



The Tatton Weekly

A potential return to normal

10 April 2026

This week's topics:

Brief relief

Pax Silica – AI's NATO

Trump's budget throws caution to the wind

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New mission plan, Peter Schrank, 8 April 2026

Brief relief

Markets burst upwards on Wednesday, as the US pulled back from the precipice and announced a ceasefire with Iran. Oil prices dropped over 15% while bonds and stock prices rallied on the hope that global supply chains might quickly return to normal.

That optimism came under pressure through the rest of the week. The Strait of Hormuz remains effectively closed, while Israel places President Trump in a difficult position by continuing the attacks on Lebanon, incensing the Iranian leadership. However, although bond yields have risen slightly from the lows, equities have continued to rise and the US Dollar has fallen back against most currencies.

One cannot know definitively if this is the beginning of a lasting peace, what happens next, or the extent of the damage already done to supply chains. Markets see that we are in a better position than last week nonetheless. With analysts' expectations of company earnings growth improving all the while, that is a fair assessment.

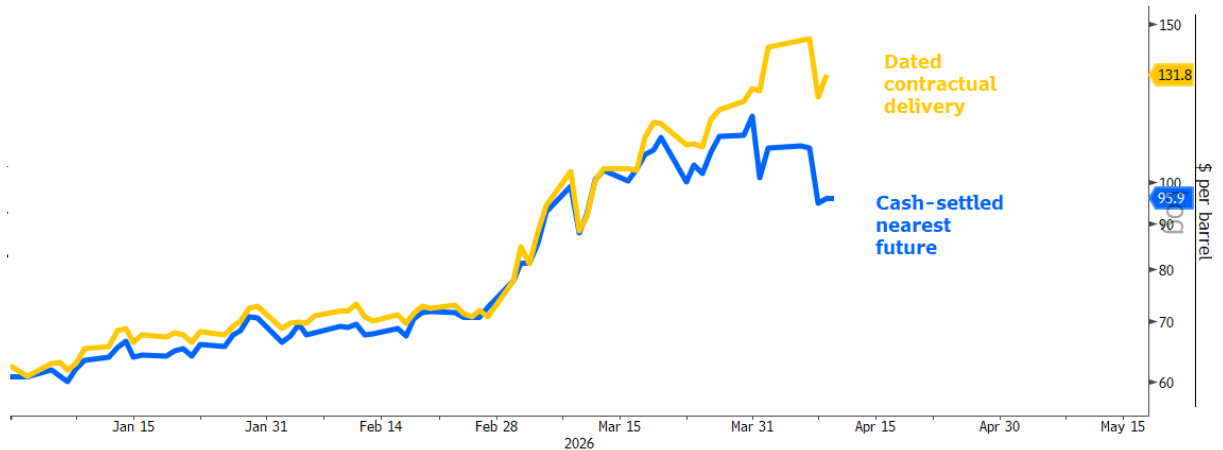
Ceasefire, what ceasefire?

According to the FT, fewer ships are passing through the Strait of Hormuz than before the ceasefire – a ceasefire Iran says has been violated by Israel’s strikes on Lebanon. Netanyahu’s offer of negotiations with Lebanon is still not an offer of a ceasefire. Trump, meanwhile, says the US military will remain close to Iran until they comply with “the real agreement reached”, and is demanding that NATO allies help police the Strait. Neither side can agree on what it was they agreed on, as US Vice President Vance seemed to admit himself.

Vance’s comments on the US and Iran’s “legitimate misunderstanding” and Israel’s limited offer “to check themselves a little bit” point to a growing split between the US and Israel. Either the US will pressure Israel to meaningfully halt its Lebanese assault, or the Straits will remain closed.

Markets might therefore be too optimistic. There is a disconnect between the relief in oil and equity markets, and the scramble for resources we see in the real economy. This is clearest in the difference between current oil prices and so-called spot dated price – which guarantee future oil delivery, a little different to a standard futures contract. The chart below shows spot dated oil price for June delivery is nearly 40% above the current near-contract futures prices, reflecting an extreme supply crunch in the next few weeks:

Brent crude oil: dated versus futures
 Nearest cash-settled future and spot contractual physical delivery



Source: Tatton IM, Bloomberg: G2545
 .CO1 Comdty (Generic 1st 'CO' Future) Crude oil brent fut dtd Daily 31DEC2025-15MAY2026 Copyright© 2026 Bloomberg Finance L.P. 10-Apr-2026 12:41:23

