The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client: Washington, April 2, 2026

No matter how long the Iran war goes on…
The economy is bound to suffer from it.
How much and how severely depends on just how long the conflict continues to crimp key energy exports.
Some degree of inflation is now inevitable.

2026 Job Growth by State

1.0 to 1.3%
Idaho, Mo., N.C., Utah

0.6 to 0.9%
Ariz., Ark., Del., Minn., Mont., S.C., S.D., Tenn., Texas

0.4 to 0.5%
Colo., Fla., Ga., Ind., Mich., Nev., Pa., Okla.

0.2 to 0.3%
Ala., Calif., Hawaii, Iowa, La., N.J., N.M., Ohio, Ore., Wash.

0.0 to 0.1%
Kan., Ky., Mass., Miss., N.D., N.Y., Vt., Va., Wis.

-0.1 to -0.2%
Alaska, Conn., Ill., Neb., N.H., R.I.

-0.3 to -0.5%
Maine, Md., W.Va., Wyo.
(D.C.: -4.2%)

THE ECONOMY

Energy prices won't return to prewar levels, whenever peace returns. Too much damage has been done to the Persian Gulf's infrastructure for pumping, refining and shipping oil and natural gas.

Fuel prices will climb more if the war escalates, which is a real risk if Washington sends ground troops to secure parts of Iran's coast or strategic islands.

Gasoline, averaging $4/gallon, could hit $5 or more this summer if the fighting mounts. Diesel, already nearing its all-time record of $5.82/gallon, could average $6, jacking up freight shipping costs.

Fertilizer shortages will weigh on farmers around the world who didn't secure what they needed before the war halted the Gulf's huge fertilizer exports. That bodes especially ill for the spring planting season in the Northern Hemisphere. This means pricier food.

These and other cost pressures could boost headline inflation to 4% or more later this year, vs. 2.4% in Feb. That's if oil prices, now at $110/barrel, stay near $100 per barrel for an extended period of time. While there will be plenty of price volatility, $100 on average is a real possibility if the war drags on. With the Persian Gulf blocked, at least 10% of the world's oil, plus a huge amount of natural gas, can't get to market.

Even a quick resolution of the fighting wouldn't avoid an inflationary bump. Restoring exports of oil, gas, fertilizer and other key commodities from the Middle East will take anywhere from weeks to years, depending on the extent of needed repairs. In the U.S., gas prices might retreat to $3.50…still above the $3 on the eve of the war.

Higher inflation makes any Federal Reserve interest rate cuts highly unlikely. The Fed has been cautious so far about what the war could mean for the economy. But it has signaled that it is on guard against renewed inflation pressures and will act to tamp them down if needed. It doesn't want a repeat of 2022, when prices soared.

The economy can still keep growing, even in the face of higher inflation sparked by the war's disruptions. Recall that in 2022, when inflation peaked at 9%, GDP still grew 2.5%. Outright recession is unlikely, though we can't rule it out entirely. In fact, the economy stands to benefit from the extra defense spending that will occur, especially at ammunition factories. Inflation is not likely to hit the highs of 2022, given that the economy is not as tight and the labor market has more slack now. With a resolution to the war, or at least when oil tanker traffic can start to flow again, the price of oil will start to fall. Even if prices do not return to their prewar levels, any drop should grease the wheels of economic activity and restore investor confidence.

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MORE ECONOMY Other sectors that stand to be affected by the Iran war: Petrochemicals. Up to $25 billion in shipments pass through the Strait of Hormuz annually. Led by Saudi Arabia, the Middle East accounts for 40% of global polyethylene exports, the world's most common plastic, the price of which has jumped 37% since late Feb.

Cars. Overall sales will slip by 3.0% on higher interest rates. Purchases of fuel-efficient hybrids are sure to keep soaring. Electric car sales may rise a bit, too.

Domestic oil and gas producers and refiners stand to reap sizable benefits as they partially fill the void in energy markets left by missing Middle East exports. The U.S. being the world's largest oil and gas producer is an invaluable asset now.

Note the rising risk that the unpredictability of the war will dampen confidence among consumers and businesses this year. That could cause consumers to save more and businesses to cancel spending plans, especially if fighting drags on or escalates.

