



Abandon Ship! Topics: midterm elections, Spring thaw in US economic data, Strait of Hormuz oil rationing timeline, AI and data center update, Gulf State pipe dream, Congressional redistricting and Mythos update

Summary: Despite improving US leading indicators and economic/stock market resilience, GOP House members are abandoning ship at a record pace. The midterm challenges for the GOP include declining blue-collar employment, soaring ACA premiums, a surge in commodity prices, rising inflation expectations and some unorthodox choices at the Department of Justice.

US economic growth and profits have been resilient to the energy shock so far, in part due to 50%-80% declines in US oil intensity since 1990. But if the Strait of Hormuz is not reopened sometime in June/July, global oil inventories may hit an operational floor and result in greater rationing, mostly outside the US.

Also: how AI is still the primary driver of US equities; the correction in tech valuations; updates on hyperscaler capital spending, debt issuance and data center buildouts; and Harvey (the AI program, not the rabbit).

To conclude: a Gulf State pipe dream to reduce the threat from Iran, an update on House redistricting and the Supreme Court VRA decision, and how GPT 5.5 compares to Mythos on cyberhacking capabilities.



Michael Cembalest
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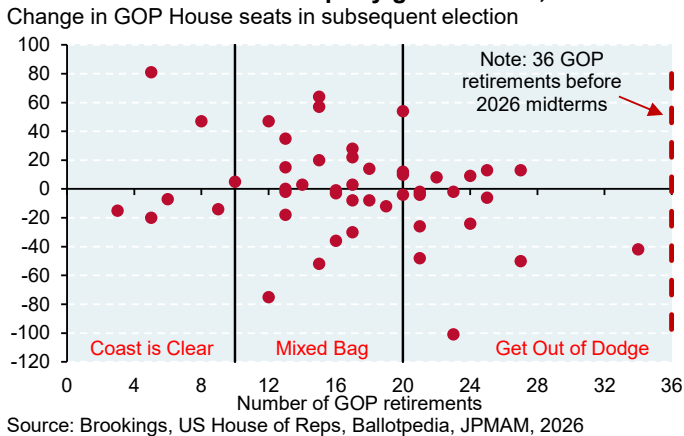


Abandon ship! GOP House members are retiring at a record pace before the 2026 midterms

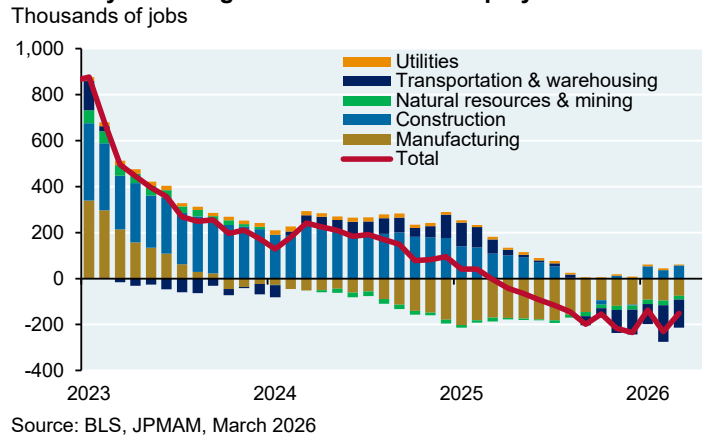
Thirty-six GOP House members have opted not to run in 2026, the highest figure since 1930 when the data series begins. Can we infer anything about possible midterm outcomes from this? As shown in the first chart, whenever more than 20 GOP House members retire, there tends to be at best small GOP gains in the next election and sometimes very large losses. So as a starting point, GOP retirements are consistent with betting markets showing only a 15% chance of GOP House control after the midterms. See Appendix I for a discussion on Congressional redistricting efforts by both parties. The bottom line: the GOP could net anywhere from -1 to +9 seats in the 2026 midterms from redistricting efforts, depending on whether the Virginia referendum stands, other State Supreme Court challenges and possible responses to the Supreme Court VRA decision last week.

Midterm voter sentiment may reflect a decline in blue-collar employment since Trump was inaugurated, a war-related surge in US commodity prices and a modest upturn in inflation expectations. On commodity prices: urea prices are up 75% which is exacerbating the farm solvency crisis. In 2025, US farm bankruptcies rose by ~50% y/y due in part to tariffs raising the cost of steel, equipment and herbicide inputs, tariff retaliation which reduced export markets, and immigration policy reducing the supply of undocumented farm labor¹. While the 100% war-related increase in jet fuel prices contributed to the collapse of Spirit Airlines, I can't help but wonder how things might have turned out differently had the Biden Administration (Garland, Buttigieg, Kanter) not blocked the JetBlue-Spirit merger², a policy celebrated at the time by Senator Warren.

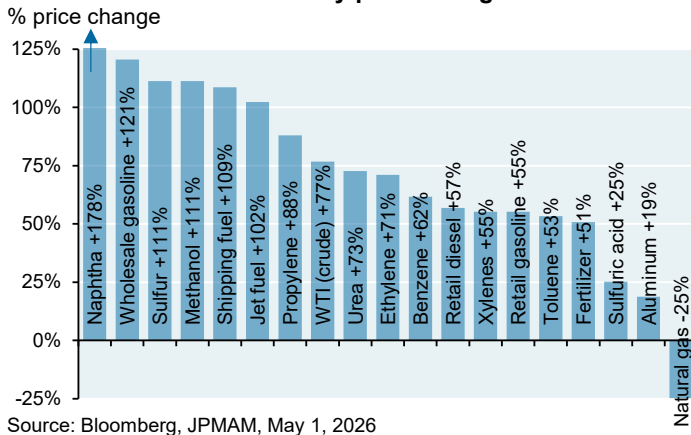
GOP House retirements vs party gains/losses, 1930 - 2024



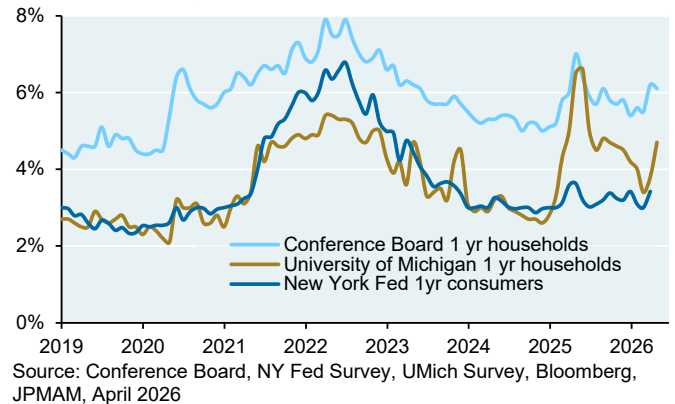
Year on year change in US blue collar employment



