclear inspections to ensure enrichment activities remain below weapons grade levels and that covert facilities are not being operated outside the agreed framework.

4. Sanctions relief as an economic consideration

Finally, no deal is likely to hold without meaningful sanctions relief for Iran. In exchange for verifiable constraints on its nuclear program, Iran would seek phased relief from U.S. and allied sanctions, particularly those restricting energy exports, access to global financial systems, and frozen assets. The calibration and sequencing of this relief would be critical to ensuring compliance on both sides.

How large and significant is the oil disruption from the conflict and the strait closure?

The cumulative supply disruption from the conflict and partial Strait of Hormuz closure has now reached an estimated 600 million barrels, give or take, by early May. These are not merely delayed shipments — they represent shut in, damaged, or deferred barrels that are no longer flowing into end use, whether fuel tanks, storage facilities, power generation, or industrial demand. Floating storage and commercial buffers have already been heavily drawn down, leaving little remaining shock absorption in the system.

Absent a reopening of the strait within the next several weeks, the global oil market, in our view, is likely to enter a period of explicit demand rationing within the current quarter. Supply losses of this magnitude cannot be absorbed solely through inventories or price signaling. Rationing on the order of four million to five million barrels per day would be required within weeks to rebalance the system, with a typical 30-day lag before flow disruptions fully translate into end-market shortages.

We would expect the most acute stress to center on natural gas, as well as intermediate and medium sour crude barrels. Natural gas is important for making helium, which cools technology components and goes into fertilizers. Intermediate and heavy crude oil are critical inputs to the diesel and jet fuel supply chains, and for producing sulfuric acid, a key ingredient in refining copper. As a result, refined product shortages are likely to materialize before outright crude scarcity becomes visible to end consumers.

U.S. consumers, in our view, should anticipate product impacts to cascade in the following order:

- Petrochemicals and liquefied petroleum gas (LPG) — affecting home heating and cooking fuel availability
- Diesel — with knock-on effects on freight, agriculture, and industrial activity
- Jet fuel — directly constraining airline capacity and broader economic mobility

Initial impacts are most likely in import-dependent emerging markets, including Sri Lanka, Thailand, and Pakistan, before expanding into Western Europe (notably the UK and France) and eventually Australia. In parallel, policy responses, such as work-from-home mandates in the Pacific Rim, airline capacity caps, and emergency fuel-allocation frameworks are becoming increasingly probable.

The U.S. has some insulation from shortages, because U.S. production and imports via Canadian pipelines make roughly 85% of U.S. daily consumption. Only 2% comes from the Middle East. The larger problem is that crude oil is priced globally and prices are rising, even here. Elevated fuel costs, particularly heading into the summer driving season, would add to inflationary pressures, with important implications for interest-rate expectations. At the same time, affordability constraints for consumers and rising input costs for businesses would become more pronounced, increasing political pressure on the administration to take action to ease prices ahead of the midterm elections.

In short, without a near-term reopening of the Strait of Hormuz, the outlook shifts from price volatility to physical scarcity, forcing mainly overseas governments and markets alike to confront demand destruction as the primary adjustment mechanism.

What are some of the longer-term implications of the conflict and Strait of Hormuz closure?

The conflict and disruption to the Strait of Hormuz have exposed a reality that many so-called energy-independent countries have been reluctant to acknowledge — global energy supply chains remain far more fragile and interconnected than assumed. Strategic redundancy has diminished, buffers have thinned, and resilience has been overestimated.

Equally important is the time required to repair damage and restart supply chains. The liquid natural gas facility damage in Qatar and Iran could take as much as 20% of global supply offline for possibly years. These facilities represent complex, capital-intensive systems that will need to be rebuilt or repaired amid an already constrained environment. The damage to crude oil facilities is generally much less and could recover in days or weeks. However, there are still well over 700 vessels loitering in the vicinity of the Strait, waiting to load. Their cargoes then may take 2-3 months to reach their destinations and be offloaded around the world.

Any prolonged shut-in of Iranian oil wells is not benign. While short-term shut-ins can often be reversed with limited impact, extended shut-ins materially increase the risk of permanent production loss, particularly given Iran's reservoir geology, crude quality, and infrastructure constraints.

Those efforts will take place against a backdrop of elevated inflation and tight global engineering and construction capacity — conditions exacerbated by massive capital deployment into artificial intelligence, including data centers and power grids. Competition for skilled labor, equipment, and project financing will extend timelines and raise costs well beyond historical norms.

The net result is that the economic and market impacts of this crisis are likely to persist longer than in past oil shocks. Unlike prior episodes where brief supply disruptions were followed by relatively rapid normalization, this event introduces prolonged structural friction across production, processing, and distribution. The effects — on energy prices, industrial activity, and geopolitical risk premia — are unlikely to fade quickly.

In short, even if the immediate conflict de-escalates, we expect the aftershocks will remain with us for some time. Markets may be inclined to trade through the headline risk, but the physical and logistical realities suggest a longer-lasting adjustment period than investors and policymakers have come to expect.

Risk considerations

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