

## The Kohn Solution For An Uncertain Fed

Dario Perkins of TS Lombard wrote a piece titled *How to Respond to Oil Shocks*. His analysis draws on the Fed's history to address how it should respond to today's oil shock. While researching Fed transcripts from the 1990 Gulf War, he discovered a proposal by Don Kohn, senior Fed staffer, that offers a solution to the central bank's oil shock problem: nominal GDP targeting.

Kohn's logic is straightforward and makes sense in the current environment where the Fed is contemplating monetary policy as oil prices spike, simultaneously boosting inflation and reducing economic growth. Per Kohn, if those two forces balance out, the Fed should hold rates steady. But if one dominates, the Fed should respond: *hike if nominal GDP growth rises* and *cut if nominal GDP growth falls*. In other words, a demand shock calls for higher rates, while a supply-side shock calls for lower rates. Historically, as he shares in the table below, nominal GDP almost always falls after a supply-driven oil shock. Today's spike, driven by the Iranian conflict and *the Iranian weaponization of the Strait of Hormuz*, is unambiguously a supply shock. By the Kohn framework, the Fed should be cutting the Fed Funds rate, not considering hiking it.

The current counterargument is the high-inflation era of the 1970s, when central banks were allegedly too dovish on inflation and allowed inflation expectations to spiral out of control. Perkins dismisses this comparison directly. To wit:

*The 1973-74 recession was one of the worst in history and in terms of its impact on unemployment, it was only slightly better than the GFC.*

Importantly, he notes that the 1970s featured widespread union membership and inflation-indexed wage contracts that caused wages to *accelerate even as the economy sank*. That wage-price spiral is nonexistent today. Thus, the inflationary danger of easing into an oil shock is considerably lower than the popular 1970s narrative suggests. His conclusion:

*Central banks don't need to hike today. In fact, if they follow the advice of Don Kohn, they will probably need to ease policy.*

**Table 1: Previous oil-price shocks**

Year	Cause	nature	Nominal GDP growth
1973	War	Supply	Down
1978	War	Supply	Down
1987	Rebound in 1986 crash	Mostly demand	Up
1990	War	Supply	Down
1999	Rebound from Asia crisis	Demand	Up
2005	China/India boom	Demand	Steady
2008	Oil bubble	Supply	Down
2021	Re-opening bounce	Demand	Up
2022	War	Supply	Down

Source: TS Lombard

## What To Watch Today

### Earnings

Wednesday Apr 1	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Conagra Foods <small>CAG.US</small>	0.40	0.51		2.76B	2.84B		\$7.44B	Q3	PM
Lamb Weston Holdings <small>LWUE</small>	0.63	1.10		1.5B	1.52B		\$5.84B	Q3	PM
UniFirst <small>UNF.US</small>	1.21	1.40		614.91M	602.22M		\$4.97B	Q2	PM
MSC Industrial Direct <small>MSM.US</small>	0.84	0.72		931.56M	891.7M		\$4.87B	Q2	PM
Cal-Maine Foods <small>CALM.US</small>	1.89	10.38		822.36M	1.42B		\$3.7B	Q3	PM
Restoration Hardware <small>RH.US</small>	3.79	1.58		896.27M	812.4M		\$2.45B	Q4	PM
Neogen <small>NEOG.US</small>	0.06	0.10		204.49M	221M		\$1.86B	Q3	PM

