InCred Insights

Special update: Oil above $100 - implications for the global economy and investment portfolios

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Executive summary

- **Oil above $100 reflects a logistics shock centred on the Strait of Hormuz rather than clear evidence of large production losses.** Shipping risk, insurance constraints and attacks on vessels have slowed tanker traffic through the corridor that normally carries roughly one-fifth of global oil supply.
- **The oil market's usual shock absorber is constrained.** Much of the world's spare production capacity sits in Gulf producers whose exports depend on the same chokepoint. If flows remain impaired, adjustment is more likely to occur through higher prices and weaker demand than through additional supply.
- **The macroeconomic impact will depend primarily on duration.** A brief disruption would mainly generate market volatility. Sustained disruption could keep energy prices elevated long enough to delay expected interest-rate cuts and weaken growth in energy-importing economies.
- **Asia faces the most immediate economic exposure, while Europe is vulnerable through gas markets.** Asian economies depend heavily on Gulf crude, while disruption to Qatari LNG could intensify competition between Europe and Asia for global gas supplies.
- **For investors, energy security has returned as a macro driver of portfolios.** Energy shocks tend to weaken the diversification normally provided by bonds, increase dispersion across regions and sectors, and reward exposure to energy producers, infrastructure and other real assets.

Brent crude moved above $100 per barrel as trading opened in Asia today and briefly approached $120 before easing back. It is the first time oil has crossed that threshold since 2022. The significance of the move lies less in the price itself than in what it reveals about the flow of energy through the global system.

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Oil markets react most violently when the physical movement of supply becomes uncertain. In the present case the concern is not primarily lost production. It is the disruption of the shipping, insurance and logistics network that moves Gulf oil through the Strait of Hormuz.

That distinction matters. Price spikes driven by sentiment tend to fade quickly. Disruptions to energy logistics can persist for far longer.

The chokepoint in the global energy system

The current shock runs through a single geographic constraint: the Strait of Hormuz. Roughly one fifth of global oil supply normally passes through this narrow channel between Iran and Oman. Under normal conditions around 20 million barrels per day of crude and refined products transit the strait.

Since the conflict began, tanker traffic has slowed sharply as shipowners, insurers and traders reassess the risks of operating in the region. Several vessels have been attacked and naval activity has increased.

Recent estimates suggest flows may have fallen dramatically, in some cases to roughly **10–20 percent of normal level**s on certain days. These figures should be treated with caution, as wartime vessel tracking is inherently unreliable, but they illustrate the scale of disruption confronting the market.

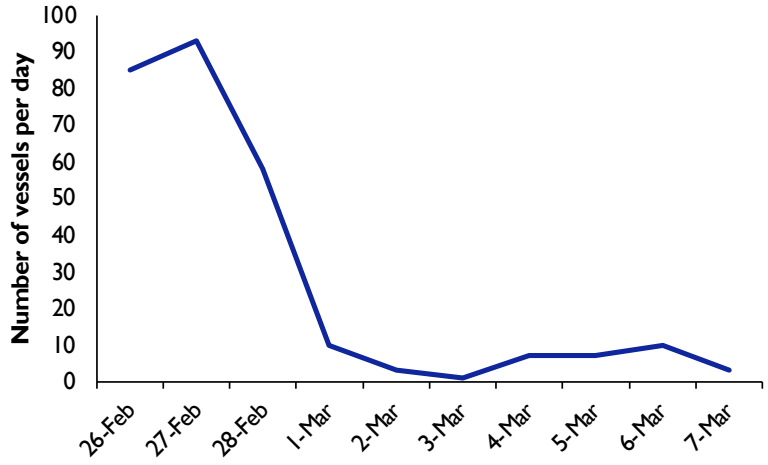


Figure 1: Estimated total traffic through the Strait of Hormuz
Source: Bloomberg, JP Morgan, Windward

Some current estimates suggest that as much as **17 million barrels per day** of Persian Gulf exports could temporarily be unable to reach global markets if these conditions persist. This figure reflects an inferred disruption to export flows rather than confirmed lost production.

In volumetric terms, the potential disruption to Persian Gulf flows is an order of magnitude larger than the peak production shock associated with Russian supply in 2022, even if its duration ultimately proves shorter.

