Conversations with Commerce Trust

Volatile Energy Markets Influence the Global Economy

Recorded April 16, 2026

David Hagee: Hello, and welcome to Conversations with Commerce Trust, our show about the markets, investment themes, and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust.

Today, we're looking at energy markets, their economic influence, and impacts on the markets with Don McArthur, our Director of Equity Research and Senior Investment Strategist. Welcome back to the podcast, Don.

Don McArthur: Thanks David, happy to be here.

David: Certainly, had an eventful 2026 as we've seen inside the energy markets, this Iranian conflict has really amplified the volatility inside energy markets. We've seen oil go over $100 a barrel, and more importantly, it's gone over $4 a gallon at the pump. So, it'd be worthwhile for us to take a bigger look at energy and its impacts kind of across the economy and markets here. As we're looking at oil, I think a little bit of a primer is worthwhile here. We're really talking about oil from a seagoing oil, which is Brent Sea oil price, or West Texas Intermediate. So, as we're thinking about that, what's the most impactful on the U.S. market?

Don: So, on the U.S. market, for the price of oil and then the price of gasoline, which people likely care about the most, is WTI, which is West Texas Intermediate. So that's the domestic oil price, whereas you alluded to, Brent (Sea oil) is the price that's delivered by big ships over the ocean.

David: So, as we're thinking about that, you know, as the Iranian conflict has persisted here, everyone's become a little bit more familiar with some of these geographies, certainly the Strait of Hormuz remains in focus, as that's a key choke point for oil out there. But we're talking about Brent Sea crude that's traveling through the Strait of Hormuz, and as we visit that question there, where does most of the oil from the Persian Gulf, transiting through the Strait of Hormuz end up?

Don: Well, to step back, about 15 to 20% of the world's oil that we use does go through the Strait of Hormuz, and I think everybody's seen the choke point on media. And for reference, we use 100 million barrels of oil each and every day in the world, so that's a significant amount of 15 to 20 million barrels going through there every day, or about 100 of the big container ships that you see. So, a lot of that comes from, all of it comes from Mideast countries, but about 90% of it does flow into Asia, whether that's China, India, Japan, or other Southeast Asia countries.

David: So, as we're working through this, certainly there is a, it's more impactful to Asian markets and Asian economies as they have less crude flowing into their ports. And as we think about this, you know, we're looking at oil right now, flirting at about $100 a barrel, a little bit less. Started the conflict off right around $60 a barrel-ish. What's it look like for future quarters?

Don: You know, future quarters, we're getting down to, you know, $80 over the next few months, and ending the year into the $70s is what the markets are predicting.

David: So, yeah, I think that's important to remember that, as we're looking here, the impact of oil only becomes amplified if it persists at these higher levels. When we're talking about $4 a gallon entering into the key U.S. summer driving season, or if we're talking about other products coming out of the Middle East, whether that's liquefied natural gas, helium, or aluminum. If it's a temporary price shock, that's one thing, but if it's persistent, that sort of grinds at economic growth.

I mentioned liquefied natural gas. In the U.S., we have an abundance of natural gas, mostly a byproduct from our fracking that we're doing in Texas mainly, but other areas of the country. Maybe we could talk a little bit about the impact of higher prices for liquefied natural gas globally.

Don: Yeah, so as you said, in the U.S., we have an abundant supply of natural gas. We are the largest producer of natural gas. We are the largest exporter of natural gas. We produce 40% more natural gas than we need.

And natural gas in the U.S. is down. The price is actually down 10% since the start of the war, because we're really self-sufficient here. And that really feeds into our electric production, which is a big hit to the consumer. So, we're doing really well here.

Now, globally, most areas import natural gas. So, the natural gas prices in Europe and Asia are actually up 60% since the start of this conflict in late February. So that's going to be a big hit, especially think about continental Europe, the industrial might of Germany, having those high input prices for their factories.

David: Yeah, and that's really sort of Europe getting caught in a pinch point here. They had pivoted their energy supplies from Russia mainly in 2022 over towards Middle Eastern supplies, as well as U.S. LNG (Liquified Natural Gas) providers. So now they're kind of left with one supplier out there that can provide a steady flow. So definitely hurts industrial production over there.

