

From oil shock to commodity revival

John Malloy, Co-head, Emerging and Frontier Markets

James Johnstone, Co-head, Emerging and Frontier Markets

Nick Smithie, Head of Thematic Research, Emerging and Frontier Markets

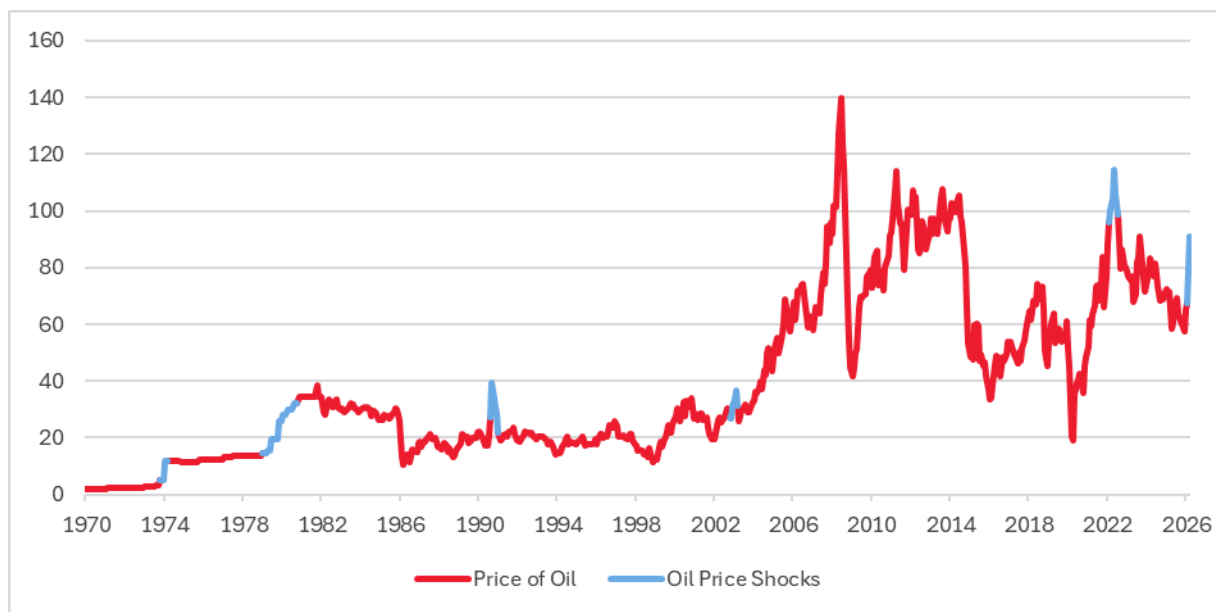
April 2026

There have been several oil supply shocks since the 1970s that have caused oil price spikes, often caused by wars in the Middle East. Today's jump in crude, triggered by renewed tensions with Iran, raises familiar but urgent questions: how high will oil prices go; how will they affect inflation and policy; and how can investors navigate the impact?

Will the price of oil rise a little or a lot?

The Yom Kippur War of 1973 is the oldest and perhaps the most infamous example that disrupted post-war oil price stability, which was exacerbated by the Iranian Revolution in 1979. The Gulf War of 1990 and the Russian invasion of Ukraine are visible blips, as is the price reaction to Operation Epic Fury of March 2026.

Chart 1: The price of oil (US\$)



Source: Bloomberg, 31 March 2026. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

How might central banks respond to the effects on growth and inflation?

The percentage change in the price and duration of the shock are different on each occasion, leading to varying effects on growth, inflation and central bank monetary policy.