Absolute YTD US commodity price changes



US short term inflation expectation surveys of households and consumers, Percent



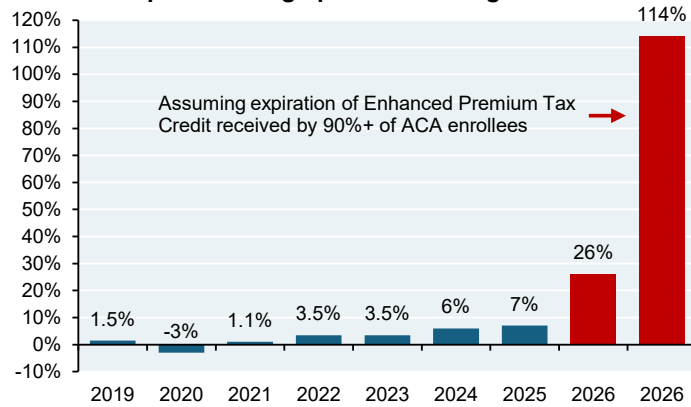
¹ "The US Agricultural Sector Under Stress", Menzie Chinn, University of Wisconsin-Madison, October 2025

² If JetBlue and Spirit had merged, the combined company would still have been half the size of American, Delta, United and Southwest Airlines



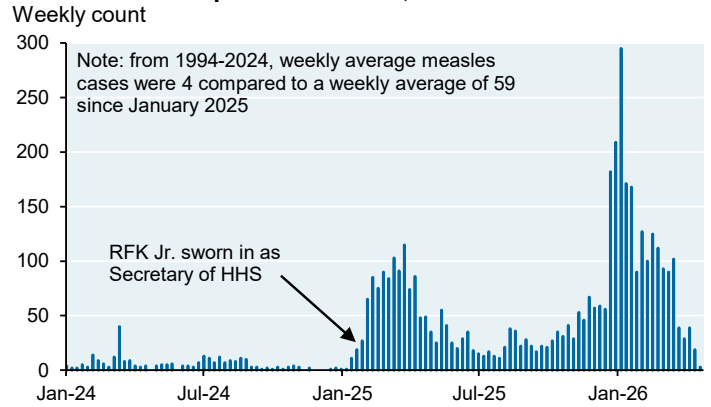
There are other unorthodoxies hanging over the 2026 midterm elections as well: soaring ACA marketplace healthcare premiums; a surge in measles cases which began around the time of RFK’s appointment at HHS; an unprecedented pace of firings of four- and five-star generals and admirals described in the April 6 EoTM; and some very lopsided choices regarding Federal prosecutions by the DoJ which we discuss next.

ACA Marketplace average premium changes



Source: CMS, KFF, RWJF, JPMAM, 2026

Measles cases reported in the US, 2024-2026

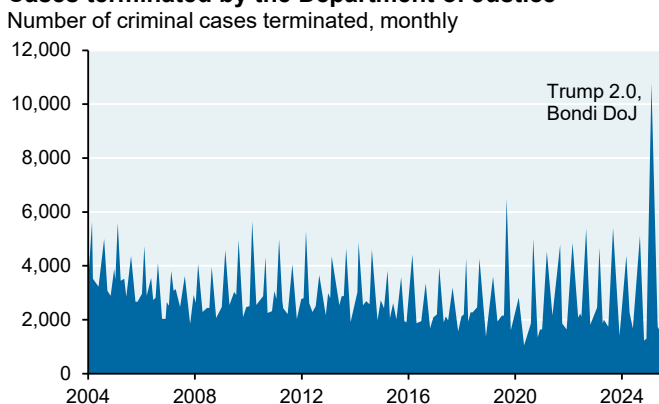


Source: CDC, JPMAM, April 26, 2026

The Trump 2.0 DoJ has terminated potential criminal cases referred to it by law enforcement and other federal agencies at a record pace, as shown below. The table shows terminated cases by category (some cases were pending multi-year FBI and DEA investigations; for complex cases, the DoJ can take years before deciding whether to bring charges). Part of the 2025 spike in terminations reflects a normal shift in DoJ priorities that occurs when Presidential administrations change, and the close-out of stale cases. But the magnitude of the shift and its composition are unusual, prompting ~300 ex-DoJ officials to publicly state that the DoJ was taking a sledgehammer to long-standing work designed to protect communities and the rule of law³.

While the Trump 2.0 DoJ increased prosecution of immigration cases, **it also terminated pending investigations involving organized crime, white collar crime, corruption, labor racketeering, violent crime, healthcare fraud and national security at a record pace.** Even as the Trump administration launched efforts to root out waste and abuse, the DoJ terminated around three times as many cases of major fraud compared with similar time periods under prior administrations⁴. Terminations also included 300 cases involving charges of providing material support to foreign terrorist organizations; 60 union corruption and labor racketeering cases; and 5,000 cases of federal drug law violations, including trafficking and money laundering.

Cases terminated by the Department of Justice



Source: Ken Morales (ProPublica), March 31, 2026

Referred cases that the DOJ declines to prosecute

First six months of each administration

Case type	Avg of prior 3 administrations	Trump (2025)	Change in declined cases
Labor	28	64	129%
National security	720	1,391	93%
Organized crime	98	182	86%
White-collar crime	3,787	6,009	59%
Drugs	3,447	4,999	45%
Corruption	471	623	32%
Violent crime	4,858	6,108	26%
Civil rights	457	535	17%
Other	2,786	2,950	6%
Immigration	864	674	-22%

Source: Ken Morales (ProPublica), March 31, 2026

³ “Urgent Message from Recent DOJ Alumni Decrying Attacks on Justice Department”, October 6, 2025

⁴ “Trump’s Justice Department Dropped 23,000 Criminal Investigations in Shift to Immigration”, ProPublica, Ken Morales and David Armstrong, March 2026

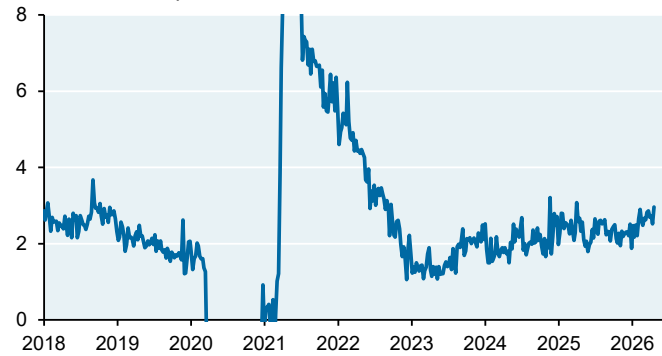


Spring is here: improving US economic and earnings indicators but narrow equity market leadership

Blue-collar employment has been weak, commodity prices are rising and housing affordability is close to a 40-year low. That said, other contemporaneous and leading indicators look resilient despite the war. Examples include a high-frequency weekly economic index, a composite of business cycle and economic surveys, the excess of manufacturing new orders over inventories in the ISM survey (my personal favorite given its stronger correlation with equity market returns), loan demand, trucking demand and capital goods orders/shipments. Q1 GDP came in a bit below expectations at 2% due to a slower than expected gov't shutdown rebound and slightly higher inflation. June's Eye on the Market will look at the challenge for the new Fed chair as manufacturing prices paid, core PCE and other US inflation measures surprise to the upside.

