The Anatomy of an Oil Shock

The Strait of Hormuz: Current Conditions and What History Suggests

Oil shocks are not new, and their transmission through the economy follows a documented sequence. The disruption to Strait of Hormuz shipping that began in late February has rapidly rattled global energy markets and supply chains—and while history won't tell us how this one ends, it offers a useful lens for understanding what tends to happen next.

Below is our ongoing assessment as of the date of publication, April 3, 2026. We will continue to assess the situation as it evolves.

EXECUTIVE SUMMARY

Current Conditions. Passage through the Strait of Hormuz has been severely curtailed. Supply of oil, helium, and other critical industrial inputs has been significantly disrupted. Emergency reserve releases provide a temporary buffer—not a solution.

History offers context. Episodes that resolved quickly have occurred—the 1990–91 Gulf War being the clearest example—though they were not the norm. When disruptions persist, the sequence is consistent: prices rise first, central bank mandates come under pressure, and the demand response follows with a lag.

Two paths lie ahead. How this one unfolds depends on duration. A swift resolution would likely produce a meaningful reversal in energy prices and risk assets. A prolonged disruption would require more patience, with policy flexibility constrained and second-order effects taking time to clear.

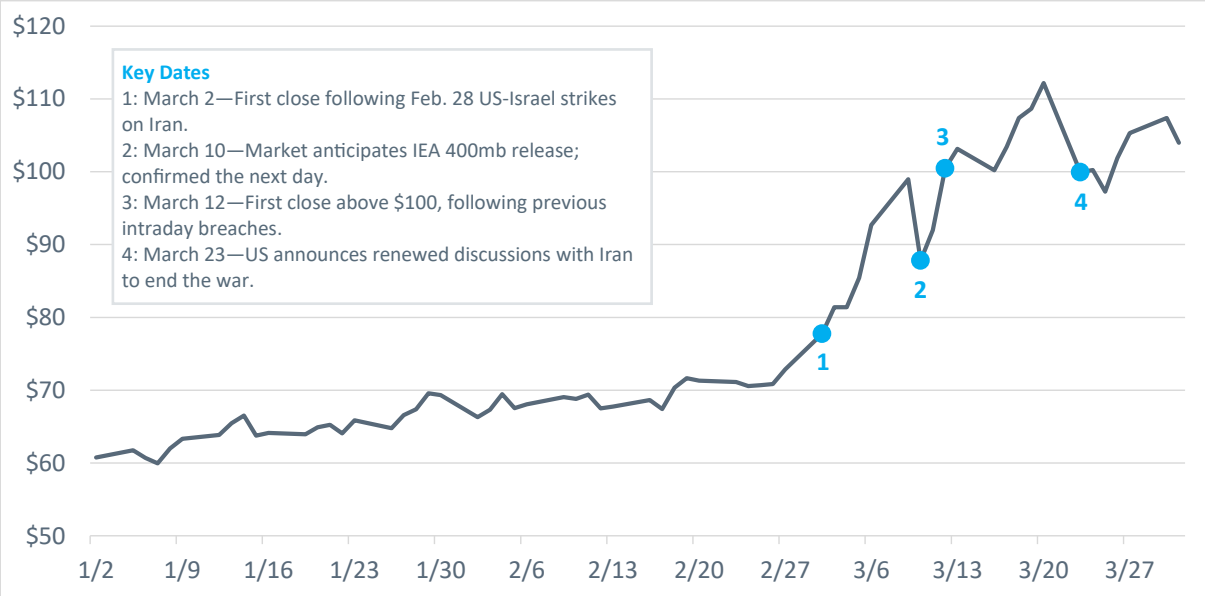
Portfolio implications. The environment reinforces the value of real assets, inflation-linked instruments, and quality-oriented equity exposure. Within emerging markets, differentiation matters—exporters and importers face meaningfully different dynamics. The dollar's longer-term trajectory in an evolving global reserve landscape is worth watching.