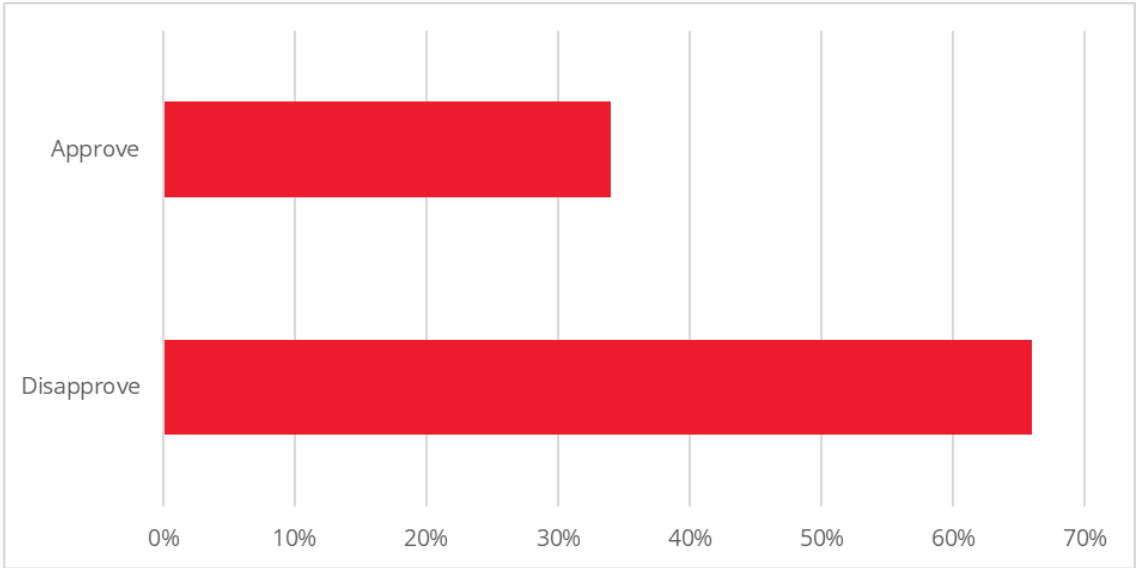
Date	Event	Change in the price of oil	Change in Inflation	Change in Fed Funds Rate
10/73 – 3/74	Yom Kippur War	279%	+1.6%	0.0%
1/79 – 10/80	Iran Rev & War	136%	+3.2%	+10.0%
8/90 – 1/91	Gulf War	91%	+0.9%	-1.75%
10/02 – 03/03	Iraq War	14%	+1.0%	-0.5%
2/22 – 6/22*	Russia/Ukraine	10%	+1.2%	+1.5%
3/26 – ?	Epic Fury	54%	↑?	↓?

Source: Bloomberg, 31 March 2026. The information shown above is for illustrative purposes. *Captures peak inflation.

Economic and political pressure imply a brief military campaign

As seen above, the average increase in the price of oil has been about 100% over a 3-to-6-month period, except for the more extended Iranian Revolution and war with Iraq in 1979 -1980. Domestic political pressure to bring the war to a swift conclusion could bring the price of oil back down to the \$80 range, and the market began to move in this direction after the two-week ceasefire announced on 8 April¹.

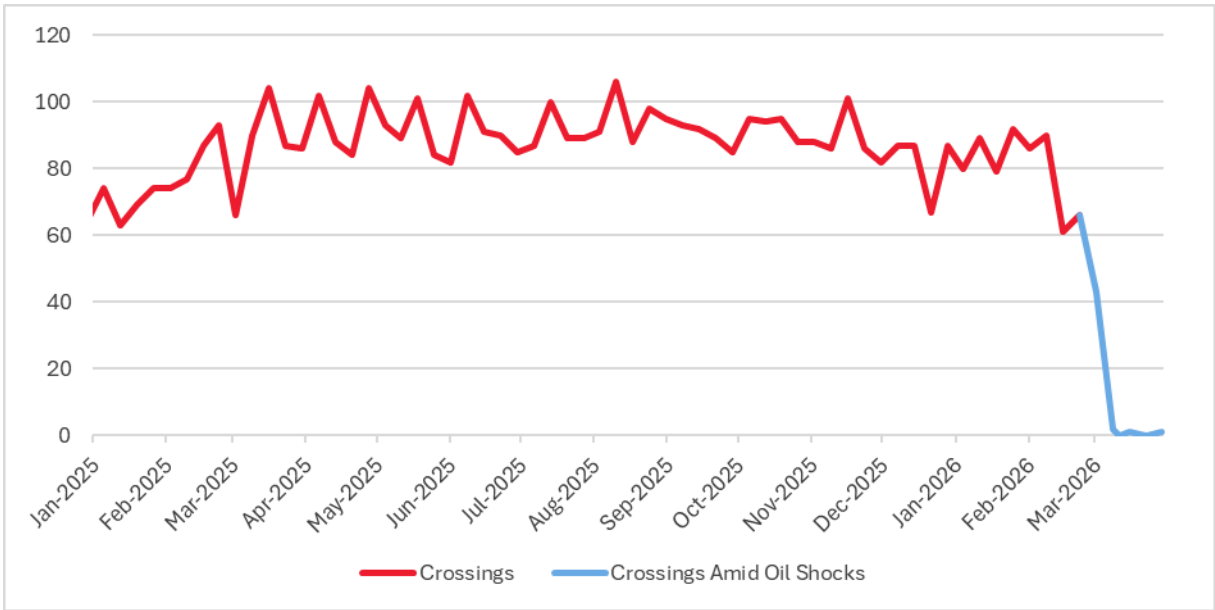
Chart 2: Iran war approval ratings in the US - CNN poll