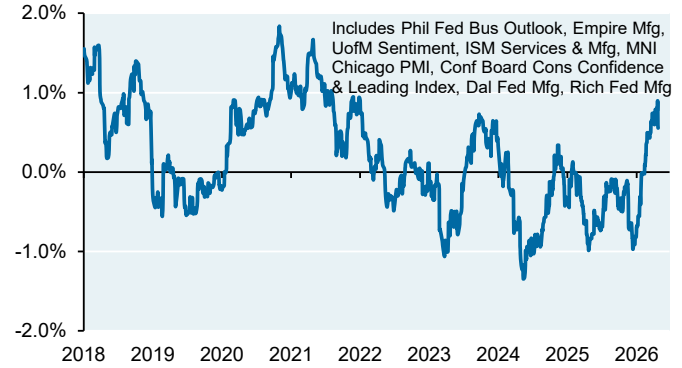
Dallas Fed US Weekly Economic Index

Index including retail sales, claims, electricity/fuel sales, staffing, tax collections, steel production, rail traffic



Source: Dallas Fed, Bloomberg, JPMAM, April 25, 2026

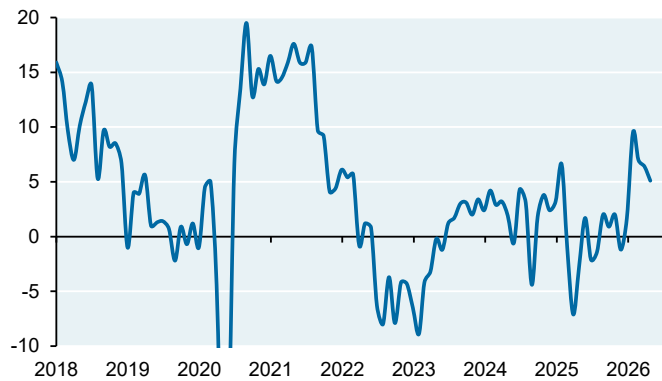
US economic surveys & business cycle indicators surprise index, Actual data - median analyst forecast, %



Source: Bloomberg, JPMAM, May 1, 2026

ISM new orders less inventories

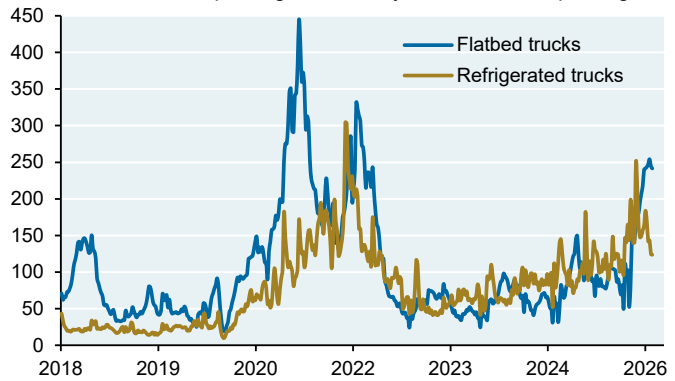
ISM manufacturing index



Source: ISM, Bloomberg, JPMAM, April 2026

US trucking market demand

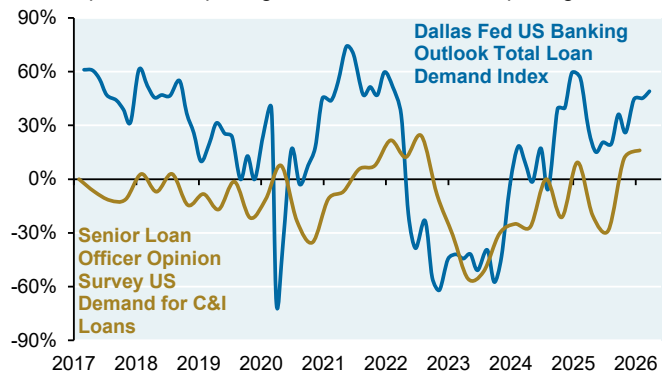
Indexed ratio of load postings divided by available truck postings



Source: Bloomberg, JPMAM, April 24, 2026

Loan demand surveys

% of respondents reporting an increase net of % reporting a decrease



Source: Dallas Fed, Federal Reserve, Bloomberg, JPMAM, March 2026

US durable capital goods ex aircraft

US\$, billions, seasonally adjusted



Source: Census Bureau, JPMAM, March 2026



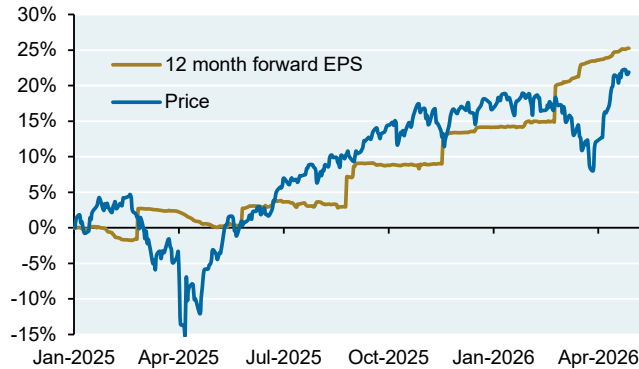
S&P 500 earnings expectations for 2026 have increased since the start of the year, which partially explains the V-shaped recovery in US equity markets. This resilience may reflect the 50%-80% decline in the oil intensity of US GDP and earnings shown in the second and third charts. While the commodity shock from the war is substantial, other forces are offsetting it; lower tariffs and individual/corporate tax cuts are providing stimulus of ~2% of GDP in 2026. On Q1 2026 earnings: the 300 companies reporting so far have generated sales growth of 11% and earnings growth of 26% with positive news on sales and earnings surprises; only a few companies have revised 2026 guidance down so far. The 26% figure is exaggerated by revalued Google and Amazon stakes in Anthropic; after excluding them S&P 500 Q1 earnings growth is closer to 16% with the median company delivering 10% EPS growth. EPS in Europe is up just 5% which is par for the course; Europe is basically a giant value stock that looks interesting only when it's really cheap vs the US.

