

The Oil Factor

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The Strait of Hormuz

The Strait of Hormuz provides the only sea passage from the Persian Gulf to the open ocean. According to the U.S. Energy Information Administration (EIA), about 20% of global oil consumption, or about 20 million barrels per day (mb/d) must pass through this channel.¹

The channel is about 100 miles long, along the coast of Iran, and 21 miles wide at its narrowest point. Actual shipping lanes are much narrower, consisting of a 2-mile-wide inbound channel and a 2-mile-wide outbound channel, with a 2-mile buffer zone in between. Areas outside the marked lanes can be too shallow for deep-draft supertankers, requiring them to stay within the charted deep-water lanes to avoid running aground. Adherence to these channels provides safe passage during peaceful times, but during times of conflict, the tankers are essentially sitting ducks.



According to the Wall Street Journal, President Trump acknowledged the risk of Iran blocking the strait, but initiated the war believing that Tehran would capitulate before closing the strait, and if not, the U.S. military could handle it. As White House press secretary Karoline Leavitt said, the U.S. operation to wipe out Iran's military capability "is quite literally intended to deprive them of their ability to close the strait." As we have come to expect, the U.S. military is performing admirably. However, it remains to be seen whether we can keep the strait open without putting boots on the ground on the Iranian coast.

¹ While this article is focused on oil, a significant percentage of the global supply many other products pass through the straight: ~20% of liquefied natural gas, ~33% of global helium and fertilize supply, ~50% of urea – a nitrogen-based fertilizer, ~33% of ammonia supply. (Sources: EIA, Politico and the American Farm Bureau Federation)

The Strait Math

If Iran can control the Strait of Hormuz and therefore the 20% of the world's oil supply (20 mb/d) that passes through it, what are the potential offsets to reduce the near-term impact?

- **Release of Emergency Reserves:** The International Energy Agency (IEA) member countries, of which there are 32, have agreed to release 400 million barrels of oil from their emergency reserves. This sounds like a lot, but it only provides 20 days of offset, assuming that it could be released at the rate of 20mb/d, but it can't. According to Chris Wright, U.S. Secretary of Energy, the U.S will release its share of the 400 million barrels, 172 million barrels, over 120 days, which is a release rate of just 1.43 mb/d. If all 400 million barrels were released over the same 120 days, the release rate would be 3.3 mb/d. However, it is likely to be lower as some countries will not release at the U.S. pace.
- **Use Bypass Pipelines:** Saudi Arabia and the UAE have pipelines that avoid the Strait of Hormuz. Available spare capacity is estimated at 3.5 to 5.5 mb/d.
- **Iran keeps shipping:** Iran will keep shipping, provided the facilities at Kharg Island stay intact and operational.² The 8.5 square mile island processes about 90% of Iran's crude exports, which have been averaging 1.5 to 2.0 mb/d.
- **Raise Production Outside the Gulf:** According to the IEA, most spare capacity is concentrated in the Gulf and is subject to the strait closure. Non-OPEC ex-U.S. spare capacity is about 0.5 mb/d. Current U.S. production is already near record levels, and according to oilprice.com, even with \$100 oil, shale could add only around 0.6 mb/d this year.
- **Lift Sanctions:** The U.S. is temporarily lifting sanctions on 100+ million barrels of Russian oil stranded at sea. This represents about one day of global oil consumption and 5 days of typical shipping volume through the strait.

To summarize, about 20 mb/d or 20% of global consumption is subject to removal from the global oil supply because of Iran's effective blockade of the Strait of Hormuz. Potential offsets are:

- ~3.0 mb/d from the release of emergency reserves
- ~4.5 mb/d in available pipeline spare capacity
- ~1.5 mb/d from Iran's continued shipping
- ~1.0 mb/d from increased production outside the Gulf

So, **about 10 mb/d of offsets leave 10 mb/d of unmet demand.** The 100+ million barrels of desanctioned Russian oil buys us 10 -12 days for President Trump to open the strait before oil prices spike further and demand destruction truly begins.³

² I am assuming that Trump will not destroy Iran's oil production capacity because it would further remove supply and likely generate an in-kind response, destroying other Gulf state production capacity.

³ We also face potential supply destruction from shut-ins. Restarting production is not as simple as flipping a switch.

The Economic Impact

For the U.S., economists estimate that for every sustained \$10 increase in the price of oil:

- A 24-cent increase in gasoline at the pump
- A \$30 to 35 billion hit to consumers
- A 0.4 to 0.6% bump to headline inflation
- A 0.1 to 0.3% drag on GDP growth

Globally, according to IMF Managing Director Kristalina Georgieva, every 10% rise in oil prices, if persistent for most of the year, results in a 0.40% rise in global headline inflation and a 0.1 to 0.2 percent fall in global output.