Don: Yeah, and while we can export quite a bit here from the U.S., we have limited export capacity, and that's very much already contracted out for years, and it takes a couple years to build a new terminal, build a new ship to move more liquefied natural gas from the U.S. to these areas, so they really are dependent on these Middle Eastern countries.

David: Yeah, it's a very complex operation on liquefied natural gas. Effectively, you're getting it very, very cold to turn it into a liquid, and having to keep it cold the whole time that it's on a tanker. So, it's not a just slap some steel together and throw another ship out there type operation.

Don: The other thing to note is that there's other products from energy that come through. Globally, diesel costs are up 40%, and that's really the transportation fuel for the global economy. And then also jet fuel is impacted. We've seen actually cancellation of flights in Asia because of lack of jet fuel supply. So, this is going to reverberate around the economy more globally than the U.S., but there's quite a few areas that get impacted.

David: Yeah, and outside of that, I think it's just worth mentioning that there's a significant amount of helium used in industrial production, aluminum for consumer products and industrial products, that's produced inside the Middle East, that's sort of behind that Strait of Hormuz choke point there.

And then finally, as we get into the summer in the northern hemisphere, our growing seasons are going to be impacted by higher urea prices, which is a feedstock into fertilizer. So, the impact of that small 13-mile-wide section of open water there is truly outsized for us.

As we sort of translate this into the broader economy, I think first and foremost looking at the U.S. economy, as a country, we've reduced our energy consumption by about 43% over about the past 25 years. We all have LED light bulbs. Ford F-150 probably flirts with 20 miles per gallon at this point. So we've become much more efficient with the energy that we do use. That being said, transportation energy is about 3% of the U.S. consumption bucket, and energy overall is about 7% of the U.S. consumption bucket. Maybe we could talk about the impacts we would see on inflation if these prices persist at these higher levels.

Don: Well, if we see gas prices about every $10 of higher oil prices translates to about 0.2% on inflation across the U.S. We did see gasoline prices this last month in March up 20%, and that really raised the CPI, or the Consumer Price Index, across the U.S. by 0.9% in March. Leading to inflation for 2026 on an annual basis going from 2.4% to 3.3% on a headline basis. Excluding energy, it was fairly well contained, but that is starting to bleed through on the inflation front.

David: You know, Don, looking through at the impacts of these higher energy prices, I'm struck by this idea that, you know, we have, lower-income consumers that are more, that feel this impact to a higher degree, where higher-income consumers are feeling this energy surge a little bit less. What are your thoughts around travel, as well as the impact to the consumer?

Don: So, looking at the consumer, they remain strong. We still have stimulus coming from the tax legislation that was passed last summer. People are getting large refunds in March and April, which is helping a broad variety of citizens in the U.S. The upper end has high stock valuations, high home valuations, and they're still traveling and booking, trips well into 2026. So, the consumer actually looks very strong, and it typically, typically takes 3 to 4 months, for, of sustained higher gasoline prices to really impact the consumer, because they find other buckets to, to fill that gap.

David: Yeah, that's a great point, that consumption, especially for lower-income producers, remains relatively the same, except they're just having to substitute away from other areas to be able to afford those higher energy prices.

Don: And maybe they're putting that, those, tax refunds into their gas tank.

David: Yeah, that's true. We really haven't seen a consumption impact so far from the One Big Beautiful Bill. That's a great transition over to the equity markets. As we look at things, at the start of the year, we did not anticipate this Iranian conflict happening, and you would expect markets to be way off at this point, but instead we're hitting all-time highs. How do you make sense of that, Don?

Don: I think investors are willing to price in a diplomatic off-ramp to this situation and look through it. Maybe analogous to the tariffs last year. We saw this tariff tantrum, everybody was worried about what happened, we reached a political solution to it, and we went through it just fine in the markets. That likely is what investors are looking at right now.

David: So, part of the story of 2025 was international markets having both a tailwind from a declining dollar, as well as investor enthusiasm around their lower valuations, pushing them above U.S. markets for the first time in quite some time. What's the story with international versus domestic this year?