To be clear, current US equity market leadership is quite narrow. At the end of February before the war, 65% of S&P 500 stocks were outperforming the benchmark on a trailing 2-month basis; this measure has since declined to 28%, an observation which is in the 2nd percentile since 2010.

While US equity markets recovered, the coast is not entirely clear: the world still faces declining global oil inventories and eventual imposition of more rationing in parts of the world. Now that the last oil tankers that left the Strait before the war have been delivered, global oil inventories (in storage tanks, terminals, pipelines, floating tankers and strategic reserves) are declining at ~8 mm bpd. As shown in the fourth chart, global oil inventories are projected to hit an operational stress level in June or July (there are practical limits to which pipeline and other storage mediums can be drawn down, and countries may also preserve minimum emergency reserves). If the Strait is not opened by September, global inventories could hit an operational stress floor of 6.7-6.8 billion barrels⁵, after which demand destruction would occur at a faster pace, mostly in Asia and Europe.

S&P 500 change in forward earnings vs price

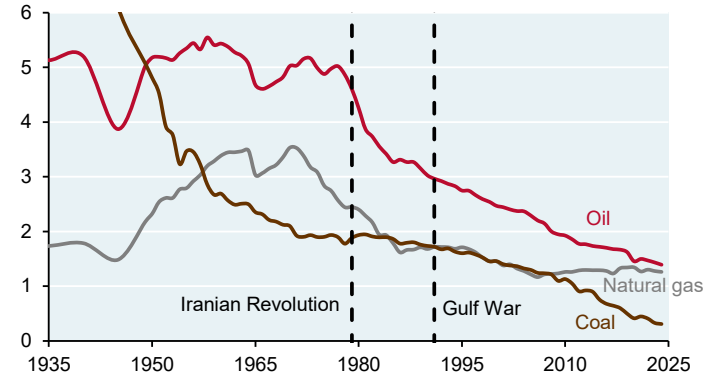
Percent change from January 1, 2025



Source: Bloomberg, JPMAM, April 30, 2026

Energy intensity of GDP, US

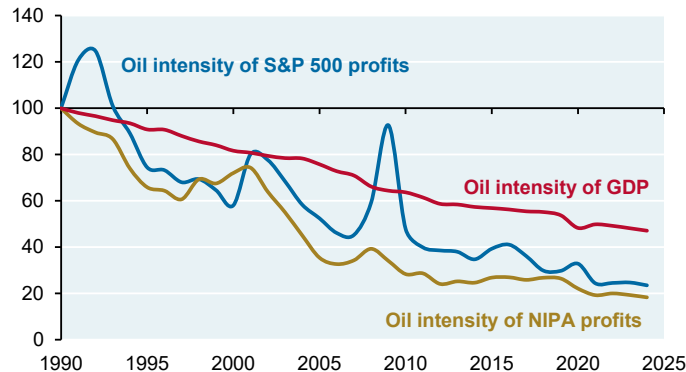
Exajoules of consumption / \$2021 US real GDP, trillions



Source: Energy Institute, EIA, BEA, Bloomberg, JPMAM, 2025

Oil intensity of the US economy

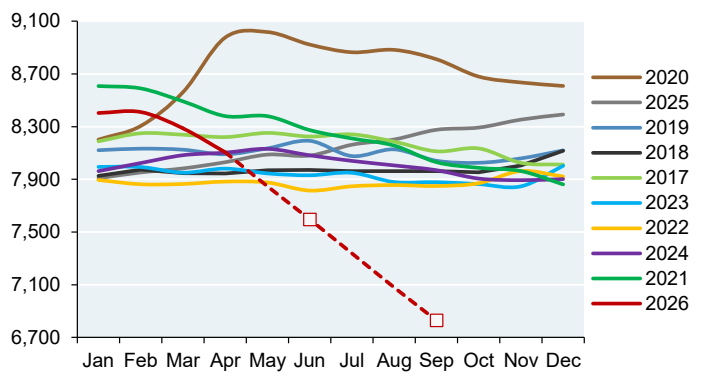
Index (100 = 1990)



Source: Energy Institute, S&P, BEA, JPMAM, 2025

Global oil and refined product inventories

Million barrels



Source: JP Morgan Global Commodities Research, April 2026

⁵ "The illusion of plenty", JP Morgan Oil Flash Note, Natasha Kaneva, April 30, 2026



The AI trade is still driving US equity markets while tech stocks have repriced

In our 2026 Outlook we discussed how 42 AI-related stocks have accounted for 75%-85% of S&P returns, earnings and capital spending since GPT was launched in the fall of 2022. If we push this date forward to the fall of 2024 to capture the more intense phase of AI investing and adoption, these 42 AI-related stocks have accounted for 80%-100% of the same variables.

Contribution of 42 AI stocks to S&P 500 returns, earnings and capex/R&D growth

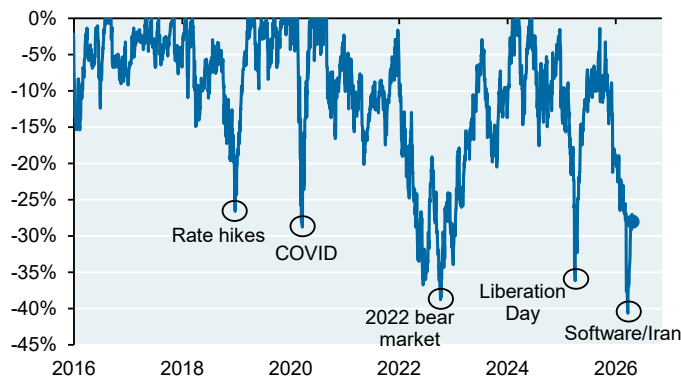
	Since Nov 2022	Since Nov 2023	Since Nov 2024	Since Nov 2025
Price return	76%	68%	81%	42%
Earnings growth	87%	105%	99%	193%
Capex/ R&D growth	75%	83%	88%	84%

Source: Bloomberg, JPMAM, April 30, 2026

Valuations. Tech P/E multiples have just experienced one of the largest corrections of the last decade. Another interesting vantage point: US tech stocks have the lowest ratio of P/E to earnings growth (the PEG ratio) in the chart on the right. This is mostly a reflection of low PEG ratios for semiconductor stocks given 62% expected earnings growth, compared to just 16% earnings growth expected for the software sector.