FINANCE The Federal Reserve wants to relax capital requirements for banks. The country's largest banks could see their requirements drop by nearly 5% under the new plan, while smaller community banks could see a drop of nearly 8%. The proposal would also streamline rules from Basel III, the international accord that is intended to prevent future bank failures and another global financial crisis.

The new rules would prompt a resurgence in bank lending in the long term. Banks are likely to remain cautious in the near term, given geopolitical uncertainty, but over a longer period will move toward more aggressive capital deployment through increased lending, dividends and share buybacks. Residential mortgages would face less risk assessment, too, helping banks compete with nonbank lenders.

The proposals are a big regulatory victory for the banking industry. While still being finalized, they are expected to be in full effect by 2027. Meanwhile, critics say the looser rules could leave the financial system with less of a buffer in the face of a shock, and could encourage more lending to risky private credit.

Negotiations for the CLARITY Act have reached a critical juncture. Lawmakers have spent the last two months drafting language to resolve policy issues over whether crypto firms can pay yields to stablecoin holders without the triggering of deposit flight from the banking system, especially small and regional banks.

Despite the progress, the crypto industry has pulled support for the bill. A hard-fought compromise on stablecoin yields between the White House, Senate Banking Com., crypto companies and banks had a significant setback. Coinbase, the largest crypto brokerage, announced its opposition to the latest draft, which threatened the bill's survival. The draft would prohibit yield payments for simply holding a stablecoin and restrict crypto firms from offering a yield on holding stablecoins "directly or indirectly." Currently, crypto firms are continuing to offer yield on stablecoin holdings by arguing that the payouts are rewards.

The path forward remains fragile. If negotiators can tweak the language to appease Coinbase without losing banking industry support, the bill could still move through the spring and summer on a slower track and become law by late summer. It's also possible that other crypto firms besides Coinbase will accept the current offer.

Congress is putting deposit insurance reform back on the table. A new legislative package aimed at reforming the insurance includes a bill that directs the Federal Deposit Insurance Corp. and National Credit Union Admin. to set a new cap anywhere between $250,000 and $5 million. The higher limit, which has bipartisan support, stems from the failure of Silicon Valley Bank in 2023. SVB held many noninterest accounts used for payroll and operational expenses. More than 94% of SVB's deposits were uninsured, exceeding today's $250,000 limit.

The push for deposit insurance reform is a key concern for small banks, as crypto potentially changes the market. For example, banks have raised concerns that yield-paying stablecoins could cause outflows from small and regional banks.

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POLITICS A deal to end a weeks-long partial government shutdown is in the works. A funding dispute for immigration enforcement agencies has kept Congress from allocating money for the Dept. of Homeland Security since the middle of Feb.

Congressional Republicans and President Trump are now in agreement to fund the agency aside from Immigration and Customs Enforcement (ICE) and border patrol. Spending for those subagencies will be taken up separately in a broad "reconciliation" bill, which allows select bills to bypass the filibuster in the Senate and pass with a simple majority instead of the usual 60 votes.

The plan essentially is the same as a Senate deal agreed to last month. House GOPers initially rejected that approach, arguing that DHS should be funded in its entirety, amid complaints they were left out of the negotiating process.

But House Republican leaders gave in after the president intervened, after mostly staying on the sidelines for weeks. Trump has set a June 1 deadline to pass the two-pronged package of DHS funding and the reconciliation bill.

Still, roadblocks persist. Lawmakers will offer up a slew of amendments, not related to DHS, to the reconciliation bill that could slow…or doom…the plan.

CONGRESS A bipartisan push is under way to place guardrails on prediction markets, which let people wager on almost anything, from sporting events to elections to even when a cease-fire will take hold in the ongoing U.S.-Israel war with Iran.

New House and Senate bills call for banning federal officials, their families, staff, political appointees and others from prediction market wagers on topics related to political events and policy decisions, as backers say it amounts to insider trading. The prohibitions cover members of Congress, the president and vice president.

A Senate bill would ban wagers on sporting events and casino-style games. Prediction market wagers are considered futures contracts and are regulated by the Commodity Futures Trading Comm. and available in all 50 states. Critics say that the contracts are tantamount to gambling, an activity regulated by the states, and that sports wagers on prediction markets are loopholes around state betting laws.

The industry isn't waiting for Congress to act, as Kalshi and Polymarket, two of the most popular prediction market companies, recently instituted new policies intended to curb insider trading in the hope of keeping lawmakers off their backs.

Odds are good that Congress will approve new rules for prediction markets.