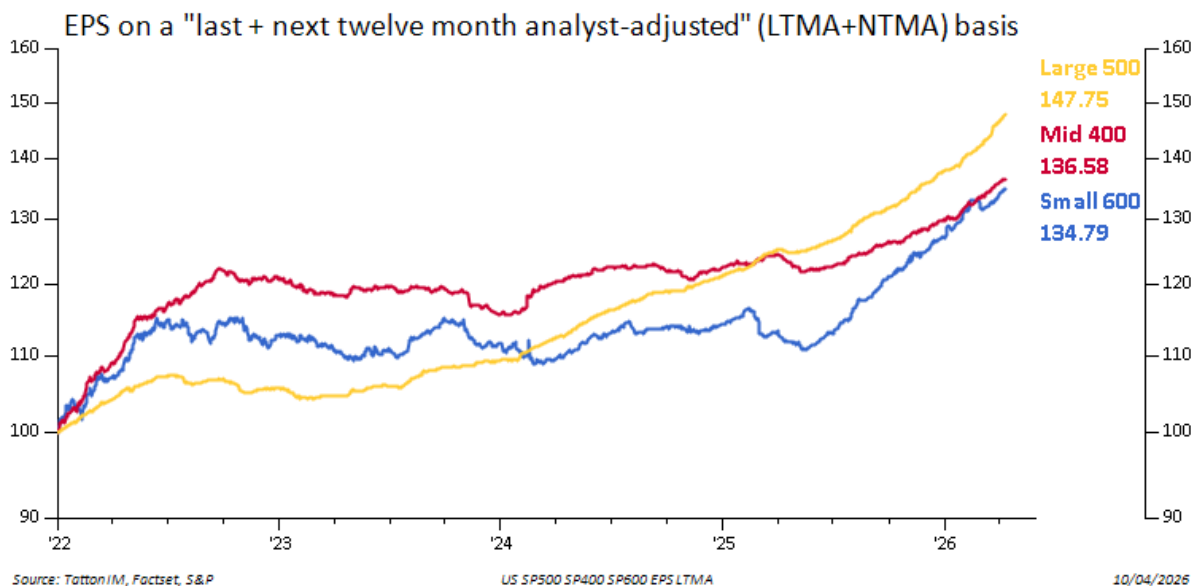
Even if the ceasefire holds, shipping traffic will take weeks to stabilise and limited global fertiliser supplies will have knock-on effects on food prices. Infrastructure repairs will constrain global supply chains, potentially for years. All of that points to greater inflation pressures than markets seem to realise.

Markets aren't feeling the risks because fundamentals are so strong

You could argue that markets have been optimistic all throughout the war. March was bad for equity returns, but we never went into full bearish territory. Credit spreads (the difference between government and corporate bond yields) widened only slightly, and have already come down, showing no sign of systemic credit stress. Speculative investors sold plenty of stocks, but there was little sign of long-term 'real money' liquidating their holdings.

That is understandable when you look at the health of the US economy, where most of the world's largest stocks derive most of their revenue. US citizens are angry about fuel prices and there are signs of slowing 'real' spending, but there is no sign of stress in the labour market data. Going into the Q1 corporate earnings season, earnings growth expectations are high. There not much evidence that companies have been hit by the war. On the contrary, growth has accelerated across small, mid and large cap companies. The chart below shows US equity indices' earnings per share, on our favoured metric (combined last twelve month and expected next twelve month earnings, all indexed to the start of 2022):

S&P US 500, 400 & 600



That has helped equity price-to-earnings valuations. US stocks are currently where they were last October, but earnings growth has powered ahead. Previously, for international investors, this earnings strength was counteracted by the weakness of the dollar. But now that the dollar has strengthened, from a valuation point of view US stocks look very attractive.

Bearish or bullish on bonds is the big question

US stocks look like good value, but that is somewhat offset by higher long-term government bond yields (higher 'risk free' bond returns make equities less attractive by comparison). Yields have not

come down as much as you might expect this week, given the strength of other assets. The danger, for the US, is that both short-term interest rates and long-term bond yields stay high – not because of a global supply shock, but because of the strength of the economy. Coupled with Trump's clear desire to borrow more (covered in a separate article), that is a concern for US treasury bonds.

