

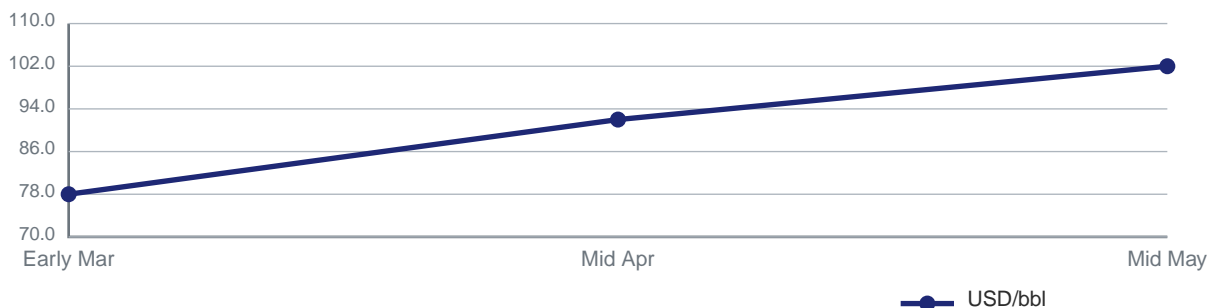
Oil Shock 2.0: From Geopolitics to CPI and Fed Delays

Research Team

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From early March through mid-May 2026, crude oil prices rose sharply on escalating Middle East tensions and supply-risk premia, with WTI moving from the high-\$70s toward the \$100+ area in many market snapshots. Headline consumer inflation, gasoline prices, and inflation expectations reacted while core measures moved more slowly. The Federal Reserve, holding policy at 3.5% to 3.75%, faces a familiar tension: supply-driven energy spikes are not demand overheating, yet they complicate communication and can delay insurance cuts if expectations de-anchor. This report maps transmission from oil to CPI, sector winners and losers, and practical hedges, extending our earlier geopolitical work with a macro and policy lens.

WTI Crude Oil (Illustrative Path, Mar–May 2026)



Source: Illustrative; market snapshots (Mar–May 2026)

Key Takeaways:

- A \$10 to \$15/bbl sustained oil move can add meaningful tenths to headline CPI over several months via gasoline and transport pass-through.

- Core inflation may lag; the Fed can look through supply shocks only if expectations remain anchored and labor cools.
- Energy equities and integrated oils benefit; airlines, transports, and margin-sensitive consumer names face headwinds.
- Gold and breakevens can rise together when geopolitical and inflation risks compound; nominal bonds face two-sided pressure.
- **Portfolio takeaway:** combine energy tactical exposure with gold hedges; avoid assuming automatic Fed cuts while headline CPI is rising.

Executive Summary

Oil shock 2.0 is a supply and risk-premium story, not a repeat of 2021 to 2022 demand-led inflation. Still, headline CPI matters for politics, consumption, and short-rate expectations. Markets have reduced the probability of near-term Fed cuts when gasoline rises, even as labor data soften. Equities show sharp sector dispersion: energy leads; technology can suffer from both higher discount rates and margin fears. A durable de-escalation in the Gulf would reverse much of the move; escalation keeps volatility elevated across commodities, FX, and rates.

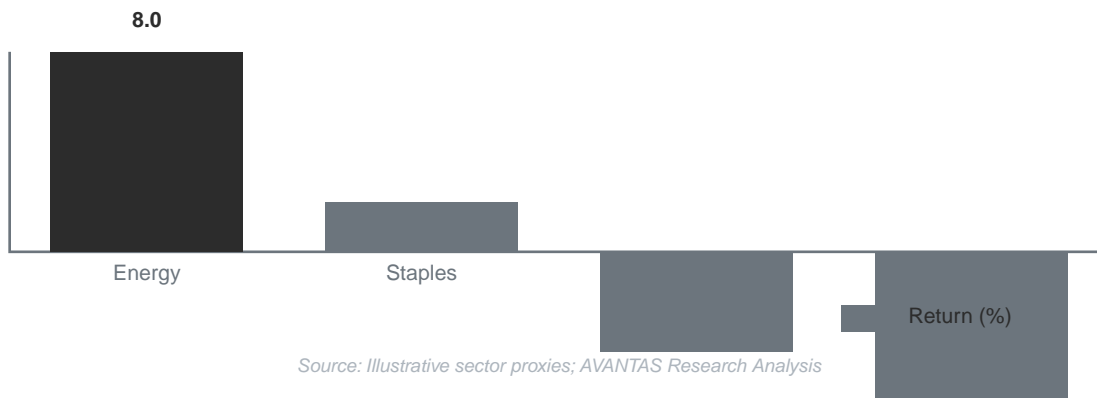
Oil-to-CPI Transmission

Gasoline has a direct weight in CPI baskets; diesel and jet fuel flow into transport costs with lags. Core CPI excludes energy but can absorb second-round effects if wages or services reprice. Breakeven inflation and consumer surveys are the Fed's early-warning gauges; a sustained rise would reduce room for cuts even with soft payrolls.

