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MACROCOSM

An Iran Deal Just in Time for Warsh's First FOMC

Monday, June 15, 2026

Donald Luskin

We were right to rely on the oil futures curve to see through the fog of war. Will the Fed?

We're not going to comment on the merits or durability of [an emerging deal with Iran](#). Let us just point out that, be that as it may, *purely as an investment matter, our reliance on the oil futures curve as the best guide through the fog of war is turning out to have been just the right strategy* (see ["Another Quick Note on Developments in Iran"](#) March 9, 2026). On March 9, when spot Brent crude traded as high as $119.05, the curve of long-dated contracts made the seemingly optimistic projection that it would fall to $88.95 by today – and as of this writing, it is even better: $83.41 (please see the chart below). Markets are not infallible – indeed, we are all to a large extent in the business of trying to outsmart them. But *our rule for investment strategy in the fog of war is: when you are informationless, then index – that is, just let Mr. Market be your AI*. It worked in 2022 at the onset of Russia's attack on Ukraine when the oil price got even higher than this time, especially in inflation-adjusted terms. It looks like it has worked again

Update to strategic view

FEDERAL RESERVE, OIL: With an emerging peace deal with Iran, oil prices have fallen below even the optimistic projections of the futures curve in early March when hostilities began. In the fog of war, we were right to rely on market signals …

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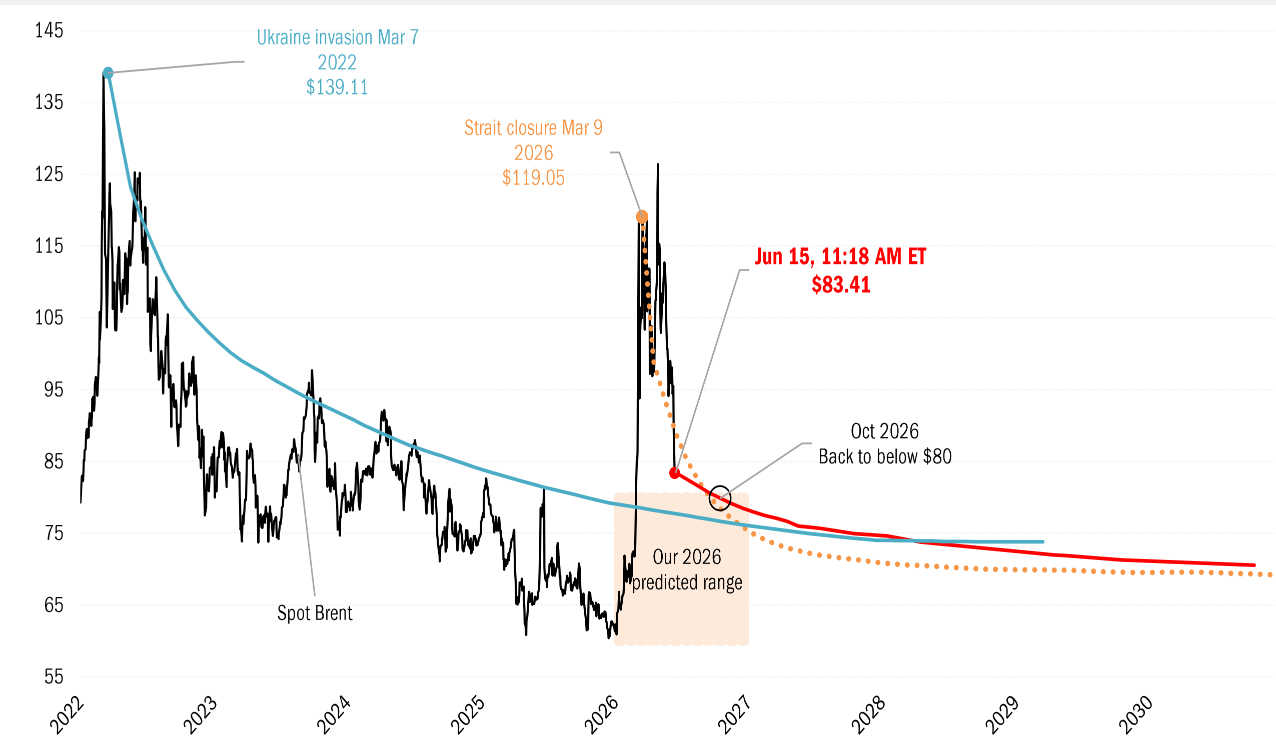
Brent crude futures: spot and long-dated contracts



Source: Bloomberg, TrendMacro calculations now. Pretty good, considering that last March the consensus of seemingly sensible people was that we had stumbled into World War III and were in the midst of an energy crisis worse than all the others put together.