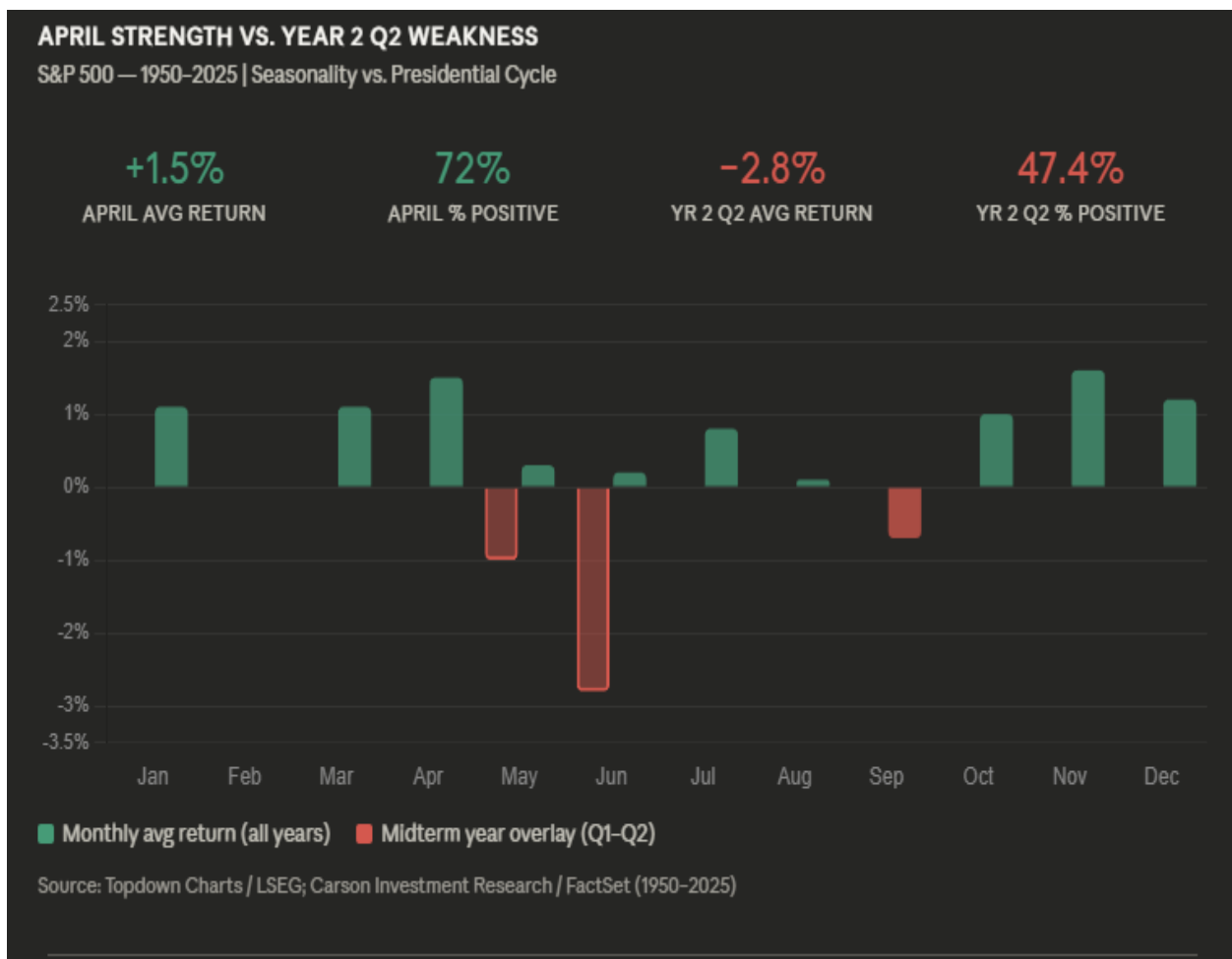
### Economy

Wednesday April 01 2026			Actual	Previous	Consensus	Forecast		
06:00 AM	US	MBA 30-Year Mortgage Rate MAR/27						
06:00 AM	US	MBA Mortgage Applications MAR/27						
06:00 AM	US	MBA Mortgage Market Index MAR/27						
06:00 AM	US	MBA Mortgage Refinance Index MAR/27						
06:00 AM	US	MBA Purchase Index MAR/27						
07:15 AM	US	ADP Employment Change MAR		63K		80K		
07:30 AM	US	Retail Sales MoM FEB		-0.2%				
07:30 AM	US	Retail Sales Control Group MoM FEB		0.3%				
07:30 AM	US	Retail Sales Ex Autos MoM FEB		0%				
07:30 AM	US	Retail Sales Ex Gas/Autos MoM FEB		0.3%				
07:30 AM	US	Retail Sales YoY FEB		3.2%				
08:05 AM	US	Fed Musalem Speech						
08:20 AM	US	NY Fed Bill Purchases 1 to 4 months			\$8.071 billion			
08:45 AM	US	S&P Global Manufacturing PMI Final MAR		51.6	52.4	52.4		
09:00 AM	US	ISM Manufacturing PMI MAR		52.4		49		
09:00 AM	US	Business Inventories MoM JAN		0.1%				
09:00 AM	US	ISM Manufacturing Employment MAR		48.8				
09:00 AM	US	ISM Manufacturing New Orders MAR		55.8				
09:00 AM	US	ISM Manufacturing Prices MAR		70.5				
09:00 AM	US	Retail Inventories Ex Autos MoM JAN		0.4%				

## Market Trading Update

Yesterday, we discussed that the market has been negative for 5 consecutive weeks, which supports at least a short-term reflexive rally. Another issue is that we have started the 2nd quarter, which brings a focus to both quarter earnings and the resumption of corporate share buybacks.

