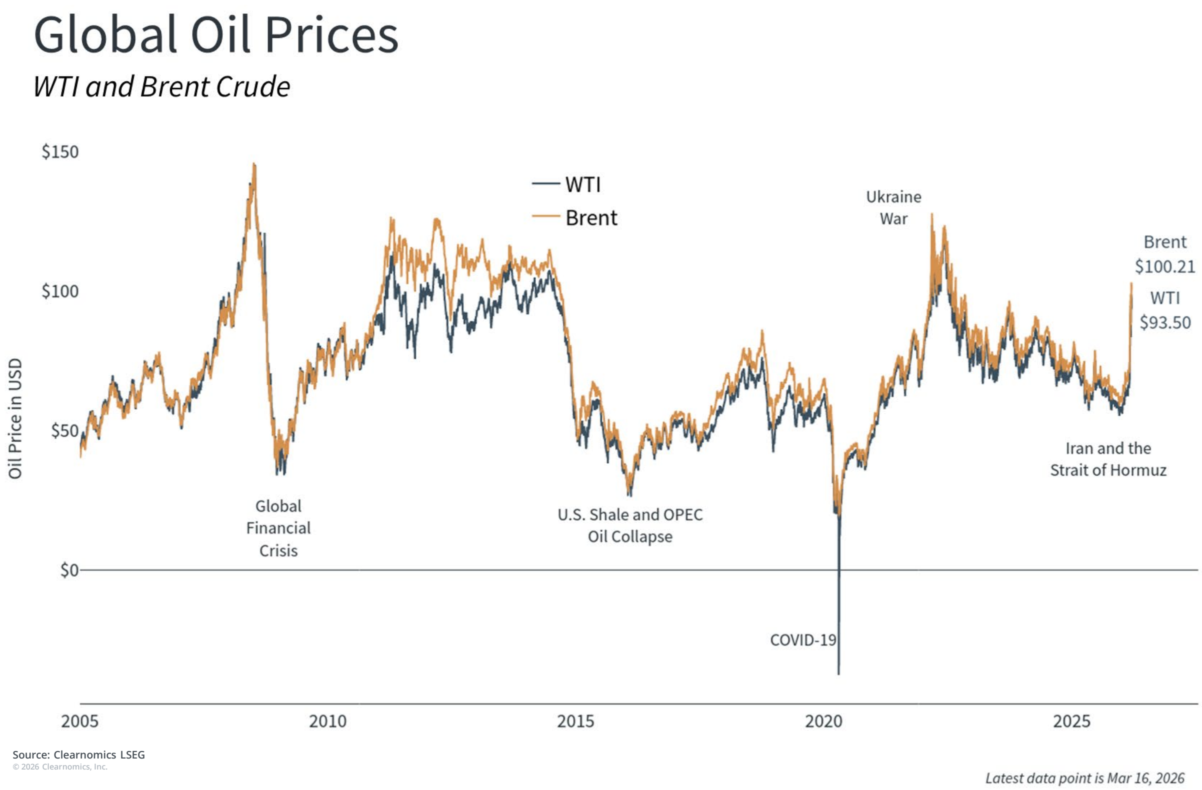
HOW $100 OIL & THE MIDDLE EAST CONFLICT AFFECT INVESTORS

The ongoing conflict in Iran and the effective closure of the Strait of Hormuz have pushed oil prices sharply higher. Both Brent crude and WTI have jumped from around $70 per barrel to around $100 in just a few days, approaching levels last seen in 2022 when Russia invaded Ukraine. This has driven uncertainty across global markets, with headlines mentioning a "global economic downturn," "stagflation," and more.

For investors, history suggests that maintaining a longer-term perspective is the best way to achieve financial success when faced with significant uncertainty. A quote often attributed to Winston Churchill is "the farther back you can look, the farther forward you are likely to see." The same could be said of energy price shocks which have occurred every decade or so. While each situation is unique, there is a clear pattern of oil prices surging in response to geopolitical conflict, the resulting market volatility, and the subsequent calm and recovery.

The situation continues to evolve in real time and there are no guarantees as to when there will be stability in the region or in financial markets. Events over the past few years including other Middle East conflicts, inflation, trade wars, and Venezuela earlier this year, all provide important context and perspective. What should investors keep in mind in the coming weeks?