Fed Reaction Function: Look-Through vs Delay

The Committee has historically distinguished supply shocks from demand overheating, but 2022 to 2024 showed limits to patience when expectations moved. In May 2026, language emphasized data dependence and uncertainty, including Middle East effects. June pricing hinges on whether core services continue to cool faster than headline rises from energy.

Sector Return Tilt During Oil Shock (1M, Illustrative)



Equity Sector Dispersion

Energy and select materials outperform on higher crude; defensives such as staples and utilities can benefit from risk-off flows even when input costs rise. Airlines and leisure travel underperform. Technology is mixed: energy-intensive data centers face cost narratives; software is less direct. Quality balance sheets remain preferable when multiples compress on rate volatility.

Portfolio Hedging Toolkit

Gold for tail risk and policy uncertainty; energy equities or capped commodity exposure for supply risk (size to avoid pro-cyclical overbet); TIPS if realized inflation validates higher paths; reduce naked long-duration exposure when breakevens rise with oil. FX: dollar can strengthen on haven demand even when oil rises, do not assume a single "risk-off" template.

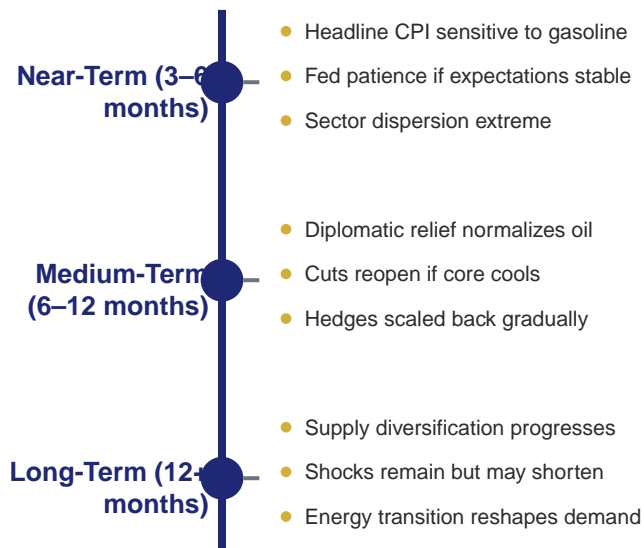
What to Watch Next

Weekly petroleum inventories; Strait of Hormuz headlines; OPEC+ rhetoric; US gasoline retail prices; CPI energy components; Fed speakers on look-through; June FOMC statement on energy.

Timeline and Outlook

Near-term (3 to 6 months): Volatility remains elevated; headline CPI sensitive to oil. **Medium-term (6 to 12 months):** Diplomatic relief could normalize oil and reopen cut pricing; persistence delays easing. **Long-term (12+ months):** Energy transition and supply diversification reduce but do not eliminate shock frequency.

Timeline Overview



Source: AVANTAS Research Analysis

Risk Factors

Escalation and supply disruption; de-anchored expectations; global recession reducing oil demand abruptly; policy mistake cutting into sticky headline inflation.

Conclusion

Oil shock 2.0 complicates the soft-landing narrative without automatically derailing it. Hedge supply and policy tails, favor quality equities, and recalibrate duration when breakevens move with crude, not when equities alone rally.

Asset Class Impact

Energy equities: Overweight tactical. **Gold:** Overweight hedge. **Nominal Treasuries:** Neutral barbell. **TIPS:** Neutral to overweight if inflation persists. **Quality equities:** Overweight. **Airlines / marginal consumer:** Underweight. **USD:** Neutral, scenario-dependent.

Asset Class Impact

Asset	View	Commentary
Energy Equities	 +1	Overweight tactical. Earnings and price beta to crude.
Gold	 +1	Overweight. Policy and geopolitical hedge.
Nominal Treasuries	 Neutral	Neutral barbell. Two-sided when breakevens rise.
TIPS	 Neutral	Neutral to overweight if inflation persists.
Quality Equities	 +1	Overweight. Balance sheets and pricing power.
Airlines / Travel	 -1	Underweight. Margin squeeze from fuel.
USD	 Neutral	Neutral. Haven vs rate differential.
Breakevens / Commodities	 +1	Overweight selective inflation exposure.

Source: AVANTAS Research Analysis