The economy and markets can handle a sustained \$10 increase in the price of oil without much fuss, but a \$50 or \$100 spike is another story. The tables that follow show the impact of oil supply shocks on oil prices and equity returns:

Oil Supply Shocks and Oil Prices

Event	Supply disruption	World (mb/d)	% of world output	Oil price		
	Net loss (mb/d)			Before	Peak	Change
Arab Embargo Oct 19, 1973 – Mar 18, 1974	4.0	56	7.1%	\$2.90	\$11.65	+300%
Iran Revolution Oct 1978 – Apr 1979 †	2.0	65	3.1%	\$13.00	\$34.00	+162%
Iran–Iraq War Sep 1980 – Aug 20, 1988	4.4	63	7.0%	\$32.00	\$39.50	+23%
Gulf War / Kuwait Aug 2, 1990 – Feb 28, 1991	2.8	66	4.2%	\$17.00	\$46.00	+170%
Russia–Ukraine onset Feb 24, 2022 – ongoing	1.7	100	1.7%	\$76.00	\$130.00	+71%
Iran War / Hormuz onset Feb 28, 2026 – ongoing	~10 ‡	102	9.8%	\$65.00	\$120	+85%

World output from EIA Historical Oil Production Data. Oil prices in nominal USD. Net loss reflects gross disruption minus offsetting production increases by other producers. % of world output is net loss ÷ world output at time of shock. Arab Embargo net loss ~4.0 mb/d per Hamilton (2011) NBER WP 16790. Iran–Iraq War net loss revised to ~4.4 mb/d (7% of world output) per IEA historical records. End dates reflect clean physical resolutions: Arab Embargo (formally lifted Mar 18, 1974), Gulf War (Kuwait liberated Feb 28, 1991), Iran–Iraq War (UN ceasefire Aug 20, 1988).

† Apr 1979 = Islamic Republic established; oil disruption continued beyond this date. ‡ ~10 mb/d = IEA-confirmed curtailments as of Mar 14, 2026; total Hormuz transit at risk ~20 mb/d. Sources: multiple, claude.ai.

Note that this disruption, as a percentage of world output, is the largest on record. How high the price ultimately goes depends on the size and length of the disruption. The good news is that the economy uses far less oil per dollar of GDP than it did in the 1970s, about 70% less, so it difficult to see a quadrupling of the oil price in our future.

The EIA expects Brent crude oil to average \$95/b in March and April before falling below \$80/b in the third quarter and around \$70/b by year-end. They expect prices to average \$64/b in 2027 - about back where we started. If so, the impact on inflation and growth will be meaningful in 2026, but ultimately, transitory.

What about stocks?

Oil Supply Shocks and Stock Returns

Event	Supply disruption	World (mb/d)	% of world output	S&P 500 total return	
	Net loss (mb/d)			Max drawdown (within 12 mo.)	12-month return (from onset)
Arab Embargo Oct 19, 1973 – Mar 18, 1974	4.0	56	7.1%	-38.9% through Sep 1974	-28.7%
Iran Revolution Oct 1978 – Apr 1979 †	2.0	65	3.1%	-0.7% through Jan 1979	+5.2%
Iran–Iraq War Sep 1980 – Aug 20, 1988	4.4	63	7.0%	-2.8% through Sep 1981	-2.8%
Gulf War / Kuwait Aug 2, 1990 – Feb 28, 1991	2.8	66	4.2%	-5.1% through Oct 1990	+26.9%
Russia–Ukraine onset Feb 24, 2022	1.7	100	1.7%	-16.0% through Sep 2022	-5.2%
Iran War / Hormuz onset Feb 28, 2026 – ongoing	~10 ‡	102	9.8%	-5% to Mar 14, 2026	—

All S&P 500 figures: total return with dividends reinvested, Shiller monthly average prices. Max drawdown = worst point within 12-month window. † Apr 1979 = Islamic Republic established; disruption continued. ‡ ~10 mb/d IEA-confirmed as of Mar 14, 2026. Sources: multiple, claude.ai.

Right now, the market appears on track to follow the Kuwait-Gulf War pattern with the S&P 500 currently down about 5%. This implies the market is pricing a quick reopening of the strait and a successful conclusion to the war. It also suggests we could experience some significant gains over the next twelve months. That said, each event is unique. The successful resolution of this one depends on the superior firepower and determination of the U.S. and its allies to overcome the tenacity and resilience of the Iranian regime.

Portfolio Considerations

In times like these, nothing is more important than staying focused on your life goals and the role of your portfolio in supporting them. Wealthcare’s Comfort Zone® process is ideal for helping you do so. I encourage you to talk with your advisor to review your goals, your investment strategy, your Comfort Zone® status, and any concerns you may have.

If you want to play at the margin, say tilting toward defense or energy stocks, or for the contrarian in you, buying unloved clean energy stocks, go ahead and do so. However, recognize that fortunes waged can be fortunes lost, and going to cash is just a way to get poor slowly. A well-diversified portfolio remains the most effective tool to manage risk and keep you, your life, and your progress to your life goals on track.

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