April is the best month of the year for the stock market. Since 1964, the S&P 500 has posted an average gain of 1.5% in April, with positive returns in 72% of all occurrences, the highest hit rate of any calendar month. The numbers aren't even close. November comes in second with an average return of 1.6%, but lags meaningfully on consistency, and every other month trails April on at least one of the two metrics.



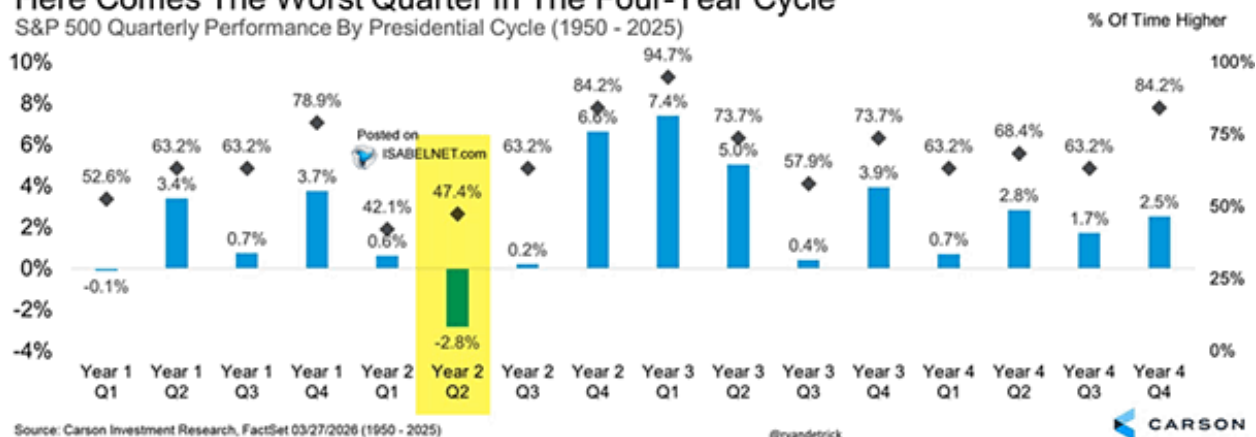
The driver behind this seasonal strength isn't complicated. April is the heart of Q1 earnings season, and the combination of fresh corporate guidance, tax refund dollars flowing into retail brokerage accounts, and institutional rebalancing after a quarter-end window creates consistent buying pressure. Add the fact that April sits inside the historically strong November through April seasonal window, and you get a month that has repeatedly rewarded bulls.

Here's the problem in 2026.

We're in Year 2 of the presidential cycle, and Q2 of Year 2 is the worst quarter in the entire four-year rotation. According to Carson Investment Research's FactSet data going back to 1950, the second quarter of the second year of the Presidential cycle has produced an average negative S&P 500 return of -2.8%. Furthermore, the index finishes higher only 47% of the time.

## Here Comes The Worst Quarter In The Four-Year Cycle

S&P 500 Quarterly Performance By Presidential Cycle (1950 - 2025)



The average intra-year drawdown during midterm election years has been 18%, driven primarily by policy uncertainty as investors question whether the president will retain enough congressional support to sustain the legislative agenda. Uncertainty is always the market's enemy, and midterm cycles tend to front-load that pain into Q1 and Q2 before the fog lifts post-election. Since 1970, June has averaged nearly a 2% decline in midterm years, well below historical norms, suggesting the weakness doesn't end when April ends.

The bull case is that these cycles resolve. The average one-year forward return following the midterm-year drawdown low is 36.4%, and Q4 of midterm years has historically been the single strongest quarter of the entire four-year cycle. History rewards patience here, but that reward only comes to investors who survive Q2 without abandoning their positioning into the trough.