S&P 500 tech forward PE drawdown

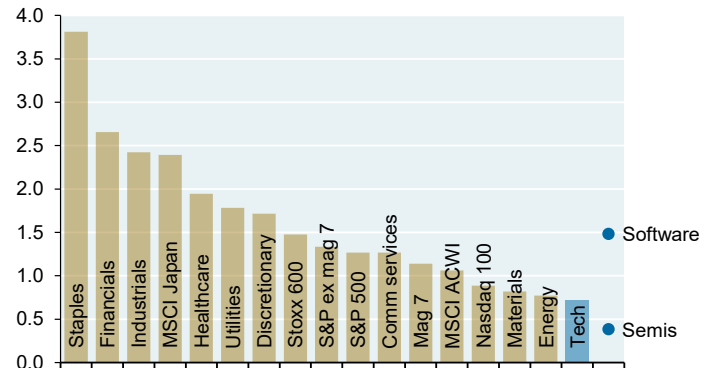
Percent drawdown from previous high



Source: Bloomberg, JPMAM, April 30, 2026

The price investors pay for earnings growth

P/E ratio divided by projected 2-year consensus earnings growth

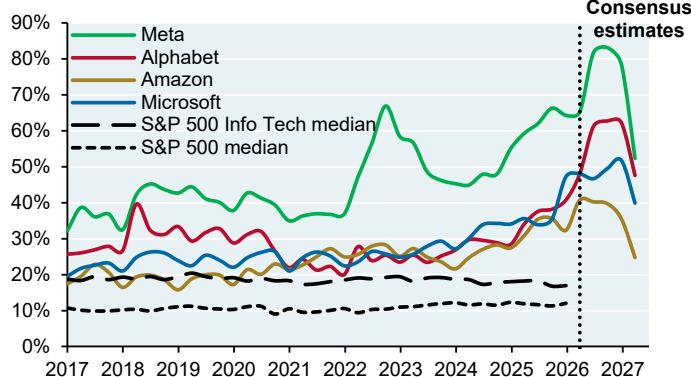


Source: Bloomberg, JPMAM, May 1, 2026

Hyperscalers. Hyperscaler Q1 earnings were up 61% with 20% sales growth; Google and Amazon shares rallied after disclosing positive news regarding demand for computing power while Meta shares declined due to less visibility of a long term payoff from billions in capital spending. The continued surge in projected hyperscaler capital spending is resulting in sharply declining consensus free cash flow margins this year, particularly at Meta. One issue that is less of a concern: hyperscaler debt financing, which we discuss next.

Hyperscaler capex and R&D as a share of revenues

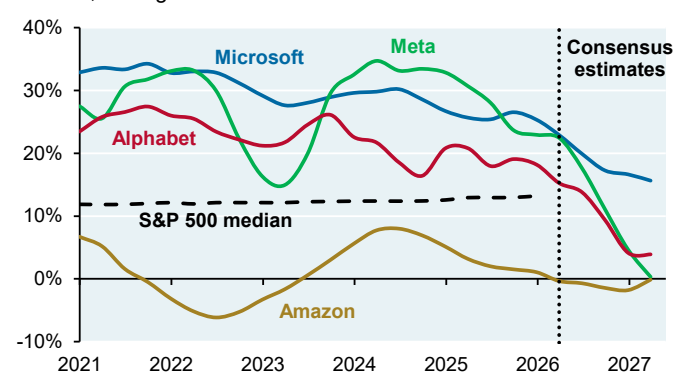
Percent



Source: Bloomberg, JPMAM, April 30, 2026

Hyperscaler free cash flow margins (net of capex)

Percent, trailing 12 months



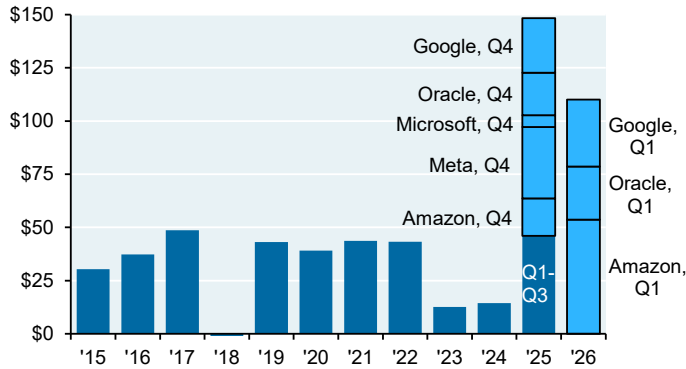
Source: Bloomberg, JPMAM, April 30, 2026



Hyperscaler debt issuance surging but still looks modest on a debt service capacity basis

A notable change in capital markets has been the onset of hyperscaler debt financing of data centers instead of relying primarily on internally generally cash flow. The first chart shows this trend starting in Q4 of last year. That said, if we use net debt to EBITDA as a proxy for borrowing capacity, Oracle continues to be the only one of the Big 5 whose ratio exceeds the ratio of the median S&P 500 company (and does so by a very wide margin). That’s probably why hyperscaler credit spreads are still rangebound at investment grade levels, other than Oracle. As shown in the last chart, in contrast to the dot-com era, the increase in tech sector capital spending has **not** been accompanied by increased debt financing in the aggregate.

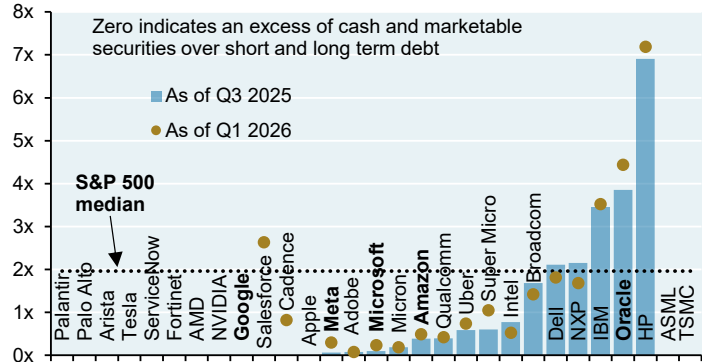
Annual change in hyperscaler long term debt (bonds, loans and leases), US\$, billions



Source: Bloomberg, company sources, JPMAM, Q1 2026

Net debt to trailing 12m EBITDA of direct AI stocks

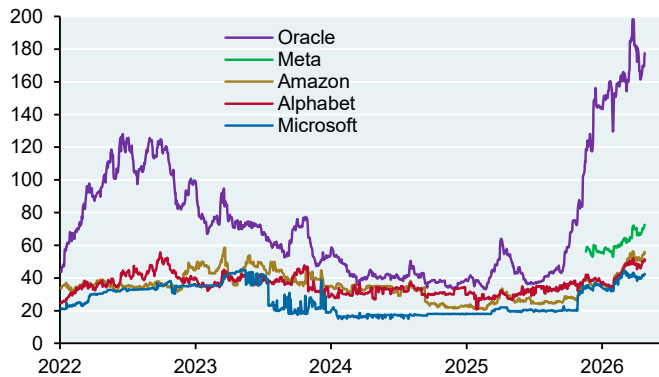
Multiple; includes bonds, loans and SPV triple net leases