Where Things Stand

~+43%	**20%**	**~20**	**400**
Increase in oil price since first strike on Iran[1]	Global oil and LNG supply disrupted	mb (million barrels) / day	mb in total IEA emergency release—largest in agency history

The disruption has been more severe and persistent than early market expectations. Brent crude breached $100 per barrel in early March for the first time since 2022 and has generally remained above that level since March 12, 2026.[1]

Figure 1: Brent Crude Oil Price (January–March 2026)



Brent Crude Oil Continuous Contracts. Sources: FactSet. IEA Oil Market Report March 2026 (iea.org/reports/oil-market-report-march-2026). CNBC energy and Associated Press reporting, March 2026.

The disruption extends beyond crude oil. The Strait is a key artery for a range of industrial inputs. Qatar and the UAE are among the world's largest exporters of helium—a critical input for semiconductor manufacturing, MRI machines, fiber optics, and aerospace, with no viable substitute. The majority of global helium supply ships via Hormuz.[2] The Strait also handles a substantial share of seaborne sulfur trade used in fertilizer production and metals processing. For many of these commodities, destination-market inventories cover only a few weeks.[3]

The policy response has been significant in scale while limited in effect. On March 11, IEA member countries made 400 million barrels available from strategic reserves—the largest coordinated release in the agency's history—equivalent to roughly 20 days of typical Strait throughput.[4]

Saudi Arabia has been rerouting oil through its East-West Pipeline, built during the Iran-Iraq War for exactly this contingency, but bypass capacity is limited relative to normal Strait volumes.[2] OPEC+ pledged additional output, though much of that spare capacity sits behind the Strait itself.[5]

At the March 17–18 Federal Open Market Committee (FOMC) meeting, the Federal Reserve held its policy rate steady, modestly raised its near-term inflation projection, and—notably—also revised growth projections slightly higher, suggesting policymakers are not yet reading the data as recessionary.[6] Chair Powell was circumspect: "The thing I want to emphasize is nobody knows."[7] This is an honest framing of the policy environment and worth taking at face value.

What History Tells Us

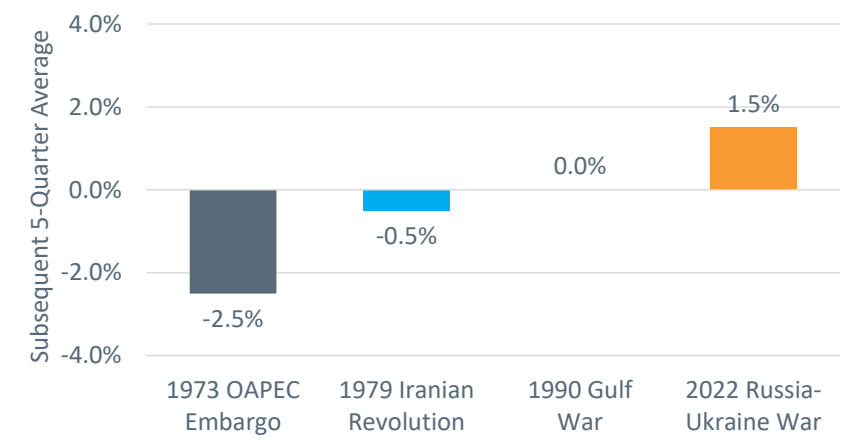
Oil shocks follow a predictable transmission sequence. Energy prices rise first, directly compressing household purchasing power—every dollar at the pump is a dollar not spent elsewhere. Inflation moves higher, creating tension with central bank mandates even as growth softens. Demand destruction arrives later, typically with a lag of several quarters rather than weeks.

Markets that priced resolution before working through this sequence, and policymakers who eased prematurely, have historically fared poorly. The critical variable in every episode has been duration: shocks that persisted had a lasting impact on inflation expectations and wage-setting behavior; those that resolved quickly caused disruption, but limited structural damage.[8]

The 1973 Organization of Arab Petroleum Exporting Countries (OAPEC) embargo quadrupled prices in months and produced the first major postwar episode of stagflation in developed economies. The 1979 Iranian Revolution triggered another major shock that coincided with the shift toward aggressive anti-inflation tightening in the Volcker era.