In fact, the push for extra defence spending could mean fiscal indiscipline everywhere. The UK has tried to maintain greater fiscal discipline (compared to the US) through the Chancellor's fiscal rules, but these will be tested by next month's local elections, which Labour are expected to lose heavily. Regardless of whether Starmer and Rachel Reeves keep their jobs, there will be pressure to change or abandon the fiscal rules.

That is not to say that yields will not come down if and when Middle Eastern tensions fade – just that falling yields are not a given. What happens to bonds will have knock-on effect on how markets deal with their previous anxieties: AI disruption and private credit woes. Given Trump's predilection for weekend drama, we go into this weekend as worried as usual. Hopefully, that drama is building to a happy ending and, with any luck, we will be back to worrying about the old themes by May.

Pax Silica – AI's NATO

No one is quite sure how committed the US is to its established international alliances these days. And yet, despite Donald Trump's threats to pull out of NATO, his administration is spearheading a new strategic alliance that it hopes will become central to US policy for decades to come.

Pax Silica is an initiative launched by the US state department last December, designed to secure AI and semiconductor supply chains. The obvious subtext to this is Washington wanting to secure its supply chains *against China*. The US might not succeed in that aim but, regardless, Pax Silica will likely become key to western trade and technology.

NATO for AI

The US State Department held its inaugural Pax Silica summit in Washington last December, grouping the original signatories under an AI supply-chain umbrella: the US, Greece, Australia, Japan, South Korea, the UK, Singapore and Israel. More nations have joined since, including the Netherlands, Qatar, the UAE, Sweden (most recently) and India (most notably). Canada and Taiwan have participated in summits and been invited to join the group but have not officially signed on (Taiwan is not internationally recognised as a country so is 'non-signatory participant').

Pax Silica is supposed to entrench supply chains covering everything from mining and refining of materials, to microchip production and AI infrastructure. The plan took shape after China increased export controls on five rare earth metals in October 2025 – in addition to seven Beijing tightened access to in April 2025. It was the latest in a series of tit-for-tat escalations between the US and China, but it laid bare a major American vulnerability.

This is not just about Chinese production itself. Beijing has been building its Belt and Road Initiative (BRI) of global investment, development and cooperation since 2013. Around 150 countries have signed BRI agreements with China over the years, and those have helped China achieve a dominant position in reserves and production of critical rare earth minerals.































Pax Silica is a response to China’s technological rise. It is an economic NATO of sorts – despite Trump’s misgivings about the actual NATO. And while the President would never admit it, Pax Silica also builds upon former President Biden’s CHIPS Act, which encouraged US semiconductor manufacturing with tax benefits and loans. That was a key motivation for Taiwanese giant TSMC building a “gigafab” plant in Arizona.

The US is playing catch-up

If Pax Silica is Washington’s plan to counter China, they are playing catch-up. Not only does China dominate rare earth mining, but ASPI’s Critical Technology Tracker puts China ahead of the US in five out of six key areas of AI development.

China has a lead in Artificial Intelligence research

ASPI Critical Technology Tracker – Ranked by Artificial Intelligence Research

	1st	2nd	3rd	4th	5th
Advanced data analytics					
AI algorithms					
Machine learning					
Advanced integrated circuit design					
Adversarial AI					
Natural language processing					

Source: ASPI – Australian Strategic Policy Institute – ASPI Critical Technology Tracker. Covers critical technologies in the fields of AI, Advanced Materials, Biotech, Cyber Defence, Energy, the Environment, Robotics & Quantum Computing. September 2025

One of key areas that China does not lead, by most metrics, is chip design and manufacturing. That is why the fate of Taiwan and TSMC is so important. Washington’s desire to include Taiwan in Pax Silica is understandable, but including an island off the coast of China – that Beijing has been striving to take over for the better part of a century – is perhaps not the best way to ‘China-proof’ your supply chains.

TSMC's plant in Arizona is scheduled to start producing cutting-edge chips from next year, but the Taiwanese government has a strong incentive to delay that. If high-tech production shifts to the US, Taiwan's so-called 'silicon shield' against invasion disintegrates.

Even if all goes smoothly in Arizona, securing supply chains is an uphill battle for Washington. China produced 98% of the world's low-purity gallium in 2024. No amount of good planning with allies can get around the fact that the physical minerals are in the Chinese ground.

Who benefits from Pax Silica?

You could argue Pax Silica is too little, too late from a US perspective – though we will not know if that is true for many years. But even if it is too late to stop China pulling ahead in the AI race, securing supply chains for what many expect to be the defining technology of the 21st century is clearly a sensible move from Washington. Forward thinking alliance building stands in contrast to Trump's scorched earth policies in other areas. It shows that important matters of state carry on, regardless of the noise coming from the top.

