Conflict in the Gulf

Short-Term Oil Volatility, Long-Term Investment Discipline

Oil prices have risen sharply as the conflict involving the United States, Israel, and Iran increases the risk of a meaningful disruption to global oil supplies, particularly through the Strait of Hormuz. For many investors, this will be a central topic in client meetings in the coming days. It is important to separate short-term market reactions from long-term investment priorities.

What Is Happening in Oil Markets Now?

Brent crude and U.S. WTI futures have climbed roughly 8–10% in recent sessions following military strikes by the United States and Israel on Iran, along with Iran's retaliation. These developments have disrupted shipping activity and heightened concerns about broader supply losses.

The Strait of Hormuz, a narrow waterway bordered by Iran, carries approximately 15–20% of the world's seaborne oil trade. This includes exports from Saudi Arabia, Iraq, the United Arab Emirates, Qatar, Kuwait, and Iran. Several tankers have reportedly sustained damage, and hundreds of commercial vessels have paused or rerouted their voyages. Some shipping companies remain reluctant to transit the Strait due to security and insurance concerns.

The combination of actual disruptions and the risk of further escalation has pushed prices higher in the short term.

Potential Supply Interruption Scenarios

From a portfolio planning perspective, it is more useful to consider scenarios than to attempt precise forecasts.

Limited disruption: Sporadic attacks or temporary slowdowns in tanker traffic reduce throughput but do not fully close the Strait of Hormuz. In this scenario, oil prices may remain elevated and volatile, with periodic spikes followed by pullbacks as shipments resume and risk premiums adjust.

Extended disruption: A sustained interruption affecting several million barrels per day could drive crude prices materially higher, especially if buyers rush to replace lost Iranian or Gulf exports.

Offset by other producers: OPEC+ has signaled a modest production increase of approximately 206,000 barrels per day beginning in April. Major producers such as Saudi Arabia and the United Arab Emirates maintain some spare capacity and alternative export routes, which could partially offset a prolonged disruption.

No outcome is certain. However, markets appear to be pricing in a meaningful risk that conditions deteriorate before stabilizing.

Short-Term Effects for Investors

In the near term, investors should expect three primary channels of impact: energy costs, inflation expectations, and market volatility.

Energy Prices and Gasoline

Higher crude prices typically pass through to gasoline and diesel, often with a lag measured in days or weeks during abrupt market moves. Rising fuel costs can strain household budgets and increase input expenses for businesses, particularly in transportation-intensive industries such as airlines, shipping, and logistics.

Inflation and Interest Rate Expectations

A sharp increase in oil prices can temporarily lift headline inflation, even if underlying core inflation remains more stable. Policymakers must determine whether such a move represents a transitory supply shock or a more persistent inflationary pressure. That assessment influences expectations for interest rate cuts or hikes, which remain central to bond and equity valuations.

Market Volatility and Sector Performance

Historically, oil price shocks linked to geopolitical events have triggered brief periods of elevated volatility. Investors often shift capital toward perceived safe havens, including high-quality government bonds, the U.S. dollar, and, at times, gold.

Energy producers may benefit from higher crude prices. In contrast, energy-intensive industries and certain emerging markets that rely heavily on imported oil may lag.

For example, during prior Middle East conflicts and in the early stages of Russia’s invasion of Ukraine, oil prices spiked rapidly before retracing as supply chains adjusted and demand responded.

Perspective: Today Versus Past Oil Shocks

It is reasonable to compare the current situation to the oil shocks of the 1970s. However, the global economy differs in several important respects.

First, the world economy is significantly less oil-intensive than it was five decades ago. Each dollar of global output now requires less energy than in the past.

Second, many analysts estimate that oil prices would need to exceed $200 per barrel to create an economic shock comparable to the 1970s embargo. This estimate is cited for historical comparison and does not represent a forecast.

While current levels are elevated, they remain well below that threshold.

That said, the broader economic backdrop remains fragile. Sustained high energy costs could weigh on global growth if prices remain elevated for an extended period.

For investors, Investors may consider maintaining a disciplined approach during periods of volatility. Oil shocks still matter, but their impact on diversified portfolios has historically been more contained than initial headlines might suggest.