The 1990–91 Gulf War caused a sharp price spike that declined toward pre-crisis levels as the military outcome became clear—the closest historical analogue to a swift resolution scenario, though it coincided with a subsequent US recession. During the 2022 Russia-Ukraine War, oil supply was rerouted rather than physically disrupted, but it still caused energy price hikes that complicated inflation dynamics and constrained central bank flexibility.[9]

Figure 2: US Real GDP Following Historical Oil Shocks



GDP figures represent five-quarter averages of real GDP, QoQ % change, SAAR.
Sources: BEA-US Bureau of Economic Data and Hamilton, James D. (2011). Historical Oil Shocks. NBER Working Paper No. 16790. National Bureau of Economic Research. https://doi.org/10.3386/w16790.

A practical lesson from the historical record is that early "all clear" narratives can be premature. The macro effects of supply-driven inflation shocks often take longer to show up in growth, earnings, and policy.

The Path Forward

The honest answer is that duration and resolution of geopolitical conflicts remain unknowable with any precision. Nonetheless, we sketch two broad scenarios as a way to think through the range of outcomes and their portfolio implications.

Prolonged Conflict

If the disruption proves prolonged, the economic costs compound: headline inflation moves higher, and real consumer spending gradually deteriorates.

The challenge for central banks is structural: an oil shock simultaneously pressures both sides of a dual mandate, and the historical record suggests that erring toward premature easing has tended to entrench inflation expectations rather than support growth.

Non-US equity markets would likely face the most direct headwinds given their greater energy import dependence, but the broader global growth outlook would deteriorate progressively as second-order effects—margin pressure in critical industries, higher prices, weaker demand—work through global economies.

Swift Resolution

If de-escalation occurs, a credible move toward resolution would likely produce a sharp reversal in energy prices and a meaningful relief rally across risk assets.

But some of the economic effects would persist. Supply chains disrupted for weeks do not normalize overnight, and second-round price effects in food, transportation, and manufacturing inputs tend to continue feeding through even after oil prices ease.

The path back to easier monetary policy would likely require several months of improving inflation data.

A resolution scenario clarifies the forward path, but it does not erase the near-term economic cost. Nonetheless, the asymmetry matters for institutional investors. In the prolonged scenario, the costs are more severe and policy flexibility is constrained.

Portfolio Considerations

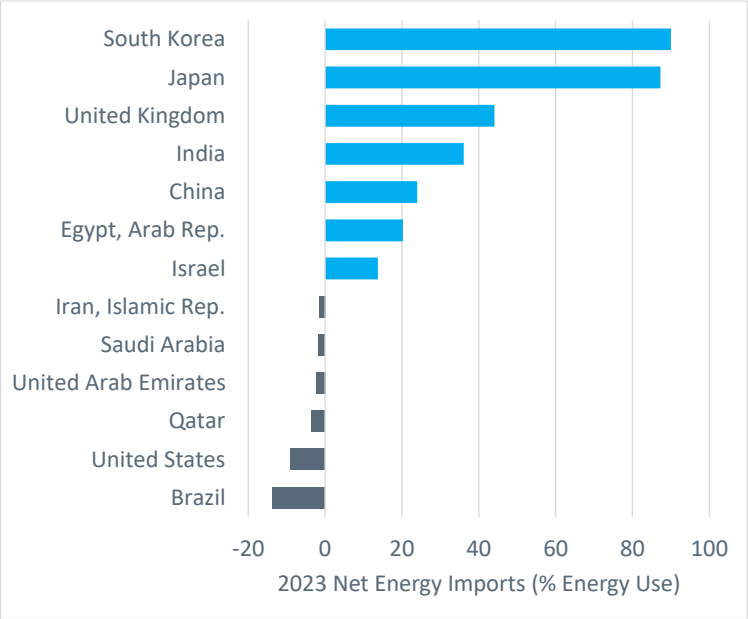
A few themes are worth framing as we think about positioning in this environment:

Real assets and inflation protection. The case for commodities, inflation-linked securities, and real assets with pricing power is reinforced. Gold deserves a nuanced view—it is ultimately a financial asset and has often sold off alongside equities when rates rise and risk premiums expand. Direct commodity exposure has tended to offer more reliable insulation in physical supply disruption scenarios.[10]

Equity quality and geography. US equities are comparatively better positioned given the country's status as a net energy exporter. An emphasis on companies with pricing power, strong balance sheets, and limited energy-cost intensity is likely appropriate. Non-US developed markets—particularly South Korea, Japan, and Europe—face more direct headwinds.