LABOR The National Labor Relations Board will revert to an older joint employer rule that was adopted during President Trump's first term after the withdrawal of a legally dicey Biden-era rule, which was vacated by a judge and never took effect.

The rule restores the requirement that the employers have "direct" control over a worker's terms of employment, such as wages, benefits, hours, hiring, firing, discipline, supervision and direction. The rule also specifies that indirect control can be used to prove joint employer status, but only if it supplements direct control.

ENERGY Having failed to halt work on five ongoing offshore wind projects in court… The White House is trying to buy out the leases, with some success. TotalEnergies will relinquish two leases worth nearly $1 billion to the Interior Dept. and instead invest an equal amount in U.S. natural gas production and exports, including Trains 1 to 4 of the Rio Grande liquefied natural gas plant in Texas. The ultimate fate of the other three projects, including one for which construction has already been completed (the Vineyard 1 wind farm in Mass.), is less clear.

The projects cumulatively represent nearly 6 gigawatts of new capacity.

Expect current administration policies to have a long-term chilling effect on renewables growth in the U.S. For example, the International Energy Agency has cut its 2030 U.S. renewables forecast in half, with wind falling by 60%.

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SPACE Private space firms are racing to keep up with NASA's new moon plans... a permanent moon base with habitats, lunar vehicles, power infrastructure (including nuclear and solar), drones, satellites and more. A budget of $30 billion-plus will fund suppliers SpaceX, Blue Origin, Axiom Space, Boeing, Astrolab Space, Intuitive Machines, Lunar Outpost and many more. About 80 total rocket launches to the moon will be spread out through 2036...that's if all goes according to plan.

Many space companies praise the new mission, but were caught off guard when NASA head Jared Isaacman announced the sweeping update on March 24. He also nixed a small space station orbiting the moon, an idea in the works for years.

A big first test is happening now with the crewed trip around the moon with four astronauts. NASA hopes Artemis II kicks off a much faster pace of launches.

One milestone is plans to land four astronauts on the moon in 2028 for the first time since Apollo 17 in 1972, using a SpaceX or Blue Origin lunar lander.

NASA is sure to move quicker and be more effective than it has in years.

But the agency faces a hard reality, with likely delays and technical issues. Cost overruns, budget cuts or congressional actions could also hamper the effort.

Meanwhile, China has plans to land its astronauts on the moon by 2030.

TECH Even with cutting-edge tech, it's not easy starting a new consumer app. Just ask OpenAI, which abruptly decided to shut down fledgling Sora, its recently launched social media app to create and share AI-generated videos.

So what consumer AI apps *are* gaining traction? General assistants, such as OpenAI's ChatGPT, Gemini, Grok, Claude, Meta AI and China's DeepSeek.

And tools to edit and generate photos and videos...CapCut, Picsart, Remini, Midjourney, Kling AI, PixVerse and more. Other popular uses: Productivity (Notion) and learning tools (Brainly). Plus, tools that create AI companions for role-playing.

TRAVEL Airport security checkpoint bottlenecks are poised to persist. That's true even after President Trump intervened in the weeks-long funding lapse of the Dept. of Homeland Security to pay Transportation Security Admin. employees.

Over 1,500 TSA agents have quit since Oct. 2025, when a lengthy shutdown forced agents to work airport security without pay. That includes some 480 agents since a second DHS shutdown began in Feb. Lawmakers continue to debate funding.

The shutdowns are having a lasting ripple effect on TSA staffing issues. Four to six months are needed to train new agents. The uncertainty of shutdowns and funding make it a challenge to recruit new personnel and likely hurt morale.

The issue figures to affect travel for this year's World Cup of soccer, which kicks off June 11, as a million-plus visitors are expected to travel to the U.S.

IRAN President Trump finds himself in a tough spot in the conflict with Iran. There's no easy path to victory, and no easy way out, as long as the Strait of Hormuz remains largely closed to traffic. Whether the president decides to put boots on the ground or not, all signs point to a prolonged military engagement.

The Pentagon will concentrate even more firepower on the Islamic Republic in the hopes that Tehran will buckle. It's possible that Trump will find a way to win as Iran's weaponry is depleted, but at the risk of war consuming his presidency.

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Yours very truly,

Knight Kiplinger

April 2, 2026

THE KIPLINGER WASHINGTON EDITORS

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