India joining Pax Silica is particularly interesting. There is no love lost between India and China, but the world's fourth largest economy still straddles the BRICS alliance and has never been keen to throw its lot in with the west. The US welcoming India with open arms is also quite the turnaround from the Biden administration, during which Indian access to AI chips was restricted.

Is Pax Silica good for the rest of the group? Trump's second term has made it clear to many, particularly in Europe, that reliance on the US is a double-edged sword. The benefits of a secure supply chain for cutting-edge tech are clear, but relying on the US for vital tech could prove a vulnerability in the future. The risk of a US president pulling out of Pax Silica, somewhere down the line, might make others reluctant to go along with it whole-heartedly.

Trump's budget throws caution to the wind

Last Friday, President Trump released his plans for the 2027 fiscal year US budget. The budget request includes a massive increase in defence spending and extensive cuts to other federal spending programs. The end result is another expansion of the US budget deficit. This is very much an outline from the White House, and the final outcome could look very different, but it is an important signal of priorities, nonetheless. If Trump is allowed to follow through on his plans, that poses a risk to the all-important US treasury bond market.

"All guns, no butter"

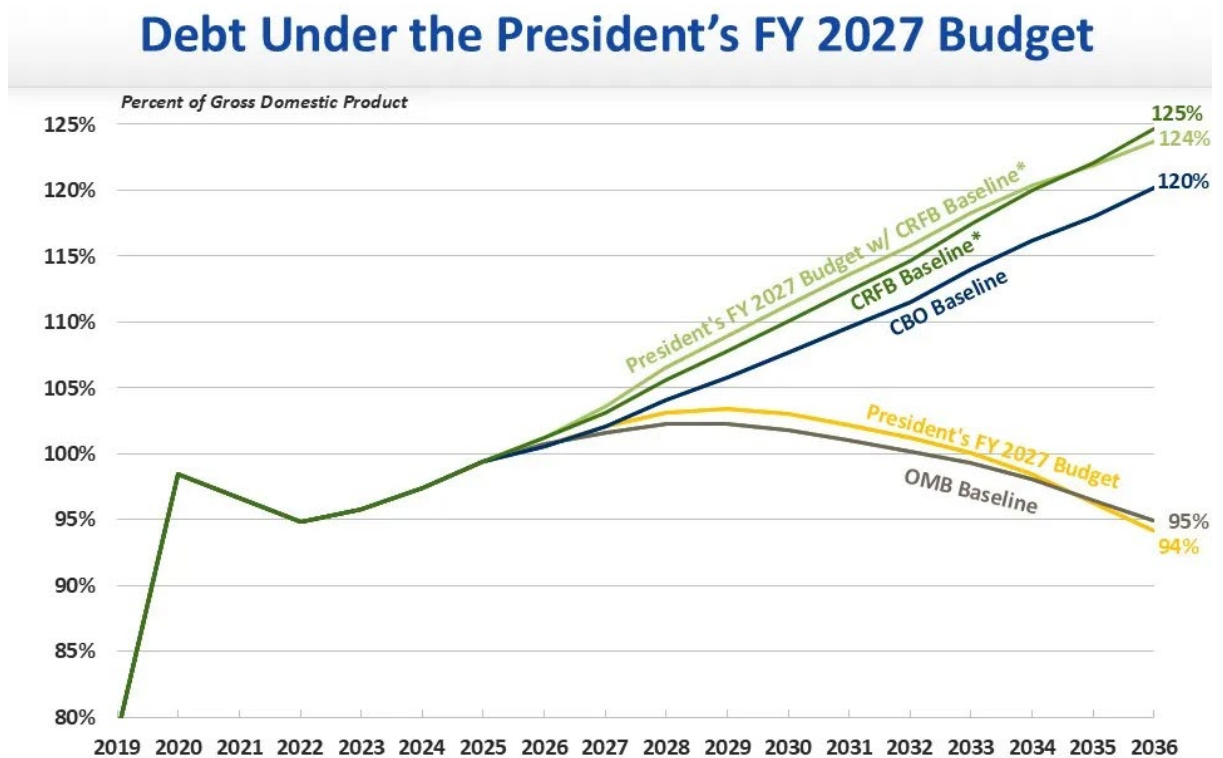
The president's budget proposes a \$1.5 trillion US defence budget for the 2027 fiscal year, an incredible 42% increase on 2026. The surge in defence spending is to be partially offset by a 10% cut in non-defence discretionary funding. That amounts to about \$73bn trimmed from the federal budget, with the Small Business Administration (67.2% cut), National Science Foundation (54.7%

cut) and the Environmental Protection Agency (52.4% cut) being the worst hit. Axios summarised Trump’s plans as “all guns, no butter”.