Source: Bloomberg, JPMAM, April 30, 2026

Credit default swap comparison, select AI stocks

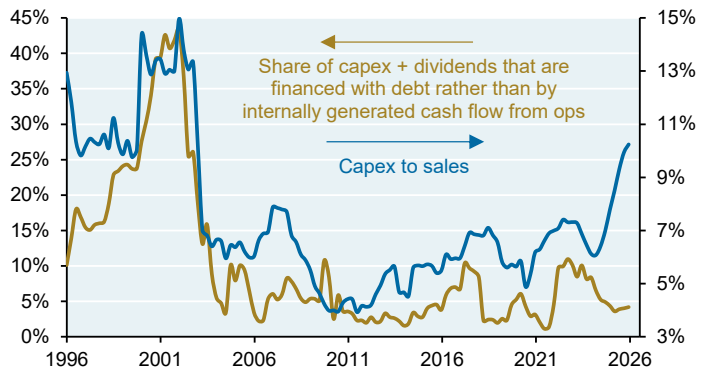
Spread, five year CDS, bps



Source: Bloomberg, JPMAM, April 29, 2026

Capex financing vs capex cycle

Russell 3000 universe: US tech and communications companies



Source: Bloomberg, JPMAM, December 2025

What’s the impact of agentic AI on domain-specific AI startups like Harvey? The legal AI start-up Harvey raised over \$1 billion from investors, with a recent round valuing the company at \$11 billion. Harvey conceded last year that prevailing models from Anthropic, OpenAI, xAI and Google were already outperforming Harvey on BigLaw Bench, a benchmark designed by Harvey itself to measure performance on transactional and litigation tasks (drafting, analysis of litigation files, case management, due diligence and legal research). Harvey has since pivoted to being a workflow model which routes tasks to the frontier models best equipped to handle them; the company claims to have 25,000 legal workflow tasks in its arsenal. But what are the long-term moats here? If the initial value proposition involved Harvey having unique and domain-specific knowledge and is now a wrapper of other models instead, does it justify the same valuation? Harvey may provide superior security regarding client confidentiality compared to advanced features of Claude and GPT, but still...

Examples of what’s included in BigLaw Bench:

Transactional tasks: Draft board consent approving a potential conflict of interest in the engagement of a lawyer who is affiliated with an officer of the company. Litigation tasks: Analyze trial documents and draft an analysis of conflicts, gaps, contradictions or ambiguities, including a detailed chronology of events and analysis results.

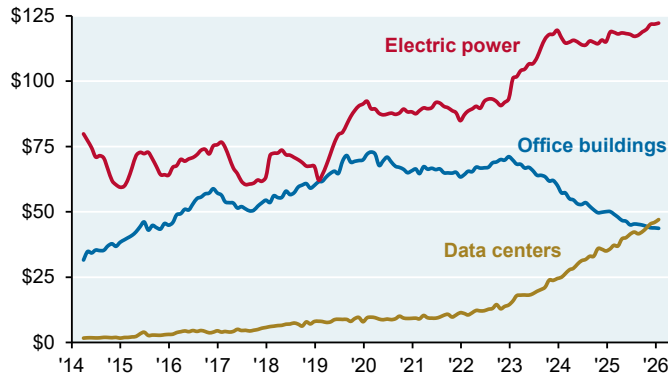


Data center buildout update: signs of a potential slowdown ahead

Data center construction continues to rise, accompanied by rising spending on power generation capacity. But is there a potential slowdown ahead? The latest analysis based on satellite images shows that over 60% of data center capacity planned for completion in 2027 has not begun construction with another 7% delayed. The culprits are typically related to permitting issues and delays in obtaining gas turbines, transformers and skilled labor. Of all 47 categories in the US PPI report, transformers and power regulators have seen the second highest level of inflation since 2020. During this period, the wait time for generation step-up transformers has roughly tripled, as shown in the fourth chart (these are transformers used to prepare power from large generation sources for higher voltage transmission grids). And on natural gas turbines, GE Vernova bookings have risen from \$103 billion three years ago to management’s projection of \$200 billion by 2028.

US construction spending

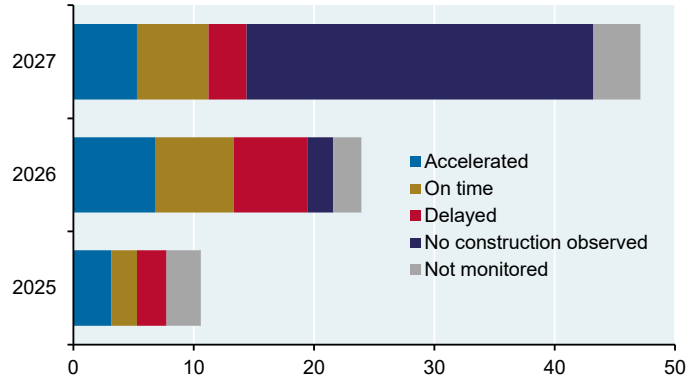
US\$, billions, seasonally adjusted annual rate



Source: Census Bureau, JPMAM, January 2026

US data center capacity by status & completion year

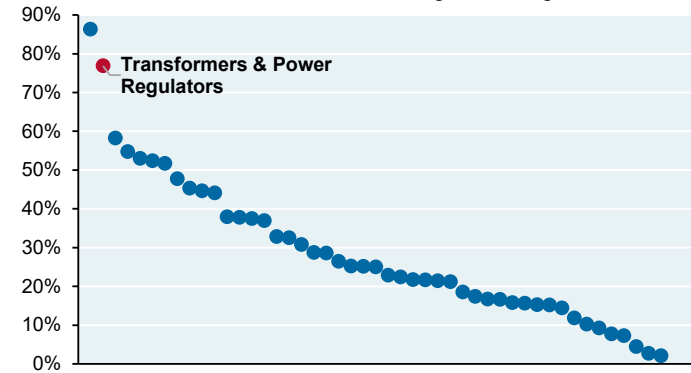
GW



Source: SynMax Vulcan Platform, IRR Energy, April 9, 2026

Producer price inflation: core goods

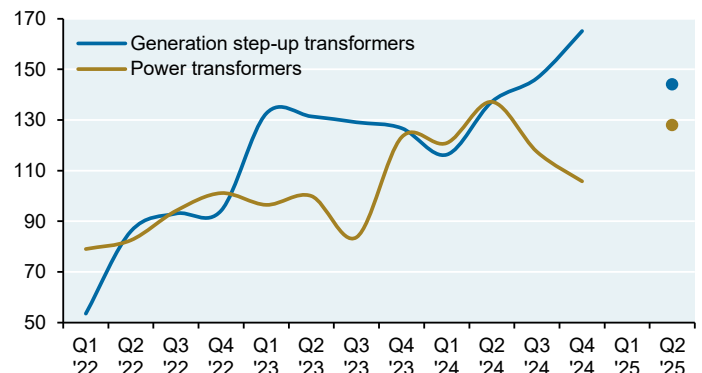
% increase vs 2020 for each of the 47 core goods categories



