InCred Global Wealth

Insights

Oil shocks: what history tells us about current energy disruption

Why how long the disruption lasts, central bank policy and energy logistics determine whether oil shocks affect the wider economy

17 March 2026

Executive summary

- Oil shocks become economically significant when they persist long enough to affect **inflation expectations** and **constrain central bank policy.**
- The current disruption reflects constraints on moving oil through the Strait of Hormuz rather than a loss of production, making outcomes dependent on **shipping** and **security conditions.**
- The **global economy is less oil-dependent** than in the past, but higher interest rates increase sensitivity to any delay in monetary easing.
- Markets are currently pricing a **temporary disruption**, but refined product markets (such as petrol and diesel) and shipping conditions will determine whether inflation pressures persist.
- Energy shocks create uneven outcomes across regions and sectors, reinforcing the importance of **diversification**.
- For portfolios, the key risk is that **sustained energy costs delay rate cuts** and keep financial conditions tighter for longer.

The recent escalation in the Middle East has brought energy markets back into focus. Oil prices have moved above $100 per barrel and shipping through the Strait of Hormuz, the most important energy corridor in the world, has become uncertain. The immediate question is how this current disruption compares with previous oil shocks, and whether it is likely to remain contained or evolve into something more persistent.

The analytical error is to treat the initial move as decisive. Oil shocks become economically significant only when they persist long enough to alter inflation expectations and constrain monetary policy. The mechanism is consistent across episodes: higher energy costs raise headline inflation, compress real incomes and, if sustained, force central banks to maintain tighter financial conditions than would otherwise be required by growth alone. The economic impact is therefore mediated through policy, not just prices.

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The table below compares major oil shocks across a consistent set of factors, focusing on what determines their economic impact rather than their immediate cause:

	1973-74 Arab embargo	**1990-91 Gulf crisis**	**2008 Oil spike/Global Financial Crisis**	**2022 Russia-Ukraine**	**2026 Iran war/Strait of Hormuz disruption**
What caused oil prices to surge?	Oil-producing countries deliberately cut exports to Western economies	War threatened oil fields and exports from Kuwait and neighbouring Gulf states	Global demand for energy surged while supply struggled to expand	Western sanctions disrupted oil exports from Russia	Conflict has disrupted shipping through the Strait of Hormuz, a key route for global oil trade
What event triggered the shock?	Arab states impose an oil embargo after the October 1973 Arab-Israeli war	Iraq invades Kuwait	Strong global growth and commodity speculation drive oil higher	Russia invades Ukraine and Western countries impose sanctions	War with Iran leads to attacks on ships and insurance restrictions in the Gulf
How much did oil prices rise?	$3.65 → $11.65 (+219%)	$14 → $31 (+120%)	$87 → $147 (+68%)	$80 → $114 (+42%)	$75 → $100+ (~ +33% so far)
How much global oil supply was disrupted or threatened?	Around 7-9% of global supply	Around 5-6% of global supply	Little direct supply disruption	Around 3-4% displaced or re-routed	Up to 20% of global oil trade passes through Hormuz, though production itself is largely intact
What part of the oil system was disrupted?	Oil production itself	Oil production and exports from Kuwait	Global supply struggled to keep up with demand	Export routes and trade flows for Russian oil	The transport of oil by ship, rather than production
Main factor limiting supply	Producers restricted output	War risk to Gulf oil production	Limited spare capacity	Sanctions and pipeline re-routing	Shipping risk, insurance costs and tanker disruption
How dependent was the global economy on oil at the time? *(barrels of oil needed to produce $1,000 of global GDP)*	~0.97	~0.70	~0.53	~0.39	slightly lower than 2022
Global oil dependence compared with 1973 *(1973 = 100)*	100	~72	~55	~40	~35-40
How long did the price spike last?	Structural repricing lasting several years	About 4-6 months	About 6 months, then prices collapsed during the financial crisis	Elevated for roughly 6 months	Still unfolding; current phase measured in weeks
Peak inflation during the episode	~12%	~6%	~5-6%	~9%	Too early to determine
Impact on economic growth	Global recession	Mild recession in several economies	Severe global recession during the financial crisis	Growth slowdown without formal global recession	Depends mainly on how long shipping disruption persists
How central banks responded	Interest rates raised sharply to fight inflation	Interest rates cut as recession emerged	Interest rates cut aggressively during crisis	Interest rates raised sharply to fight inflation	Interest rates already high and slowing the economy - risk is that expected rate cuts are delayed
Equity market behaviour	Global equities fell about 46%	Global equities fell about 15%, then recovered	Global equities fell about 57% during the financial crisis (oil spike was only one contributing factor)	Global equities fell roughly 20% in 2022 tightening cycle	Markets relatively resilient so far
Bond market behaviour	Long-term interest rates rose with inflation	Bond yields fell as recession fears grew	Bond yields fell sharply during crisis	Bonds and equities fell together	Mixed signals so far
How the shock eventually ended	Embargo lifted and new oil supply emerged	War ended and supply resumed	Demand collapsed during global recession	Trade flows adjusted and energy markets stabilised	Unknown, depends on reopening shipping routes or falling demand

Why this episode is different

The current disruption differs from most historical episodes in two respects. **The constraint is not primarily production but transport, and it is occurring in a more constrained financial environment.**

The Strait of Hormuz is the world's most important energy chokepoint, carrying roughly one-fifth of global oil trade. The present conflict has impaired shipping through this corridor, not by eliminating production capacity but by increasing the risk of moving oil through it.