April's seasonal tailwind is real. The midterm cycle headwind is equally real. Don't let one cancel out the other in your thinking. Right now, the weight of the evidence favors the defense over the offense, so continue trading cautiously. However, this will eventually resolve, and we need to be in a position to increase exposure accordingly.

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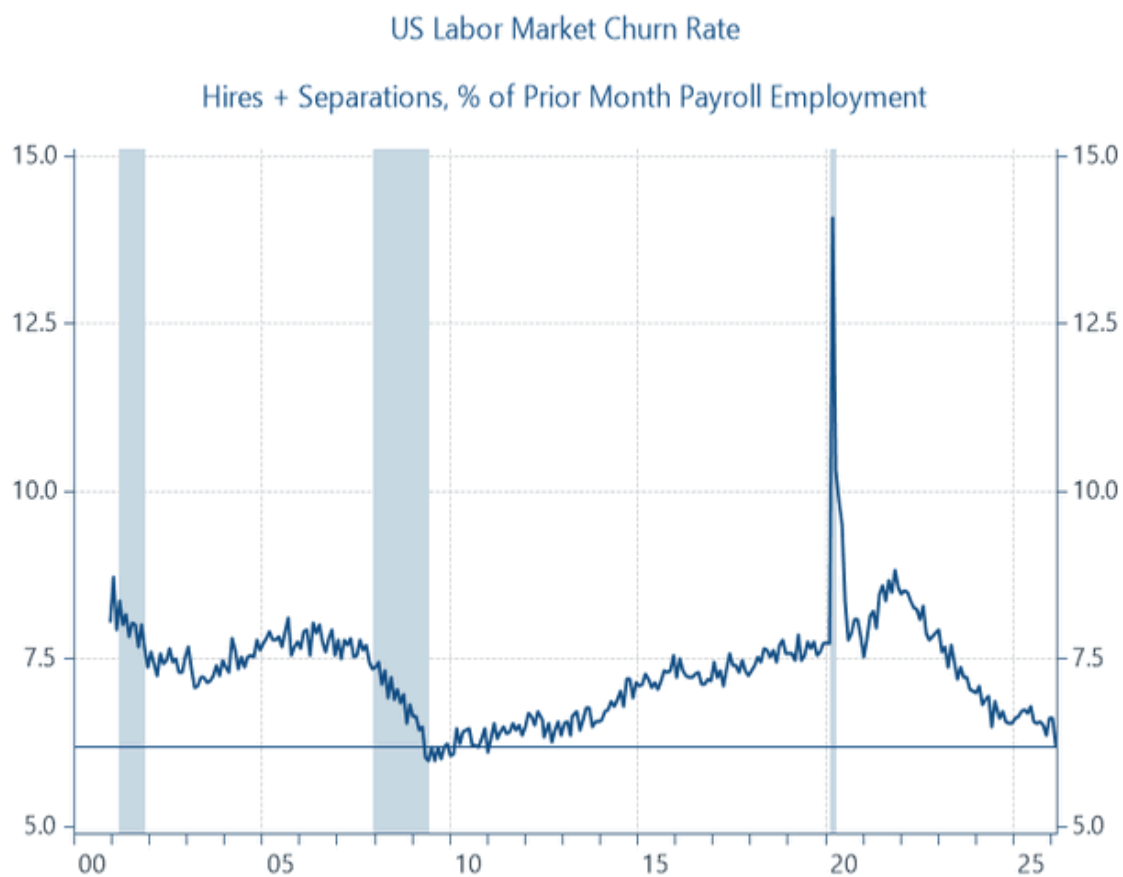
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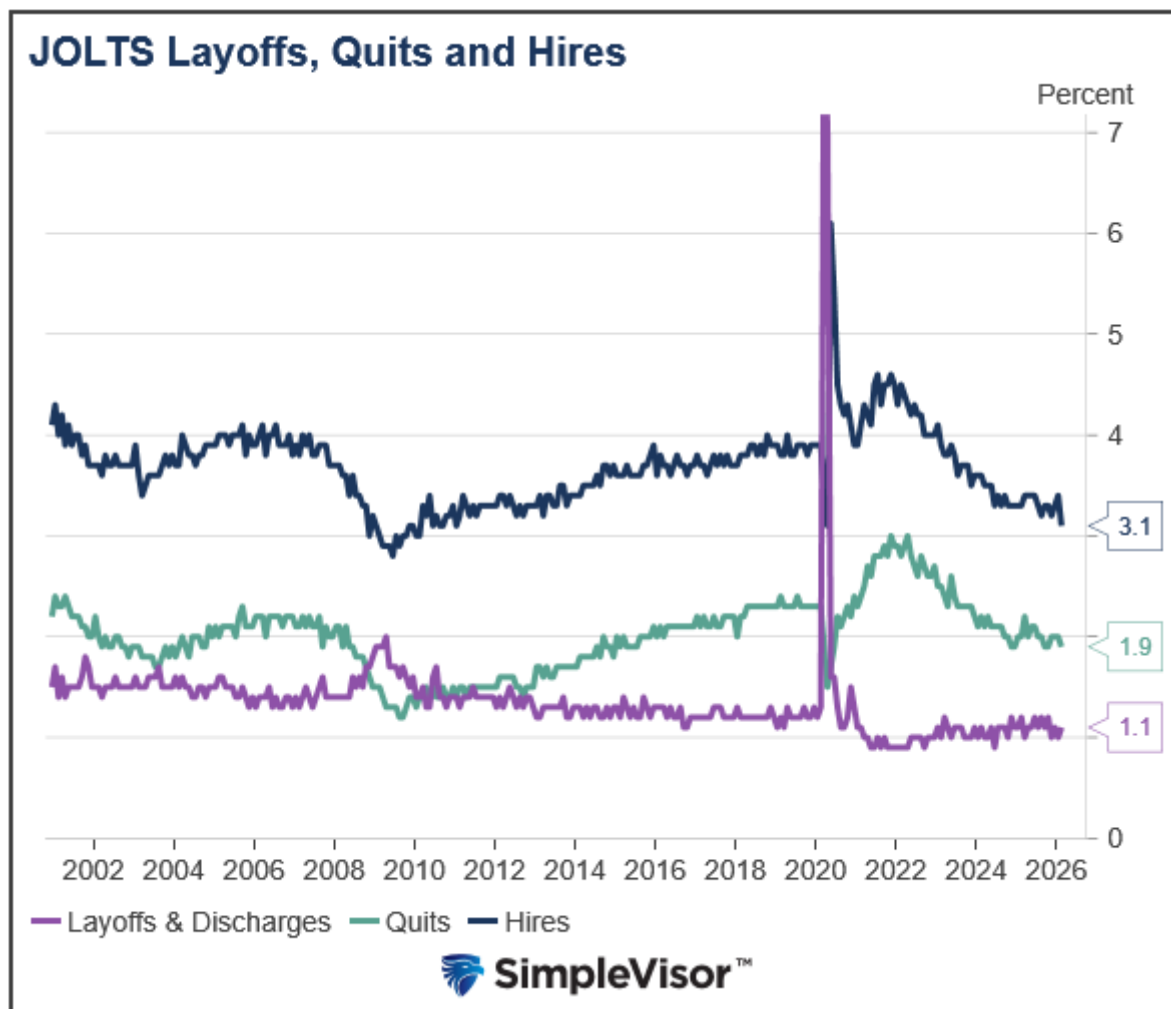
## JOLTS? Employment Update