Source: CNN, 1 April 2026. The information shown above is for illustrative purposes.

However, our advisers, Rice Hadley Gates & Manuel believe the ceasefire could be fragile due to disagreement over key demands from both sides. A more pessimistic outcome akin to the Arab oil embargo of late 1973 to early 1974 would imply a possible further increase in the oil price if tankers are unable to move freely through the Strait of Hormuz, which accounts for approximately 20% of daily shipments of crude oil and refined products. Rice Hadley Gates & Manuel emphasize that Iran is in control of the Straits of Hormuz; any renewed restrictions on free passage of shipping or a full blockade could make \$150 - \$200 per barrel of oil a possible outcome. We will continue to monitor the situation carefully over the next two weeks so that we can be in a position to respond to how events unfold.

Chart 3: Crude oil tankers crossing the Strait of Hormuz (7-day total)



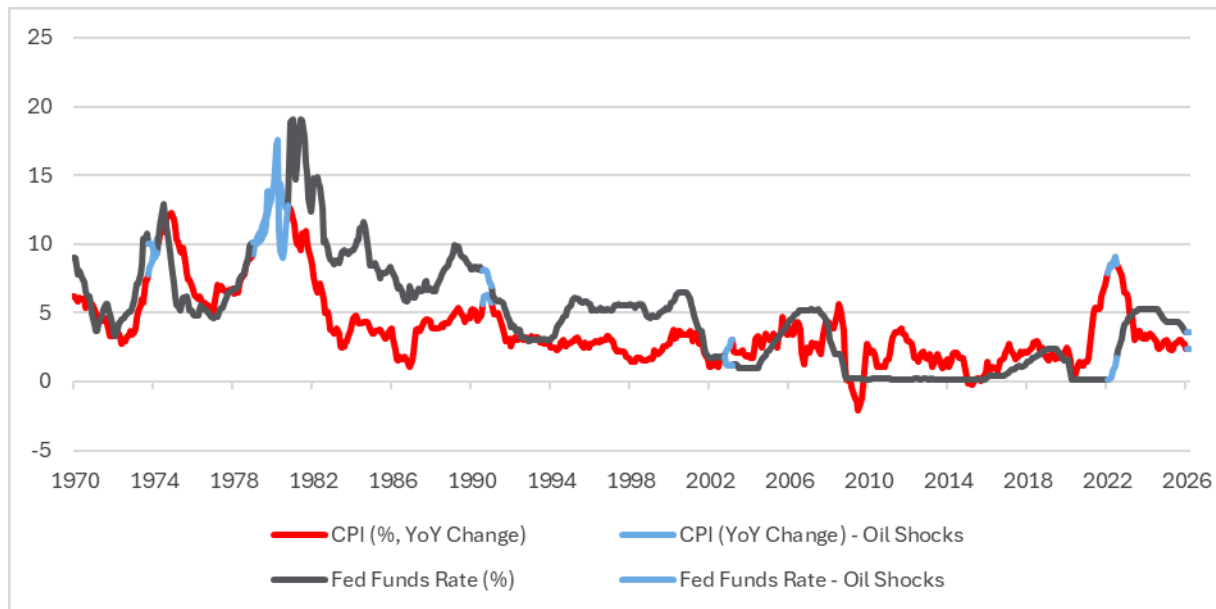
Source: Bloomberg, 31 March 2026. The information shown above is for illustrative purposes.

