

TIMING AND MEASURING ENERGY SUPPLY RISKS

Financial markets were caught off guard by the sudden attack on Iran, which swiftly transformed a previously oversupplied crude oil market into a much tighter one due to the effective closure of the Strait of Hormuz. Despite widespread expectations that oil supply would far exceed demand, the disruption of this critical transit route reversed market dynamics and reintroduced acute energy supply risks. Just as markets were pricing a benign outlook for oil, geopolitics reminded investors, economists, and policymakers how fragile energy security remains.

Threats to exports and potential regional escalation have forced investors to reassess the likelihood of sustained volatility and higher prices. Markets are now caught between hope and anxiety. There is widespread anticipation that fighting will soon abate, allowing oil flows to stabilize. Yet, the uncertainty surrounding the duration and depth of the supply shock is profound. Ultimately, this is what will likely matter for markets. History suggests that even temporary disruptions can have lasting effects on market psychology and price formation. The lack of clarity on how quickly normalcy can return is likely to keep volatility elevated, with risk premiums embedded in energy prices for the foreseeable future.

The price shock is most severe for oil-importing economies. Rising crude costs, compounded by stronger dollar exchange rates, threaten to squeeze margins, lift

inflation, and weigh on growth—particularly in Europe and Asia, which are more exposed than the U.S.

Globally, the balance of risks has shifted toward lower growth and higher inflation. A sustained 10% rise in energy prices could reduce global real GDP by 0.1–0.3% and add 20–40 basis points to headline inflation, with more limited pass-through to core prices. At \$100 per barrel, Brent is roughly 45% above its 2025 average (less in real terms). Impacts should be manageable if prices ease soon, and consensus forecasts remain largely unchanged—implying de-escalation remains the baseline expectation. Prolonged disruption, however, has the potential to produce material global effects, particularly for net energy importers.

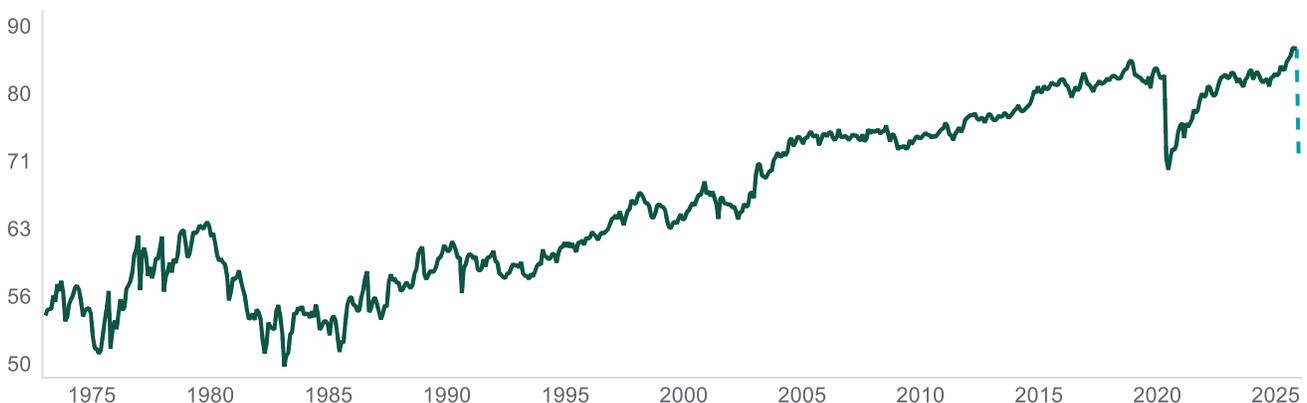
Strategic stockpile releases provide only temporary relief. They cannot resolve uncertainty over the Strait of Hormuz, which carries nearly a third of global seaborne oil. Normalization depends on both de-escalation and diplomatic efforts to secure this corridor.

Central banks are therefore likely to stay cautious. Elevated energy prices complicate easing efforts, pushing policymakers toward a wait-and-see stance. For investors, the episode underscores the fragility of supply chains, the power of geopolitics, and the need for vigilance and flexibility in navigating an unsettled landscape.

A MAJOR THREAT TO SUPPLY

GLOBAL CRUDE OIL SUPPLY (MILLION BARRELS PER DAY)

— Historical — Estimate Based On Tankers Avoiding The Strait Of Hormuz



Source: Financial Times, U.S. Energy Information Administration, Macrobond. Data is on a log scale through November 2025. Historical trends are not predictive of future results. Forecasts are subject to change without notice.

POSITIONING SCENARIOS

Fiscal and Productivity Boost (30% probability)

Tax cuts, deregulation and AI adoption more than offset supply restraints. Strong productivity gains continue, allowing for robust economic growth without sparking higher inflation.

Two-Speed Expansion (45% probability)

Soft labor force dynamics and a bifurcated economy govern what would otherwise be a stronger growth environment, resulting in a trend-like expansion and disinflation.

Economic Fault Lines Broaden (25% probability)

The economic expansion is cut short by persistent supply-side restraints, energy headwinds, or AI-related disruption that weakens activity and/or tightens financial conditions.

Note: Probabilities are assumed from proprietary research and are subject to change.

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