The JOLTS data once again confirmed that the labor market is in a low-hire, low-fire environment. The first graph below, courtesy of Ernie Tedeschi, shows that the labor market churn rate is near the worst since 2000. The data also confirm that labor market trends continue to weaken gradually. The headline figure for the number of job openings is 6.882 million. This is a decrease of 360,000 from the previous month's 7.240 million. However, it has been rangebound over the past few months. The job openings rate fell from 4.4% to 4.2%. The hiring rate of 3.1% is the lowest since April 2020, when COVID-19 lockdowns shuttered the economy.

Many consider the quits rate a barometer of the labor market. When workers voluntarily leave their jobs, it's a sign of confidence that they can find better conditions, and it serves as a leading indicator of wage inflation. Conversely, when they stay in their jobs, it reveals a lack of confidence in their ability to find a new, higher-paying job. The quit rate in February was 1.9%.



Source: @ernietedeschi analysis/Haver Analytics



## Higher Oil Prices Impact Consumers

The fear-mongering over whether the Iran conflict will trigger a decade-long 1970s-style inflation wave is all over social media. As we led, the real threat is not prolonged inflation but weaker economic growth. To wit, consider that the average American household spends approximately \$3,000 to \$4,000 annually on gasoline. At \$100 per barrel, that figure rises by \$1,200 to \$2,700 per household relative to a \$70-per-barrel baseline. Then take into account higher utility bills, elevated food prices driven by fertilizer and transportation costs, and the broader pass-through of energy costs into many goods and services consumers buy. Many consumers will be forced to reduce spending on other goods and services such as retail outlets, restaurants, cars, or entertainment venues.

With a mere 0.7% growth in the fourth quarter, the economy and consumer were already showing signs of fatigue before the Iran conflict began. Credit card delinquencies had been rising, savings rates had declined from their post-pandemic highs, and high-income consumer spending (the cohort that drives a disproportionate share of discretionary economic activity) was beginning to soften. As we share below, consumers are saving at rates lower than at any time in the last ten years, except during the volatile 2020-2022 post-pandemic period.

Oil-driven price increases hitting an already stretched consumer are a meaningful headwind for corporate earnings in consumer-facing sectors and the companies that service them. Investors focused on the macro debate over yields and Fed policy may be underestimating the more direct and immediate impact that higher energy costs will have on the American consumer.

# United States, Income Approach, Total, Personal Saving Rate, SA, AR



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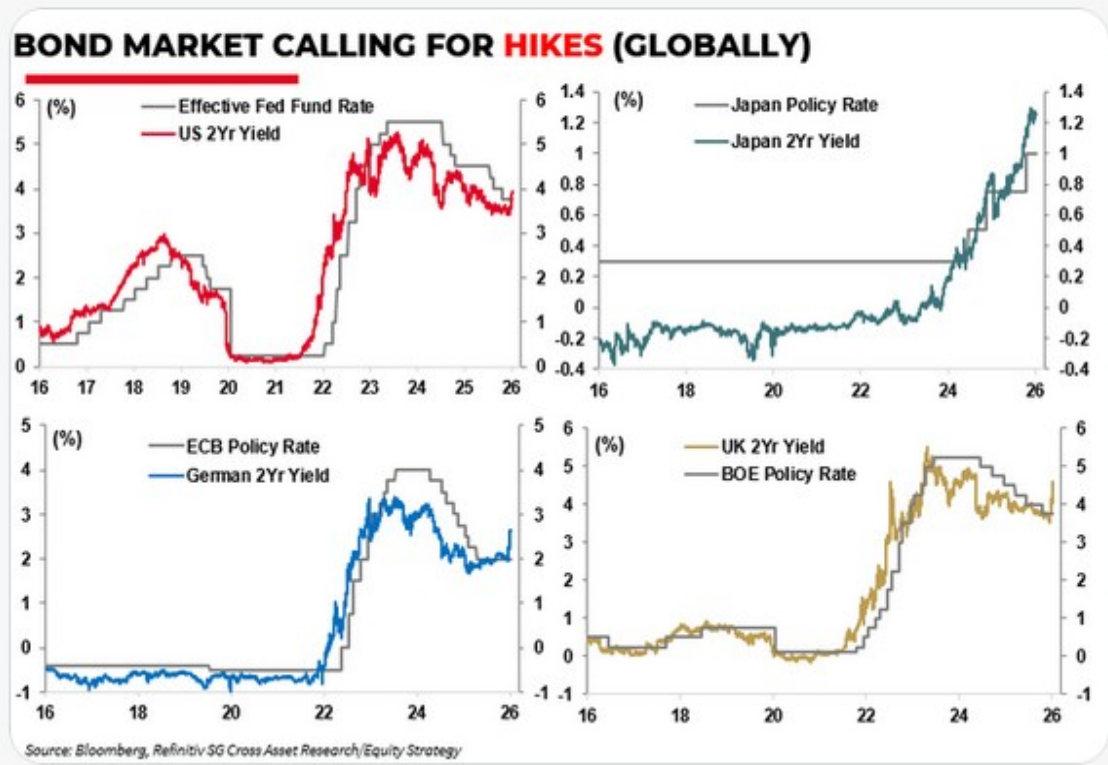
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"Market is pricing hikes for major central banks"

-SocGen Kabra



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