¹ Bloomberg, 9 April 2026

Where will rates go from here?

The rise in the price of oil has almost always caused an acceleration in the rate of inflation, and the Federal Reserve has responded either by raising rates to check inflation, or by cutting them to prevent recession. On this occasion, economic and political pressure is likely to push the Fed towards cutting.

Chart 4: Inflation and US Fed Funds Rate



Source: Bloomberg, 31 March 2026. The information shown above is for illustrative purposes.

In the 1970s, the Federal Reserve was slow to respond to the inflationary effect of the oil shocks and responded forcefully in the late 1970s and early 1980s. However, the Federal Reserve reduced the overnight rate in the Gulf War and the invasion of Iraq because of equity bear markets that were underway at the same time.

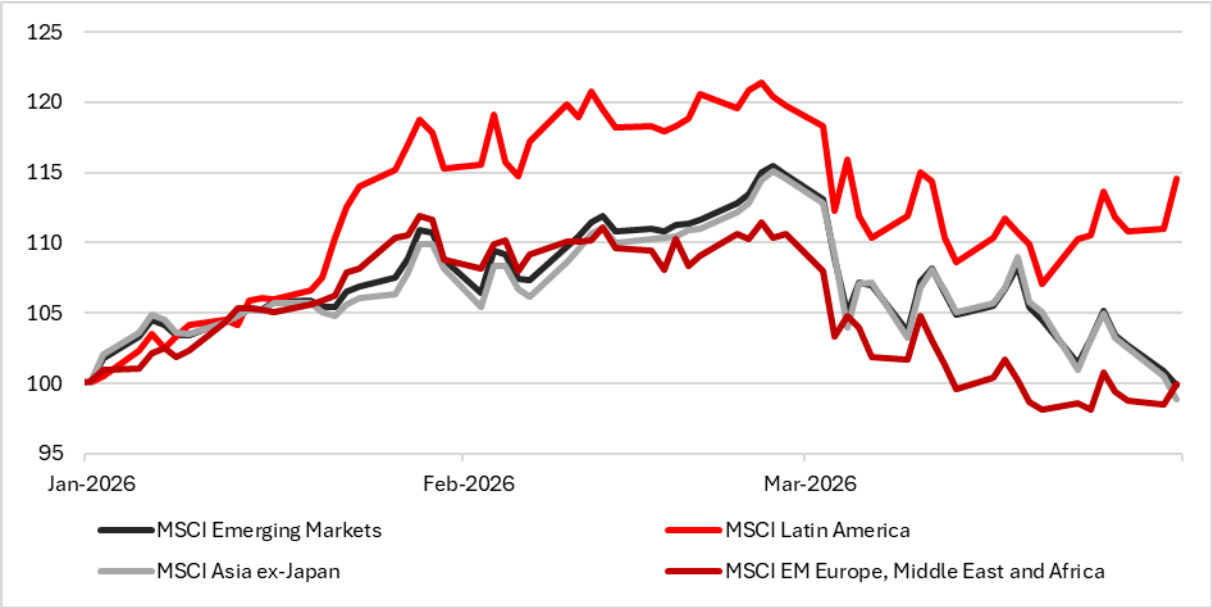
Today it is difficult to forecast the Federal Reserve's likely reaction to the unknown effects of the war with Iran on inflation and growth. On the one hand, inflation is currently above target and the jump in the price of oil is likely to push it higher, as has happened in the past. On the other hand, the Fed tends to ignore temporary effects of energy and food prices on core inflation, and might be more concerned about a weak labour market; President Trump nominated the next Fed Chair, Kevin Warsh, explicitly to reduce the policy rate. Consequently, Fed Funds futures now predict no rate cuts in 2026, having started the year with the expectation of 50 basis points of easing².