Why this shock matters more than a typical supply scare

What makes the current disruption particularly significant is the location of the world's spare production capacity. In most oil shocks, higher prices eventually attract additional supply from large producers. **Saudi Arabia and the United Arab Emirates have historically stabilised markets by increasing output when disruptions occur elsewhere.**

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In the present situation that mechanism is constrained. Much of the world's spare capacity sits behind the same chokepoint now under stress. Estimates suggest that roughly 3–4 million barrels per day of potential spare capacity in the Gulf could be effectively inaccessible if exports

through the Strait of Hormuz cannot move freely. Governments also retain the option of releasing oil from strategic petroleum reserves, as they have during previous supply disruptions. Such interventions can temporarily stabilise markets by bridging short-term supply gaps. However, reserve releases are finite and designed to smooth volatility rather than replace sustained export flows. If disruption to Gulf shipping were prolonged, strategic reserves could mitigate the shock but not eliminate it.

The implication is that the usual stabilising mechanism for oil markets is itself dependent on the logistics network that is currently impaired. When spare capacity cannot reach consumers, adjustment occurs through prices high enough to suppress demand rather than through incremental supply.

A brief spike into the $90s can usually be absorbed. **Sustained prices in the $100–$120 range begin to strain consumption.** Prolonged prices above that level tend to trigger broader demand destruction and eventually recessionary dynamics.

The macroeconomic transmission

Energy shocks affect the global economy through several channels simultaneously. Higher oil prices feed directly into inflation through transport, logistics and fuel costs. They reduce household purchasing power as energy bills rise. They compress corporate margins in sectors that cannot easily pass higher costs on to consumers.

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At a global level this represents a transfer of income from energy-importing economies to energy exporters.

The macroeconomic impact depends primarily on duration. Short-lived spikes tend to generate financial volatility without materially altering growth. Sustained energy shocks can slow economic activity while keeping inflation elevated.

Financial markets have already begun to respond through the interest-rate channel. Investors are pricing fewer rate cuts in several major economies than they were before the conflict, reflecting the risk that higher energy costs will keep inflation pressures alive. The result is that this episode is **no longer simply an oil story. It is increasingly a monetary-policy story.**

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Three possible paths

The economic consequences depend largely on how long the disruption persists:

- If tanker **traffic through the Strait of Hormuz resumes quickly** and liquefied natural gas (LNG) exports normalise, oil prices would likely retreat, and the episode would resemble previous geopolitical flare-ups that generated volatility without lasting macroeconomic damage.

- A second scenario involves **disruption lasting several months**. This could occur if shipping risk remains elevated or if insurance and freight costs make tanker transport economically unattractive. In this environment energy prices would likely remain high enough to delay expected interest-rate cuts and weaken growth in energy-importing economies.

- A third scenario involves a **prolonged disruption**. This could emerge if the conflict escalates to include sustained attacks on shipping or if tanker flows remain severely constrained for an extended period. In that environment the market would likely adjust through demand destruction rather than additional supply, raising the risk of stagflationary conditions in which growth slows while prices remain elevated.

Conversely, a credible international security guarantee for shipping or a visible recovery in tanker traffic through Hormuz could shift markets back toward the first scenario. Flows consistently rising toward roughly half of normal volumes would be an early signal that the worst macro outcomes are being averted. **Markets currently appear to be pricing something closer to the second scenario, with rising concern that conditions could drift toward the third.**

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Regional exposure

The economic consequences of the shock are unevenly distributed. **Asia** is the most immediately exposed region. The Gulf supplies between roughly 40 percent and 80 percent of seaborne crude imports for major Asian economies including China, India, Japan and South Korea. Around 87 percent of the oil moving through the Strait of Hormuz ultimately flows to Asian markets. When shipping slows, Asian refiners must compete aggressively for alternative supply. Reports indicate that some facilities have begun reducing output as feedstock becomes harder to secure. The consequences are likely to appear first in industrial margins, petrochemicals and transport costs across the region.