Let's quickly run through some of the implications.

GLOBAL PETROLEUM MARKETS When the Strait of Hormuz opens, there will be exporters in the Persian Gulf desperate to unload inventories and start producing and refining again. They won't be fussy about price. But there is a world of importers, mostly Asian (but also Californians, who did it to themselves) who are equally desperate for crude, and for refined products all the more. They won't be fussy about price, either, So prices will be volatile. For now, our placeholder will simply be to go *back to our original prediction for 2026* (see "2026 Oil Outlook" December 11, 2025) *that Brent will trade between $60 and $80 – likely with something a risk premium* for a while, because the durability of a peace deal is very much in question. Over time, we would expect Persian Gulf exporters to enhance infrastructure to minimize dependency on the Strait (the risk premium can fund that). As of this writing, the futures curve is saying that Brent will get back below $80 by October (again, please see the chart on the previous page).

EQUITY MARKETS The energy sector has been by far the best performer in the S&P 500 this year, up 27.0% as of Friday (even better than the information technology sector, up 17.5%). It's been driven by earnings estimates that have been fueled by higher oil prices. Since the onset of the war, one-year forward earnings estimates for the energy sector are up $59 billion, or 57.5% (that's 15.0% of the $389 billion for the S&P 500 overall).

- Presumably the energy sector upgrades have been scaled to the price signals from the futures curve all along. Adherence of spot prices to that implicit forecast is, therefore, no surprise and should, therefore, not require much downgrading. To be sure, without surprisingly higher prices, there's no further reason for upgrading either.

THE FED First, we can't help feeling a little bit of *schadenfreude* when it seems that the arrogant elitists who run *the European Central Bank seem to have bought the top last week when they hiked rates* – with no debate, and without considering the optimistic oil price scenario that, as of this writing, is playing out (see: "Open Letter to Kevin Warsh: The ECB Shows You What Not to Do" June 11, 2026).

The ECB is a classic bag-holder, but the Fed doesn't need to be when it meets Wednesday, for the first time under the chairmanship of Kevin Warsh.

- *Let us set the stage. At the December 2025 FOMC, Brent crude was at $62.21*. Macro data available to the Fed showed PCE inflation, both headline and core, at 2.8%, and the unemployment rate at 4.4%. The committee lowered rates by 25 bp to 3-5/8% after

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… despite hysterical worries about "World War III" and "an energy shock worse than all the others combined." We now reiterate our original price range for 2026 at $60 to $80, with high volatility as global oil stocks get rebalanced, and potentially a risk premium while war uncertainties resolve. Massive upgrades in the S&P 500 energy sector made it the best performer year-to-date. These upgrades were likely conditioned on the futures curve, so there may be no need for downgrades now – but it's hard to see where upgrades could come from. The FOMC meets Wednesday with Brent crude 27% lower than at the prior meeting. Lagging macro data shows rising inflation. We see no reason to bow to the dissidents and change the statement language about "additional" policy moves. The March "dot plots" indicated one rate cut without a single participant calling for a hike. It would take a large migration of dots to even indicate no change, and a wholesale exodus to indicate a hike. Yet the money market curve continues to expect a hike this year. We completely rule that out, and believe it deserves a large contrarian bet. Lower oil prices lower the stakes for Warsh's debut, and set him up for a successful term.

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two prior meetings at which there had also been cuts of 25 bp (see "On the December FOMC" December 10, 2025). The statement referred to future consideration of "the extent and timing of additional adjustments." That language has appeared in every FOMC statement since – and that word "additional" must be, we suppose, what three participants found too dovish-leaning at the April 2026 FOMC, when three dissented over it (see "On the April FOMC" April 29, 2026).