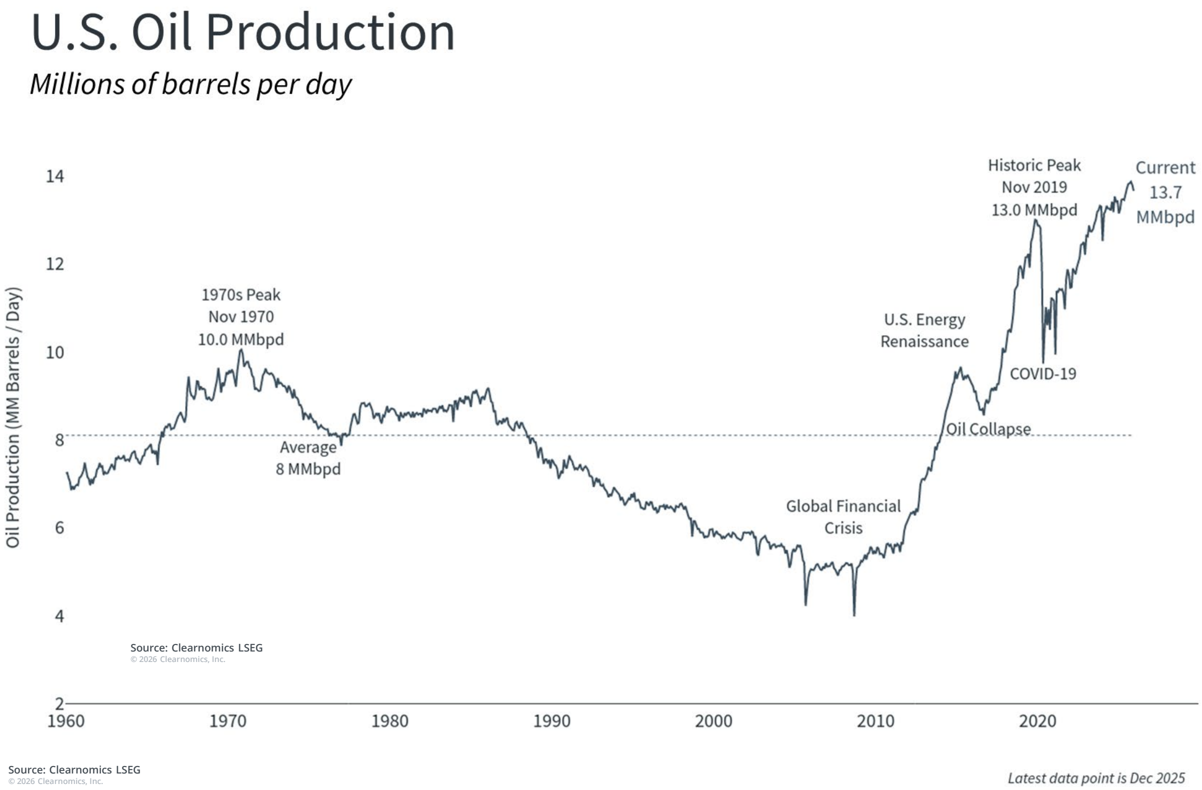
For investors, energy prices are a major way that geopolitical events affect the broader economy and financial markets. The impact of each conflict is different, depending on how it changes supply and demand. At the moment, higher oil prices are due to the transportation of oil, storage capacity, and production cuts by major oil producers across the Middle East.

The epicenter of the current jump in oil prices is the Strait of Hormuz, a narrow waterway that connects the Persian Gulf to the rest of the world. Roughly 20% of global oil shipments and a significant share of natural gas pass through this chokepoint each year. While Iran cannot technically close the strait, attacks on tankers and safety concerns have been enough to halt traffic. Major shipping and logistics companies have restricted or suspended bookings through the region, and hundreds of oil tankers are at a standstill inside the strait.

This has a domino effect on the energy market. Without tanker transportation through the Strait of Hormuz, large Middle East oil producers have had to store oil instead. As storage facilities fill up, countries including Saudi Arabia, Iraq, Kuwait, Qatar, and the UAE have been forced to cut production. Unlike the typical OPEC production cuts to boost prices, these emergency measures are involuntary. This chain of events is why oil prices have risen so much in such a short amount of time.

It is often thought that when oil prices rise above $100, it has a stronger impact on the economy, affecting household budgets and inflation. Yet, it's important to keep these moves in perspective. While oil prices have been quite low over the past few years, they have experienced swings throughout history. When Russia invaded Ukraine in early 2022, Brent crude surged to nearly $128 per barrel, pushing average gasoline prices in the U.S. above $5 per gallon. Before that, the mid-2000s saw oil reach record highs driven by rapid global economic growth ahead of the 2008 financial crisis. In each case, prices eventually settled as supply and demand adjusted.

The U.S. is in a stronger position today than during previous oil crises due to the shale revolution. As the world's largest producer of both oil and natural gas, the U.S. benefits from energy independence that did not exist during other historical oil shocks. While oil is a globally-priced commodity and the U.S. still imports some types of crude, this helps to insulate the domestic economy more than others in Asia and Europe.