It does not take a mathematician to work out that \$73bn in savings does not outweigh roughly \$500bn in extra defence spending. And yet, the White House proposals imply (according to projections based on them from the Committee for a Responsible Federal Budget) a reduction in US national debt-to-GDP by 2036. That is down to the administration’s growth assumptions: 3.5% this year, 3.1% from 2027 to 2029, and 3% annually over the next decade.

The Trump administration’s growth projections are in line with Treasury Secretary Bessent’s "3-3-3" plan, formulated in the days before his appointment: 3% growth 3% budget deficit, an extra 3 billion barrels of oil per day. Not many others think this is realistic.

The Congressional Budget Office (CBO) estimate a long-run US growth rate of 1.8% over the next 10 years, while the Federal Reserve predict growth just under 2%. Under those scenarios, US debt-to-GDP will climb to over 120%, from the current 100% by 2036.



Source: Office of Management and Budget, Congressional Budget Office, CRFB estimates.
 Note: President’s FY 27 Budget projections are made extrapolating data from OMB’s Analytical Perspective tables. [CRFB.org](https://www.crfb.org)
 *CRFB Baseline assumes CBO economic projections and recent tariff policies.



A budget that strains credulity – and may strain the Republican party

US budgets are proposed, amended and passed by Congress so the Presidential budgets are a precursor statement of intent rather than a specific policy roadmap. However last year's lack of clarity from the administration was a factor in the failure to agree on the 2026 budget. This led to a lengthy government shutdown last November, and another shorter shutdown in February this year. There is even less clarity for this year's process. If the 2027 budget is similarly held up, president Trump's plans will come up against a likely Democrat-controlled House of Representatives after the midterm elections.

The White House's growth assumptions are basically a fantasy. The CBO and the Fed both expect growth below 2% this year, due to a shrinking labour force from Trump's anti-immigration and deportation policies. Historically, periods of sustained high growth have almost always been associated with population growth, such as in the baby boom era after the second world war.

The statement of intent is interesting nonetheless, showing Trump's disregard for fiscal restraint. If the president was ever committed to DOGE-era deficit-squashing, he certainly is not now. Unlike past presidential budget plans, this one came without any mention of debt and deficit projections.

Historically, the Republican party has been harshly critical of any deficit spending (particularly during the Tea Party objections to President Obama) but they have given Trump free passes in both of his terms. That pass may be running out, though. Trump is an unpopular president going into his last years in office (his last constitutionally permitted years, at least). The President of the day's party influence typically wanes in these periods, as lawmakers start thinking more about what comes next. The cracks are already appearing among Republicans over the Iran war. We expect more Republicans to challenge Trump over the deficit in the years ahead.

US bonds at risk

Higher deficits mean a greater supply of government bonds, leading to lower bond prices and, inversely, higher yields. However, the president's budget did not move the 10-year US treasury yield at all. Instead, yields fell sharply this week on the announcement of a two-week ceasefire in Iran – pushing down oil prices and longer-term inflation expectations.

That tells us that the bond market does not attach much importance to Trump's budget plan. Perhaps traders think the budget will be halted or diluted, probably for the reasons we have suggested. If that is right, though, we should expect a budget battle later this year, with plenty of incendiary Truth Social posts. That itself will not help US markets.

One of the strangest part of Trump's budget proposal is that it projects 10-year US treasury yields falling to 3.5% in 2027, and even lower after that. That is a "strong" assumption, especially given the budget's own growth projections. If growth accelerates as sharply as the White House suggests it will, that should result in higher bond yields (reflecting the risk-free rate of expansion), not lower.

All of that is to say, US bonds could be at risk in the year ahead. Bond traders are typically more lenient toward US indiscipline than other nations, but that patience will be tested if Trump expands an already stretched deficit. The market opinion seems to be that Trumpian fiscal expansion will be halted, and they might well be right. But the fact that the bond risk component has not reacted at all, on our measure, suggests overconfidence.