- At the December FOMC, there were two dissents: one dovish, one hawkish.
- *The Summary of Economic Projections "dot plot" indicated one rate cut over 2026 and one rate cut over 2027.*
- *At the January FOMC, Brent crude was at $68.4, already 10% higher than at the December meeting*. Macro data available to the Fed was exactly the same. No language change, no rate change (see "On the January FOMC, and Trump in Check" January 28, 2026). There were two dovish dissents.
- *At the March FOMC, Brent crude was at $107.38, up 57% from the January meeting and up 73% from the December meeting*. Macro data available to the Fed showed PCE inflation at 2.9% (up 0.1% from the prior two meetings) and core at 3.1% (up 0.2%). The unemployment rate remained at 4.4%. No language change, no rate change. One dovish dissent.
- *The Summary of Economic Projections "dot plot" continued to indicate one rate cut over 2026 and one rate cut over 2027. There was not one single solitary "dot" in favor or a rate hike.*
- *Stop and let this sink in…*
- *Oil up 73%, inflation ticking higher, unemployment steady – but no Fed reaction whatsoever – no language change, no rate change, no "dot plot" change, still a dovish dissent.*
- *At the April FOMC. Brent crude is at $118, up another 10% from the prior meeting, and up 90% from our starting point at the December meeting*. Macro data available to the Fed showed PCE inflation at 2.9% (unchanged from the prior meeting) and core at 3.0% (down 0.1%). Unemployment was at 4.3% (down 0.1%). No language change, no rate change. One dovish dissent as before – but now three hawkish dissents over the word "additional."
- *Stop and let that sink in…*
- *Oil at that point had almost doubled. But macro data, admittedly lagging, was ever so slightly more hawkish. But policy was unchanged, except for three regional presidents bickering about a single word. Yet markets have insistently implied through the money market curve that there will be one rate hike this year, with the FOMC having set the most recent "dot plot" – with pretty much the same, or worse, information as we have today – saying there would be a rate cut this year. We relied successfully on the oil futures curve. We do not rely on the money market curve in this case. Indeed, we think the implied forecast of one rate hike this year is simply ridiculous, and deserves a big contrarian bet.*
- *Now we head into Wednesday's June FOMC. Brent crude, as of this writing, is $83.41, down 29% from the prior meeting*. That's the good news. Macro data available to the Fed shows PCE inflation at

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3.8% (up 0.9% from the prior meeting) and core at 3.3% (up 0.3%) from the prior meeting. Unemployment is at 4.3% (down 0.1%). That's the bad news. *But the bad news is deeply lagging, with the PCE inflation data from May, while the oil price is right here and right now.*

- Of course there will be no rate hike Wednesday. But why even change the statement language to take out the purported easing bias embodied in the single word "additional" just to please three dissident regional presidents? *Let them dissent again if they must, just in case they are unaware of today's oil price.*
- *And why should the median "dot plots" change? At this point the oil price is only two dollars higher than where we said it would be this year anyway. If it weren't for a war – a Trump war!! – no one would even be commenting on it.*
- *As to the dots, to meet the market's expectations for a hike this year, it would take a wholesale exodus to the hawkish side of seven participants favoring no change in March and twelve favoring some degree of cut. With that starting point, and with oil prices 23% lower, we think it's a heavy lift to even see the dots move enough to shift the median to unchanged.*
- *But last week's ECB showed us just how stupid and blind a central bank can be. Hopefully Chair Warsh will be a corrective influence.*
- *Two weeks ago it seemed that Warsh's first FOMC would be a hornet's nest of conflicting views from which he would find it hard escape with his mantle of leadership intact* (see "On the May Jobs Report: A Pressure Cooker for Warsh" June 6, 2026). *Lower oil prices lower the stakes, and take the pressure off. They allow Warsh to make a much more auspicious debut that can set the tone successfully for what should be a brilliant chairmanship.*

Bottom line

With an emerging peace deal with Iran, oil prices have fallen below even the optimistic projections of the futures curve in early March when hostilities began. In the fog of war, we were right to rely on market signals, despite hysterical worries about "World War III" and "an energy shock worse than all the others combined." We now reiterate our original price range for 2026 at $60 to $80, with high volatility as global oil stocks get rebalanced, and potentially a risk premium while war uncertainties resolve. Massive upgrades in the S&P 500 energy sector made it the best performer year-to-date. These upgrades were likely conditioned on the futures curve, so there may be no need for downgrades now – but it's hard to see where upgrades could come from. The FOMC meets Wednesday with Brent crude 27% lower than at the prior meeting. Lagging macro data shows rising inflation. We see no reason to bow to the dissidents and change the statement language about "additional" policy moves. The March "dot plots" indicated one rate cut without a single participant calling for a hike. It would take a large migration of dots to even indicate no change, and a wholesale exodus to indicate a hike. Yet the money market curve continues to expect a hike this year. We completely rule that out, and believe it deserves a large contrarian bet. Lower oil prices lower the stakes for Warsh's debut, and set him up for a successful term.