For consumers, the most visible impact is at the gasoline pump, which directly eats into household budgets. At the moment, gasoline prices have risen back toward $3.50 per gallon across the country, and could climb further.

Of course, there are many more indirect effects on consumer prices. Rising energy prices raise the cost of transporting goods, manufacturing products, and powering businesses. In this way, higher oil prices function as an effective tax on the economy by raising the costs of all goods and services, reducing disposable incomes.

This is what economists sometimes refer to as "cost-push inflation." When the cost of oil rises sharply, businesses face higher production costs that are eventually passed on to consumers. This is different from demand-driven inflation, where prices rise because consumers are spending more, such as when government stimulus checks are issued.

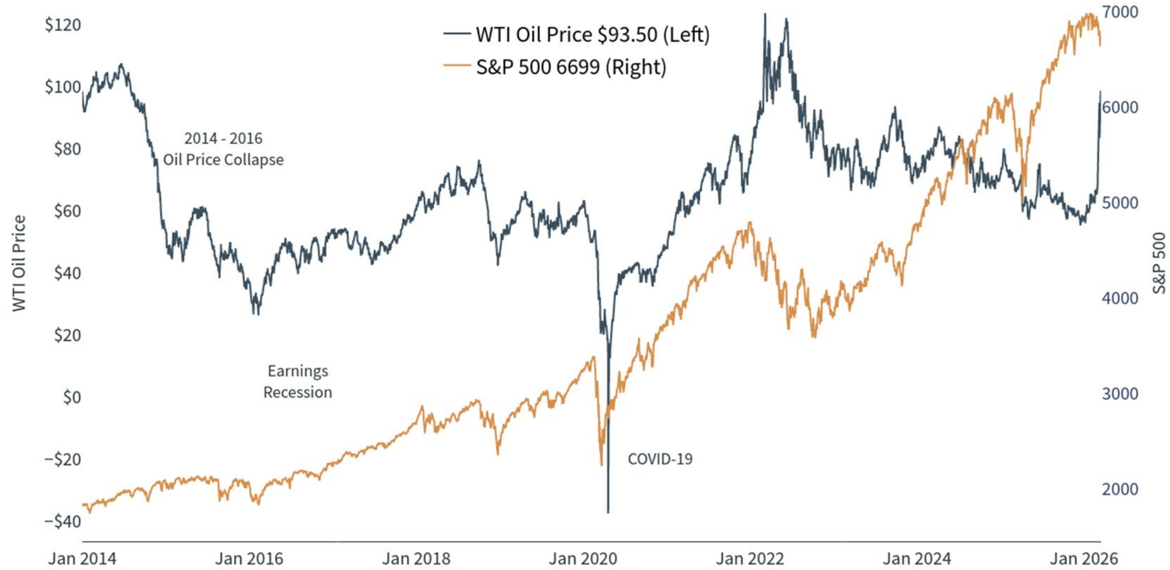
This distinction matters because supply shocks tend to be viewed by economists and investors as "transitory," meaning the effects will eventually fade. This could be because the situation stabilizes after some time and oil prices fall, or because the economy adapts to higher oil prices. So while sudden jumps in energy prices poses challenges, history suggests more modest economic impact.

MARKETS CAN WEATHER HIGHER OIL PRICES

Despite these historical lessons, the reality is that financial markets can react to oil price shocks in the short run. The S&P 500 is only down a couple of percentage points year-to-date, but many headlines are highlighting the South Korean KOSPI index's decline of 17%, Japan's Nikkei index's 10% fall, and others since the end of February. What they don't emphasize is that the KOSPI and Nikkei are still up over 104% and 40%, respectively, over the past year, even with these recent declines. Markets never move up in a straight line, so it's important to maintain this broader perspective.

Oil and the Stock Market

WTI and the S&P 500 index, since 2014



Source: Clearnomics LSEG, Standard & Poor's LSEG

Latest data point is Mar 16, 2026

At the same time, energy companies benefit from higher prices. The energy sector has gained about 25% year-to-date and leads the market, just as it did in 2021 and 2022. Similarly, the commodities asset class has risen over 20% this year, driven both by energy and precious metals. This is not to say that investors should focus only on energy, but is a reminder of the benefits that holding different asset classes and sectors can have on portfolios.

Recent events do add uncertainty to what the Fed may do next. If inflation rises due to higher oil prices, the Fed may need to keep rates higher than currently expected. At the moment, market-based measures expect at least one rate cut this year in September, and possibly two by the end of the year. However, if the supply disruption proves temporary, even if it lasts for months, its impact on monetary policy may be limited, just as it has been across history.

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