Global Equity Markets	10-Apr			Technical	Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10618	+2.3	+2.3	→ →	3.0	15.4	13.5	12.8
UK FTSE 250	22390	+4.1	+4.1	↘ →	4.0	11.0	11.5	13.4
UK FTSE All-Share	5674	+2.5	+2.5	→ →	3.1	14.9	13.3	12.7
FTSE Small x Inv_Tsts	6244	+4.5	+4.5	↘ →	4.4	22.0	9.8	10.0
EU STOXX ex UK	782	+4.6	+4.4	↘ →	2.9	17.8	15.8	15.1
France CAC 40	8284	+4.8	+4.6	↘ →	3.2	17.7	15.3	14.1
Germany DAX 40	23948	+4.6	+4.4	↘ ↘	2.5	17.6	15.1	13.3
US S&P 500	6833	+4.8	+2.7	↘ →	1.2	24.6	20.2	19.0
US NASDAQ comp	22944	+6.3	+4.2	↘ ↘	0.6	33.3	23.8	26.1
Japan Nikkei 225	56924	+8.5	+6.6	→ ↗	1.4	23.3	22.4	18.6
World Bloomberg	2400	+5.1	+3.1	↘ →	1.7	21.6	17.7	16.6
China Bloomberg	1328	+3.5	+1.6	↘ ↘	2.2	14.8	12.6	12.5
Emerging Bloomberg	1671	+7.4	+5.3	→ →	2.2	17.4	12.4	12.5

FTSE100 Top 6		S&P Global Top 6 (GBP terms)		Global Sectors (GBP terms)			
Company	%	Company	%	Sector	%	Sector	%
Lion Finance	+10.9	Intel	+21.0	Tech	+3.8	Staples	-0.6
Standard Chartered	+9.5	Delta Electronics	+20.0	Financials	+1.9	Energy	-4.3
Berkeley	+9.4	Fujikura	+20.0	Health	-0.7	Materials	+2.9
Kingfisher	+9.2	Monolithic Power Systems	+19.7	Discretionary	+3.4	Utilities	+0.3
Airtel Africa	+8.9	Sandisk DE	+19.0	Industrials	+3.6	Real_Estate	+1.3
Antofagasta	+8.6	Ibiden	+18.5	Communicati	+2.9		

FTSE 100 Bottom 6		S&P Global Bottom 6 (GBP terms)		Fixed Income		
Company	%	Company (GBP terms)	%	Govt bond	%Yield	1 wk chg
Compass	-7.2	Intuit	-17.7	UK 5yr Gilt	4.35	-0.03
Entain	-6.9	Workday	-17.2	UK 10yr Gilt	4.83	+0.00
Centrica	-4.2	ServiceNow	-17.1	UK 15yr Gilt	5.23	+0.03
Shell	-4.0	Palantir Technologies	-16.7	US 10yr Treasury	4.31	-0.04
BP	-3.4	Axon Enterprise	-16.1	France 10yr OAT	3.70	+0.02
BAE Systems	-3.1	Datadog	-14.0	Germany 10yr Bund	3.05	+0.06
				Japan 10yr JGB	2.43	+0.05

Currencies			Commodities			UK Mortgage Rate Estimates		
Pair	last	%1W	Cmdty	last	%1W	Rates (LTV c.75%, no fee)	10-Apr	11-Mar
USD per GBP	1.347	+2.0	Oil Brent \$:bl	95.97	-12.0	UK BoE base rate	3.75	3.75
GBP per EUR	0.871	-0.2	Gold \$:oz	4773	+2.1	2yr fixed	5.00	3.97
USD per EUR	1.173	+1.8	Silver \$:oz	76.17	+4.3	3yr fixed	5.06	3.94
JPY per USD	159.18	-0.3	Copper \$:lb	588.5	+5.4	5yr fixed	4.88	4.01
CNY per USD	6.825	-0.9	Alumnm \$:mt	3475	-1.8	10yr fixed	5.34	4.48
USD per Bitcoin	72,312	+7.9	Agriculture BBG	55.67	-1.5	Standard variable	6.59	6.59

Where possible, prices taken levels at 14:30 today and 14:45 Thursday 2nd April. Mortgage estimates from moneyfacts.co.uk
 LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Please note: Data used within the Personal Finance Compass is sourced from Bloomberg/FactSet and is only valid for the publication date of this document. The value of your investments can go down as well as up and you may get back less than you originally invested.

Lothar Mentel