Don: International markets started off the year very strong, with developed markets up 10% before the war. Emerging markets were up 15%, while the S&P 500 Index was only up 2% before the war. All of them pulled back 9–12% during the conflict but have regained all of that back. We see nice gains for all of those markets, with the international markets leading the way again.

David: Yeah, it's been an interesting turnaround here. They're much more heavily energy-dependent, both Asia as well as Europe, and so they're bracing for a larger impact from these higher energy prices. But the stocks have rebounded nicely here.

Looking at the U.S., certainly we've had tech dominance for quite some time. As I look today, about mid-April, back at March numbers, the only sector up in March when the Iranian conflict was firmly in the focus of markets was energy. Maybe we could talk a little bit about where we're at sector-wise at this point.

Don: Yeah, to your point, energy is the top performer this year, but that was actually leading up into the conflict. Since the Iran war started, energy is actually flat. So it was anticipated by the markets and has sold off as we maybe get closer to a diplomatic off-ramp.

David: As we look toward the back half of 2026, surprising it feels like we can do that this early in the year, but we're about a third of the way through the year. We're always focused on earnings growth. We're at the start of first-quarter earnings season right now. What are the thoughts around what earnings growth is shaping up to be?

Don: Interestingly, since the war started, earnings estimates for the S&P 500 consensus are actually up more than they were in late February. The consumer data remains strong. There's questions on what the retailers might say. But the banks have already reported, and the banks, as you know, have credit and debit card data on consumers and it's very strong both from a spending aspect as well as low delinquencies, meaning people are paying back the money they borrowed on their card.

Technology continues to drive. Consumers are doing well. Financials are doing fine. The economy continues to hum along. We're looking for robust earnings growth this year.

David: So, you know, as we look to the Fed, it's going to be an interesting year for the Fed. Chairman Powell is due to have his term expire here in May, and you have higher inflation, potentially lower job growth. How does that position the Fed for future rate cuts?

Don: Yeah, as you mentioned, the Fed's in a box here. We were looking for a couple rate cuts in 2026, but now we have this high inflation that they don't want to make worse by lowering rates. So, we think they're on hold for the rest of the year, maybe raised one more time, depending on the outlook for this conflict, but while the economy's slow, it's still growing, quite nicely, and the job market remains strong.

David: Yeah, that's certainly a change from where we were at the start of the year, where we anticipated possibly getting two rate cuts in. At this moment, yeah, they are a little boxed in, right? That you have higher inflation. And, you know, job growth, we saw a continuing claims number today that says that maybe we've stabilized in this new environment where there's really not a lot of immigration going on, less labor force participation, and so it feels like, around 200,000, unemployment claims are sort of a bit of neutral for us, in terms of where we'd be. That probably equates to about 30,000 jobs per month, and that's roughly the pace that we're on right now. You know, in terms of what we're looking at in term, the possibility of slowing growth out there, how would that affect both international and domestic stocks?

Don: Well, for the U.S, it's kind of a small impact. As you indicated, we're much less energy dependent, as we have been in the past, and we have a lot of drivers behind us with fiscal stimulus, monetary stimulus, working with a lag from prior rate cuts, earnings coming through. Globally, the IMF (International Monetary Fund) actually just took down their estimates for global GDP to 3.1% from 3.4%, and inflation up a little bit. So the economy's still moving along globally, and we'll just have to see how this conflict plays out.

David: Sure. And that's a good reminder of how we've been positioned here at Commerce. You know, we've been relatively neutral on the biggest question of stocks versus bonds. You know, as we weather through these geopolitical events and, you know, as we're talking today, we're talking about a second round of, peace negotiations with the Iranians. That it's important to have that asset allocation aligned around your goals and characteristics, your unique goals and characteristics that influence your asset allocation. But at this point, we don't see any great reason to either run away from the markets or run further into the markets as we stand today.

Thanks for the interesting discussion today, Don, really appreciate it. For more on this topic, please visit www.commercetrustcompany.com.

For additional commentary and our Look at the Markets, a quick look at themes and trends influencing the economy and markets. If you've enjoyed what you've heard today, you can subscribe to our show on Apple Podcasts, Spotify, Amazon Music, or wherever you get your podcasts from. Thank you for joining us on Conversations with Commerce Trust. I'm David Hagee. We'll talk again soon.