Latin America has historically outperformed

MSCI Emerging Market Indices were inceptioned on 1/1/88 and declined through the Gulf War, the invasion of Iraq and the Russian invasion of Ukraine. Our analysis indicates that Asia has always underperformed and Latin America has always outperformed during oil supply shocks, the former because of its reliance on imported oil and the latter because of its production of oil and agricultural commodities whose price increases improve terms of trade and support currencies. Regional performance has followed the historical trajectory so far in 2026, with Latin America outperforming the other regions.

² Bloomberg, 31 March 2026

Chart 5: Regional indices – total return (%)



Source: Bloomberg, 31 March 2026. Past performance is not a guide to the future.

Redwheel positioning – Regions

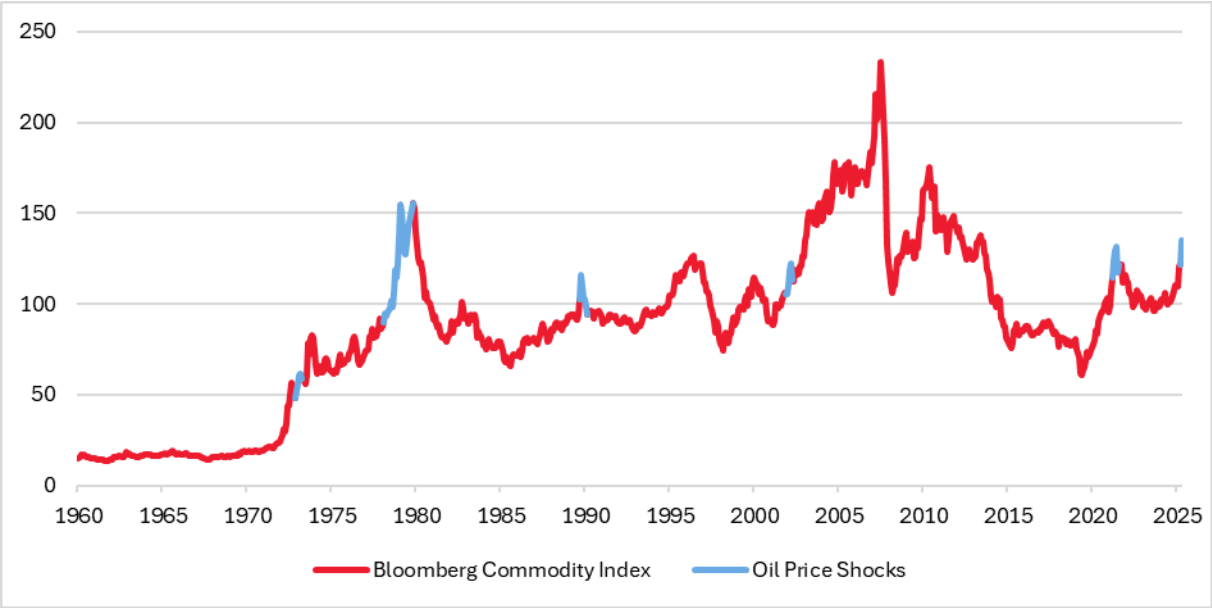
	Emerging Markets Equity Strategy	Next Generation Emerging Markets Equity Strategy	Frontier Markets Equity Strategy	International Equity Strategy
Asia ex-Japan	Underweight	Underweight	Underweight	Underweight
Latin America	Overweight	Underweight	Overweight	Overweight
Emerging EMEA	Overweight	Overweight	Overweight	Overweight

Source: Redwheel, 31 March 2026. All positioning data relative to respective strategy benchmarks. Holdings are subject to change at any time without notice. The information should not be construed as recommendations or advice.

Commodities usually do well

Sectoral analysis is less certain, for sectoral data are only available from 1995 and thus cover only two events, the Iraq war in 2003 and the Russian invasion of Ukraine in 2022, which caused Russia to be expelled from the MSCI Emerging Market indices. However, the Bloomberg Commodity Index, which contains 25 individual commodities, demonstrates that the commodity complex has moved in tandem with the oil price during previous energy crises.