Fixed income. Fixed income remains an important component of diversified portfolios. However, the 2022 experience is a useful reminder that duration may not provide the same ballast when inflation is the dominant stress—bonds and equities sold off together as inflation concerns overrode flight-to-quality dynamics. In supply-driven inflationary environments, other diversifiers typically become more important.[11]

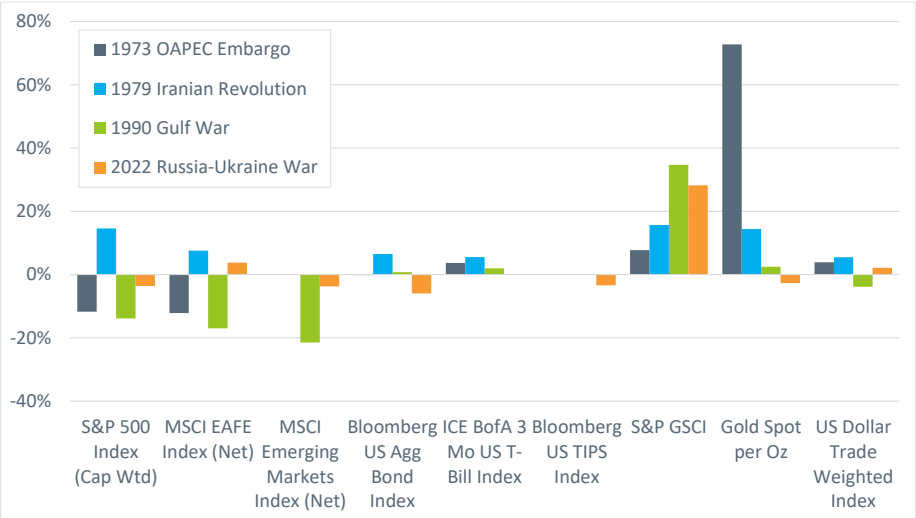
Figure 3: Global Energy Position (% Energy Use)



Source: World Bank, World Development Indicators (EG.IMP.CONS.ZS)

Emerging markets (EMs). The asset class is not monolithic. Energy-exporting EMs stand to benefit from improved fiscal and current account dynamics; energy-importing EMs face higher import bills, currency pressure, and constrained monetary flexibility. Reserve adequacy and current account positions vary significantly — blanket exposure warrants a more granular lens.[12]

Figure 4: Asset Class Returns During Historical Oil Shocks



Data for the MSCI Emerging Markets Index (Net) and the Bloomberg US TIPS Index are not available for all shock events. Source: SBBI and FactSet.

The US Dollar. Dollar strength has been consistent with its historical safe-haven role. The longer-term question is whether this episode accelerates a gradual shift toward a more multipolar reserve system—reserve diversification and bilateral energy trade in non-dollar currencies have been in motion for several years. Whether the current shock reinforces or disrupts those trends is genuinely open, but it warrants attention in long-horizon portfolio construction.

A Final Note

The most useful discipline right now is separating what is known from what is not. The transmission sequence of oil shocks is well-documented history. The timing of resolution is not. That uncertainty is appropriately reflected in both market volatility and central bank communications.

Strategic asset allocation and diversification are built for precisely these conditions. The temptation to reposition aggressively in response to individual headlines has historically not been rewarded. We will continue bringing updated analysis as the situation develops and welcome any questions about how these dynamics intersect with specific portfolio structures.

Notes

[1]Price increase measured from February 27, 2026 to March 31, 2026 of Brent Crude Oil Continuous Contracts. Source: FactSet.

[2]Gulf International Forum, "Hormuz Disruptions and Asia's Energy Resilience," March 19, 2026 (gulfif.org). Supply Chain Intelligence Institute Austria / CSH, "When the Strait Closes: Trade Dependencies and Shipping Disruption Scenarios," March 2026.