Source: Bloomberg, BLS, JPMAM, March 31, 2026

Transformer delivery times in the US

Weeks



Source: Wood Mackenzie, Bloomberg, Q2 2025

There’s a legislative data center backlash in some places that may affect future development, but I find some of the online commentary on this topic to be misleading. While there are maps floating around showing states with active bans, this is inaccurate; existing bans have all taken place at the county-level (examples include Larimer County, CO; Champaign County, IL; Chatham County, NC). There are state-level bans that have been proposed in state legislatures but none have passed yet (GA, MD, MI, MN, NY, OK, PA, SC, VT, VI), and in a few states they have failed or been vetoed by the governor (ME, NH, SD, WI). Also: the following states continue to try and attract new data centers with tax and other incentives (AL, AR, ID, KS, LA, MA, MS, MO, MT, NV, ND, TN, TX, UT, WV).



Gulf Super Express: just a pipe dream?

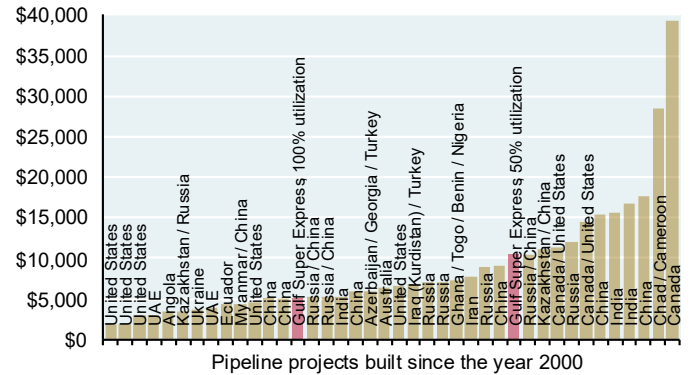
I read an interesting piece from Rice University’s Baker Institute on a theoretical pipeline called the Gulf Super Express⁶. The idea is straightforward: the Gulf states should cooperate (challenge #1, particularly with the UAE withdrawing from OPEC) to address the threat from Iran and build a new pipeline stretching from Southern Iraq to Oman. This would bypass the chokepoints of the Strait of Hormuz, the Red Sea and the Bab el-Mandeb Strait.

The piece walks through a lot of projected detail on the idea:

- Twin 56-inch pipelines with capacity of 5 mm bpd each and a 2 mm bpd spur to Salalah port
- 150 mm barrels of storage capacity
- Pipeline capital costs include passive and active defenses⁷ and a strategic long-lead equipment reserve
- Cost: \$55 bn⁸, around what Saudi Arabia has spent on the Neom project so far, with a 5-year build
- Used at its full capacity of 10 mm bpd, a cost of \$5,500 per barrel per day would rank at the lower end of real pipeline costs within a universe of pipelines completed since the year 2000
- A pipeline-VLCC voyage would obviously cost more than VLCC alone and could only be justified as a security premium worth paying to avoid future Strait shutdowns. The author estimates the cost of a VLCC-only voyage to East Asia from Southern Iraq at \$1.94 per barrel compared to \$3.27 under a combined pipeline-VLCC scenarios that also assumes 100% pipeline utilization. At 50% pipeline utilization, the cost rises to \$4.92 per barrel. Allocating these costs to Gulf countries would obviously be a necessary part of the process



Capex cost of oil pipelines greater than 500km long
 US\$, per barrel per day, in 2024\$



Source: Rice University Baker Institute for Public Policy JPMAM, 2026

⁶ “Wars and Pipelines: How Armed Conflict Has Driven Oil Logistics Diversification”, Gabriel Collins, Rice University Baker Institute for Public Policy, 2026

⁷ Defense equipment includes Mantis 35 mm C-RAM air defense systems, Patriot PAC-3 interceptor missile systems, hardened pumping stations, radar/network systems and perimeter security

⁸ \$15.7 billion for pipelines and pumping stations, \$11.9 billion for soft costs and interest during construction, \$10.1 billion for defense, hardening and strategic equipment reserve, \$7.2 billion for contingencies, \$5 billion for terminal at Duqm, \$2.8 billion for terminal at Salalah and \$2.6 billion for spur pipeline to Salalah



Appendix I: on Congressional redistricting, Virginia’s referendum and the Supreme Court VRA decision

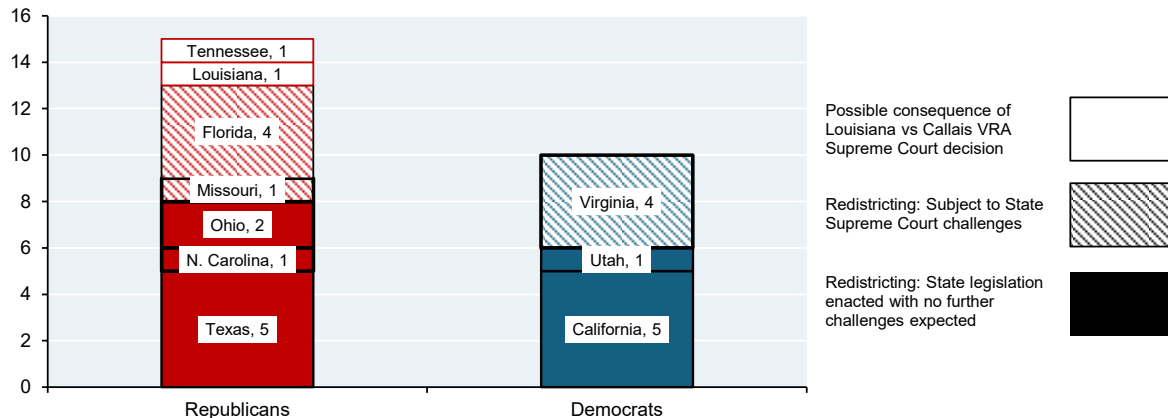
Bottom line: the GOP could pick up anywhere from -1 to +9 net seats from redistricting depending on whether the Virginia referendum stands, other Court challenges and midterm election results in redrawn districts.

GOP. Texas could add as many as five GOP seats under a new map signed into law in August 2025. Redistricting measures in North Carolina could add one new GOP seat; in Missouri an additional seat could be picked up by the GOP subject to outstanding State Supreme Court challenges; and in Ohio the GOP could pick up two more seats. The Supreme Court’s VRA ruling last week in Louisiana v. Callais⁹ may change 2026 midterm maps as well: Louisiana may eliminate one of its Democratic districts, and Tennessee may convene a special session of the legislature to eliminate that state’s Democratic seat. However: 2026 primary deadlines are fast approaching and mail in voting has already begun in some states, so the VRA impact may not occur until the 2028 election.