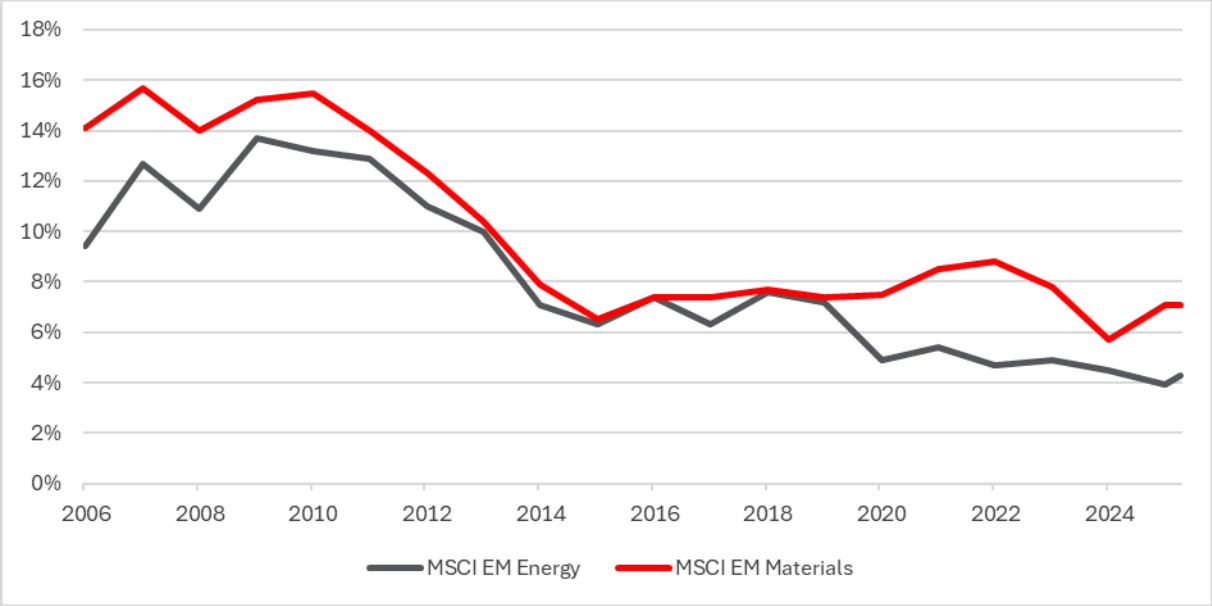
Chart 6: Bloomberg Commodity Index



Source: Bloomberg, 31 March 2026. Past performance is not a guide to the future. The information shown above is for illustrative purposes.

However, the Energy and Materials sectors of the MSCI Emerging Markets Index remain close to all-time low weights and should perform relatively better after the long bear market that followed the Global Financial Crisis in 2008. Energy is barely a third, and materials a half, of the weights that prevailed until 2010. We believe a renaissance for hard assets is overdue.

Chart 7: Energy and materials sectors - % weights of the MSCI EM Index



Source: Bloomberg, 31 March 2026. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

Redwheel positioning – Commodity sectors

	Emerging Markets Equity Strategy	Next Generation Emerging Markets Equity Strategy	Frontier Markets Equity Strategy	International Equity Strategy
Materials	Overweight	Overweight	Overweight	Overweight
Energy	Underweight	Overweight	Overweight	Overweight

Source: Redwheel, 31 March 2026. All positioning data relative to respective strategy benchmarks. Holdings are subject to change at any time without notice. The information should not be construed as recommendations or advice.