[3]IEA Oil Market Report, March 2026; Reuters, "Saudi Arabia ramps East-West pipeline flows amid Hormuz disruption," March 2026. TIME, "How the War With Iran Is Impacting Economies in Asia," March 16, 2026; Kpler, "US-Iran Conflict: Strait of Hormuz Crisis Reshapes Global Oil Markets," March 1, 2026.

[4]IEA collective action decision, March 11, 2026; iea.org/news/update-on-iea-collective-action-decision-of-11-march-2026. 400 million barrels equates to approximately 20 days of typical Strait of Hormuz throughput (~20 million bbl/day).

[5]UNCTAD, "Strait of Hormuz Disruptions: Implications for Global Trade and Development," UNCTAD/OSG/TT/INF/2026/1; Moody's supply chain analysis reported CNBC, March 2026.

[6]Federal Reserve, FOMC Statement and Summary of Economic Projections, March 18–19, 2026; federalreserve.gov.

[7]Federal Reserve Chair Jerome Powell, press conference, March 18, 2026. CBS News / NBC News coverage.

[8]Hamilton, James D., "Historical Oil Shocks," NBER Working Paper 16790, 2011. On economic transmission: Bernanke, Gertler, and Watson, "Systematic Monetary Policy and the Effects of Oil Price Shocks," Brookings Papers on Economic Activity, 1997; Kilian, Lutz, "The Economic Effects of Energy Price Shocks," Journal of Economic Literature, 2008. On 1990–91: BIS Economic Papers No. 31, August 1991 (bis.org/publ/econ31.htm). On the 2022 rerouting dynamic: EIA (eia.gov/todayinenergy/detail.php?id=55079); Kpler analysis, March 1, 2026; OilPrice.com, "Hormuz Shock Sends China and India Racing for Russian Crude," March 2026.

[9]Bernanke, Gertler, and Watson (1997), op. cit. Also: Kilian (2008), op. cit.

[10]Gorton, Gary, and K. Geert Rouwenhorst, "Facts and Fantasies About Commodity Futures," Financial Analysts Journal, 2006; Erb and Harvey, "The Strategic and Tactical Value of Commodity Futures," FAJ, 2006.

[11]In 2022, the Bloomberg U.S. Aggregate Bond Index returned approximately −13%, its worst calendar year on record, while the S&P 500 declined approximately −18%. Source: Bloomberg Index Services; S&P Dow Jones Indices annual return data.

[12]IMF World Economic Outlook; World Bank World Development Indicators; IMF DataMapper: imf.org/external/datamapper.

Disclaimer of Warranties and Limitation of Liability

This document was prepared by RVK, Inc. (RVK) and may include information and data from some or all of the following sources: client staff; custodian banks; investment managers; specialty investment consultants; actuaries; plan administrators/record-keepers; index providers; as well as other third-party sources as directed by the client or as we believe necessary or appropriate. In preparation of this document, the author(s) used Microsoft Copilot to review the text, organize the template and footnotes, and assist with targeted research. RVK has taken reasonable care to ensure the accuracy of the information or data, but makes no warranties and disclaims responsibility for the accuracy or completeness of information or data provided or methodologies employed by any external source. This document is provided for the client's internal use only. It should not be construed as legal or tax advice. It does not constitute a recommendation by RVK or an offer of, or a solicitation for, any particular security and it is not intended to convey any guarantees as to the future performance of the investment products, asset classes, or capital markets. This document should not be construed as investment advice: it does not reflect all potential risks with regard to the client's investments and should not be used to make investment decisions without additional considerations or discussions about the risks and limitations involved. Any decision, investment or otherwise, made on the basis of this document is the sole responsibility of the client or intended recipient.

About RVK

RVK was founded in 1985 to focus exclusively on investment consulting and today employs over 100 professionals. The firm is headquartered in Portland, Oregon, with regional offices in Boise, Chicago, and New York City. RVK is one of the five largest consulting firms in the world, as reported by *Pensions & Investments' 2025 Special Report–Consultants*. RVK's diversified client base spans over 30 states, and covers endowments, foundations, corporate and public defined benefit and contribution plans, Taft-Hartley plans, and high-net-worth individuals and families. The firm is independent, employee-owned, and derives 100% of its revenue from clients for investment consulting services.