In Florida, DeSantis presented a new map to the state legislature which the legislature has now approved (the state currently has 8 Democrats and 20 Republicans). However, as noted in our September 2, 2025 Eye on the Market, Florida’s State Constitution explicitly does not allow for partisan redistricting. As result, it is likely to be subject to judicial challenges raised to the Florida State Supreme Court... all seven of whose judges are Republicans, with six appointed by DeSantis himself. DeSantis reportedly believes that the 2010 Fair Districts Amendment which disallows partisan redistricting is itself unconstitutional. Note as well that redrawn districts DeSantis proposed are subject to actual outcomes in the midterm elections (as are all proposed new districts across the country), and the latest trends in Florida races have tilted towards Democrats¹⁰.

Democrats. California could add five Democratic seats after its redistricting referendum, and Democrats could pick up a seat in Utah based on a district created by a court-ordered map. The Virginia referendum could give Democrats four additional seats, subject to State Supreme Court challenges discussed below.

Number of new House seats that may result from state redistricting efforts and Voting Rights Act decision



Source: JPMAM, 2026

An unforced error by Virginia on redistricting? Virginia’s state constitution is similar to California’s and includes protections against partisan gerrymandering. In Virginia, a bipartisan commission must propose congressional redistricting maps and may convene only once per decade. And like California, Virginia held a referendum to maintain these restrictions but temporarily suspend them until the end of this decade, allowing the state legislature to redraw maps in a partisan way. Virginia’s new congressional map would replace the 6D-5R balance with something like 10D-1R. On the referendum ballot, Virginia added the phrase [“to restore fairness”](#) as its stated rationale. Fairness to whom? Like other redistricting efforts by both parties, it’s hard to see how such measures advance fairness if they create legislative balances that are more extreme than state voter populations by party. There are legal questions regarding this fairness language that the Virginia Supreme Court may now evaluate. A state trial court enjoined state officials from certifying the referendum’s results, suggesting that the state constitution requires that amendments be presented to voters in a neutral manner. It also held that the legislature committed several other procedural and timing violations in approving the referendum.

⁹ Short explanation: the Court held that the Voting Rights Act did not necessitate a second majority-minority district in Louisiana, and that using race to create the district was an unconstitutional gerrymander

¹⁰ *“Is the Sunshine State feeling Blue?”*, City Journal, April 6, 2026



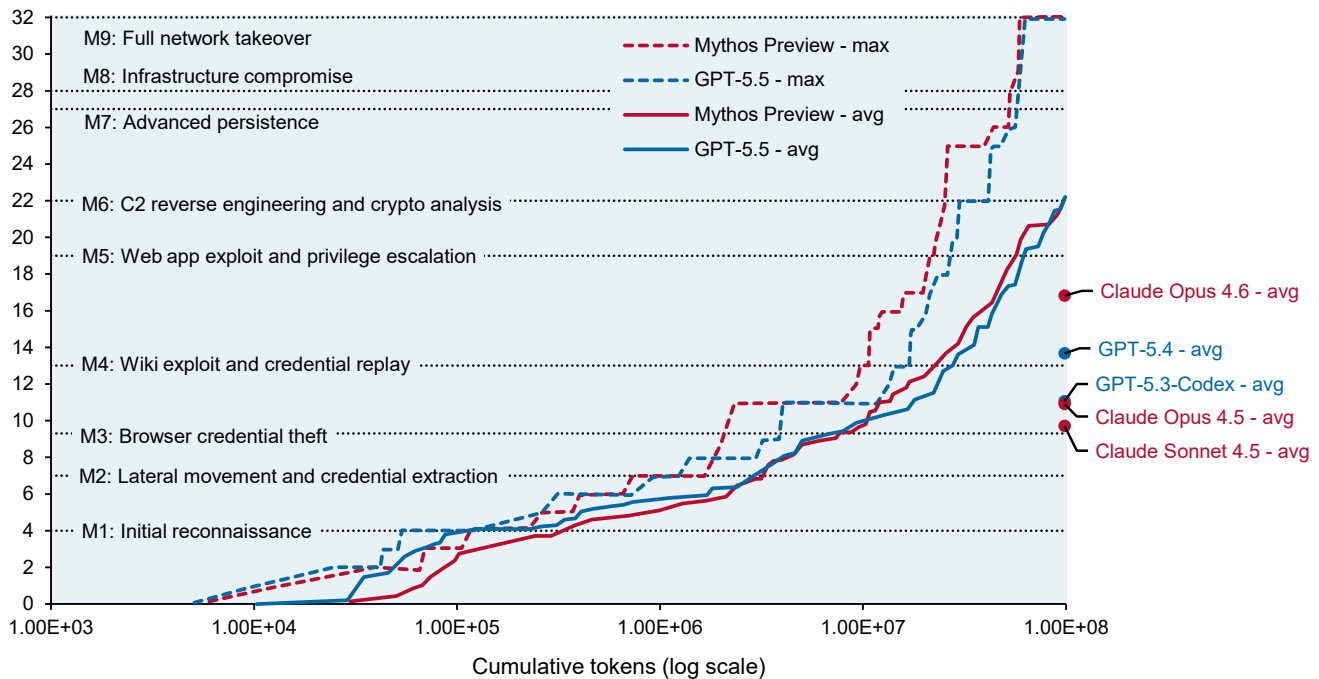
Appendix II: Mythos update and how GPT 5.5 compares on cyberhacking capabilities

On April 13, we published on [Mythos](#): its exceptional ability to identify software vulnerabilities and the race between patching and hacking. On April 29, JP Morgan’s Investment Bank published [a thorough and well researched note](#) on the cybersecurity vulnerability of operational technology such as aircraft autopilot systems, factory robots, power grid controls, railway track shifting systems, etc. It’s a sobering read but worth the effort. A brief summary:

- Around 20% of information technology assets and 50% of operational technology assets were classified in the note as “unpatchable,” meaning that their vulnerabilities cannot be addressed solely through software updates and will require technology upgrades
- These upgrades will take years, leaving many IT and OT systems exposed to cyber threats
- IT systems will require large quantities of additional logic chips while OT systems need legacy chips embedded in microcontrollers, both of which are already in short supply

Now that OpenAI has released GPT 5.5, we can compare its cyberhacking capabilities with Mythos. As we wrote last time, the UK-based AI Security Institute evaluates models on a 32-step corporate network attack simulation spanning from initial reconnaissance through to full network takeover. Mythos was the first model able to complete all 32 steps of the entire attack in its best iteration. As shown below, GPT 5.5 in its best iteration got to the same place.

Completed steps per spent tokens on a 32-step corporate network attack simulation
Number of steps completed



Source: AI Security Institute, April 30, 2026

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