Themes: Energy Transition and Defence spending will be intensified

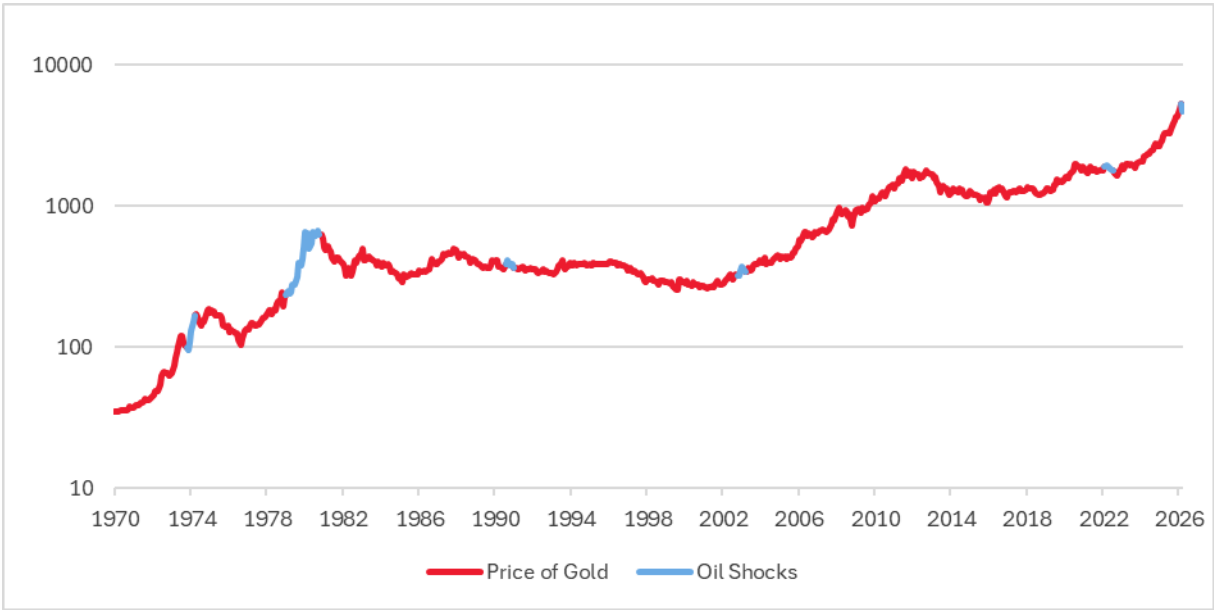
Redwheel’s thematic approach to research identifies three trends that are likely to be affected by the sudden, sharp movement in the price of oil. First, the energy transition from hydrocarbons to sustainable production must be accelerated not only to reduce carbon dioxide emissions, but also to lessen dependence on fossil fuels with volatile prices. The transition requires growing quantities of industrial metals such as aluminium and copper, and the expertise of electrical, industrial and nuclear engineering firms to modernize and expand electricity grids worldwide.

Defence is an especially important theme for developed markets, with established large capitalization companies domiciled in Europe, UK and US. This theme is less obvious in emerging markets, but still apparent in the growing Aerospace and Defence sector.

Gold is a traditional safe haven

Second, gold traditionally acts as a haven in uncertain times and a hedge against inflation. The price of gold mirrored the price of oil in the 1970s, and, although the Gulf War did not initiate a flight to safety in 1990, gold began its long rally from the \$300s during the Iraq War in 2003. The Russian invasion of Ukraine in 2022 elicited no immediate reaction from gold, but the bull market of the 2020s commenced a few months afterwards. Unlike oil, which spiked sharply on the invasion of Ukraine but ultimately faded, gold’s advance proved far more durable as the metal broke out to new all-time highs in late 2024 and eventually surpassed \$5,000 per ounce. The long-term outlook remains constructive with the fundamental drivers still intact, though the current consolidation phase may persist as short-term trading profits are booked.

Chart 8: Gold price (US\$/oz, log scale)



Source: Bloomberg, 31 March 2026. Past performance is not a guide to the future. The information shown above is for illustrative purposes.

Redwheel positioning – Gold

	Emerging Markets Equity Strategy	Next Generation Emerging Markets Equity Strategy	Frontier Markets Equity Strategy	International Equity Strategy
Gold	5.9%	8.4%	7.0%	3.9%

Source: Redwheel, 31 March 2026. All positioning data relative to respective strategy benchmarks. Holdings are subject to change at any time without notice. The information should not be construed as recommendations or advice.

Positioning for a more volatile oil regime

While the scale and duration of the current disruption remain uncertain, the pattern of past crises suggests that investors should be prepared for more volatility in financial markets, renewed interest in hard assets and greater dispersion of returns across regions and sectors.

In such an environment, selective exposure to beneficiaries of higher energy and commodity prices, alongside structural themes such as the energy transition and defence, may offer a more resilient way to navigate the next phase of the cycle.

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E invest@redwheel.com | W www.redwheel.com

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