Europe faces a different vulnerability. The continent is less dependent on Gulf crude but remains highly exposed to natural-gas markets. Qatar accounts for roughly one fifth of global liquefied natural gas supply, and disruptions to export infrastructure have already tightened LNG balances. Because LNG cargoes are traded globally, tighter supply also creates competition between importing regions. If Gulf LNG exports remain constrained, European buyers are likely to outbid Asian importers for available cargoes, forcing some Asian economies either to pay significantly higher prices or to substitute toward coal and other fuels. If these disruptions persist, European benchmark gas prices may need to revisit the roughly €60–€100 per megawatt-hour range that previously forced reductions in industrial demand.

The **United States** is comparatively better positioned. The shale revolution has transformed the US into one of the world's largest oil and gas producers, reducing its exposure to external supply interruptions. Nevertheless, oil remains globally priced, and higher crude prices still translate into higher gasoline costs and renewed inflation pressure. That said, the United States is insulated, but not immune.

Second-order commodity risks

Energy disruptions rarely remain confined to energy markets. Iran is also a meaningful exporter of **fertilizer** inputs, accounting for roughly 5 percent of global urea trade and around 11 percent of global ammonia trade. These are not world-ending numbers, but they are large enough to matter at the margin for agricultural input prices if the disruption persists. Such effects would appear with a lag rather than immediately. Even so, they illustrate how disruptions to energy logistics can propagate across commodity markets.

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Implications for investment portfolios

Energy shocks tend to produce a recognisable pattern across financial markets.

Energy producers and commodity-linked sectors often outperform during the early phase of a price surge, while economies that rely heavily on imported energy typically experience weaker equity markets, rising inflation and softer currencies.

Currencies can also act as partial shock absorbers. Commodity exporters and the US dollar often strengthen during energy shocks, while energy-importing regions frequently face pressure on both inflation and exchange rates.

Government bonds present a more complicated dynamic. In a traditional growth slowdown, bonds often provide diversification when equities weaken. In an inflation shock that relationship becomes less reliable. Slower growth would normally pull yields lower, but higher inflation expectations push in the opposite direction.

Periods of energy-driven inflation have historically **weakened the negative correlation between equities and bonds**. When that occurs, balanced portfolios lose some of the diversification investors rely on to stabilise returns.

That does not make portfolios unworkable, but it does change how shocks propagate through markets. Energy disruptions tend to create dispersion across regions, sectors and asset classes rather than a uniform decline in risk assets. Energy producers, infrastructure and commodity-linked assets often perform differently from energy-importing sectors and economies, which helps diversified portfolios adjust over time.

For long-term investors, the central challenge is therefore not predicting each geopolitical shock. It is maintaining portfolios resilient enough to absorb periods when energy becomes a dominant macro variable and market relationships behave differently from the low-inflation decade that preceded the pandemic. In such environments diversification often comes instead from explicit exposure to real assets, commodities or infrastructure, or from strategies that benefit from volatility rather than relying solely on duration.

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Structural implications

The current crisis may also have longer-term consequences beyond the immediate price spike. **Energy security** is likely to move higher on the policy agenda, potentially influencing both fossil-fuel investment and the pace of the energy transition. Governments may prioritise resilience of supply alongside decarbonisation objectives.

The episode may also reinforce broader trends toward **supply-chain resilience** and regionalisation. When critical commodities depend on a small number of geopolitical chokepoints, efficiency often gives way to security.

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Conclusion: Energy returns as a macro variable

For much of the past decade energy security rarely appeared as a central variable in financial markets. The current crisis suggests that assumption may have been premature. The Strait of Hormuz has not been formally closed, yet the perception of risk alone has been enough to slow shipping and push energy prices sharply higher. That is a reminder of how dependent the global economy remains on a small number of critical energy chokepoints. When those chokepoints come under strain, the consequences extend well beyond oil markets. Inflation expectations shift, interest-rate paths become less certain, and the correlations that normally stabilise portfolios become less reliable.

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For long-term investors, this does not invalidate the logic of diversified portfolios. It reinforces it. Periods when energy becomes a dominant macro variable tend to produce dispersion across regions, sectors and asset classes rather than uniform declines.

Energy security and logistics risk are therefore once again shaping the macro environment in which portfolios operate. When energy flows become uncertain, financial markets rarely remain stable for long.

About the author
Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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