This changes both transmission and adjustment. **Production shocks are typically resolved through supply responses or demand adjustment.** Logistics-driven shocks propagate more broadly: shipping costs rise, insurance becomes scarce, tanker availability falls and fuel markets tighten. In recent weeks, fuel oil used by the shipping industry has traded at unusually high levels relative to crude, indicating stress in downstream markets rather than upstream scarcity.

Logistics constraints are resolved through security, insurance and confidence rather than investment alone. These conditions can normalise quickly but may also remain impaired even when infrastructure is intact, making the persistence of this type of shock less predictable.

At the same time, **the global economy is less oil-dependent than in the past**, which provides some resilience, though the impact remains uneven, with energy-importing economies under pressure while exporters benefit.

More importantly, **the financial environment is more constrained**. Inflation remains above pre-pandemic norms and interest rates are already relatively high, increasing the sensitivity of both growth and asset valuations to any delay in monetary easing. In earlier episodes, central banks often had room to ease policy as growth weakened. Today, they are less able to do so if inflation remains elevated, meaning economic policy is likely to remain restrictive for longer than markets expect.

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In practical terms, the constraint is not whether oil is produced, but whether it can be delivered reliably and whether the resulting inflation prevents policy from adjusting.

What markets are signalling

So far, markets appear to be treating the disruption as serious but not yet structural. Oil prices have moved above $100 per barrel but remain below historical extremes. **Equity markets have shown resilience**, with limited broad-based selling. Positioning has been selective rather than indiscriminate, with differences across sectors and regions rather than a uniform de-risking.

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Forward pricing provides additional insight. **Oil futures curves remain below current spot levels at longer maturities, suggesting that markets expect some degree of normalisation over time**. At the same time, pricing of interest-rate cuts has become more uncertain, reflecting the possibility that higher energy costs may delay monetary easing. These signals point to a market that recognises the risk of persistence but has not yet fully priced it.

Framing the possible paths

The current episode can be understood through three broad scenarios. These are not forecasts, but frameworks for interpreting incoming information.

Scenario	Description	Oil price behaviour	Inflation impact	Central bank response	Growth and market impact
Short disruption	Shipping routes reopen quickly and risk premia fade	Prices retreat below $90–$100	Temporary increase in headline inflation	Rate cuts proceed largely as expected	Limited macro impact; volatility fades
Prolonged disruption	Shipping remains impaired for several months; logistics costs stay elevated	Prices remain around $100–$120	Inflation remains elevated for longer	Rate cuts delayed; policy remains tight	Slower growth, rising dispersion across markets
Extended disruption	Conflict escalates or persists; sustained impairment of energy flows	Prices rise above $120 and remain elevated	Broader inflation pressures become embedded	Central banks constrained; easing not possible	Material slowdown or recession risk, particularly for energy-importing economies

Figure: The economic impact of different scenarios

Implications for portfolios

Portfolio implications depend less on the initial move in oil prices than on how long the shock persists and how central bank policy responds. Short disruptions tend to remain volatility events. More prolonged disruptions transmit through inflation and tighter financial conditions.

Key structural considerations:

- **Pricing power and cost pass-through:** businesses able to pass higher input costs through to customers are better positioned than margin-constrained or highly cyclical sectors.
- **Inflation sensitivity:** assets with explicit or implicit linkage to inflation can provide protection if energy costs feed into broader price levels.
- **Liquidity and flexibility:** maintaining liquidity preserves optionality where outcomes are path-dependent and reversals can be rapid.
- **Energy exposure and regional balance:** diversification across energy-importing and energy-exporting economies helps mitigate the uneven impact of energy shocks.

Diversification across asset classes, regions and sources of return remains the primary defence, particularly where energy shocks create divergence rather than uniform market moves. In parallel, periods of elevated uncertainty can favour **strategies designed to benefit from volatility itself**, where structured approaches or absolute-return frameworks convert uneven market moves and non-linear price swings into return opportunities rather than risk alone.

Conclusion: When oil shocks become economic shocks

The natural comparison is with the 1970s. The more useful comparison is not the event itself, but the mechanism through which it affects the economy. Will disruption to a single chokepoint persist long enough to keep inflation elevated and constrain monetary policy?

If the disruption proves short-lived, the episode is likely to resemble 1990: a sharp but contained shock. **If it persists, it moves closer to the dynamics observed in 2022**, where an energy shock reinforced an already restrictive policy environment.

The defining question is therefore not how high oil prices rise, but whether current conditions endure. That is the point at which an energy shock ceases to be a geopolitical event and becomes a macroeconomic one.

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About the author

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