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Markets remain on oil-alert as prices for West Texas Intermediate (WTI) surged above $100 USD this week, before settling at $84 following comments from President Trump that the war in Iran may be coming to a close.[1] Oil and energy prices remain the key drivers of market risk since the United States began hitting Iranian targets last Saturday.

In total, U.S. crude prices have soared more than 30% in the past 10 days and can be expected to remain high absent of a resumption of energy flows in the region.[1]

Crude's advance has dictated both the gains seen this week in benchmark volatility gauges (the VIX), as well as the broader moves downward in domestic stock markets. The VIX has jumped more than a third over the past month, with inter-day moves in indexes markedly higher. Monday's trading session witnessed a 2.75% change in the Dow Jones, on the news that military actions are largely complete.[1]

Higher energy prices have also boasted the value of the US dollar, which is used in the pricing of both WTI and Brent crude (the global benchmark). The greenback gained above 3% against a basket of the major (hard) global currencies.[1]

The retreat in WTI spot prices are welcome, because higher oil prices have a layered effect on stocks. Oil touches every part of the global economy and are inherently inflationary, which in turn influences central bank policy. More, higher interest rates constraints stock gains, as higher risk-free rates weigh on the present value of future profits and dividends.

With all the world has seen over the past two weeks, we nonetheless remain circumspect in the outlook for equity markets this year, and expect stocks to resume their upward trajectory following a conclusion to the war in Iran. Regional wars rarely have much staying power, and our outlook is generally optimistic - though cautiously so (as always).

Eyes on the horizon here, as investors with medium to long term investment time horizons can look to the precedent of history for optimism. Short term events do not define long term market behaviour. Markets are the quantification of human progress, and that continues unabated, regional wars included.

Thanks for reading!

Martin

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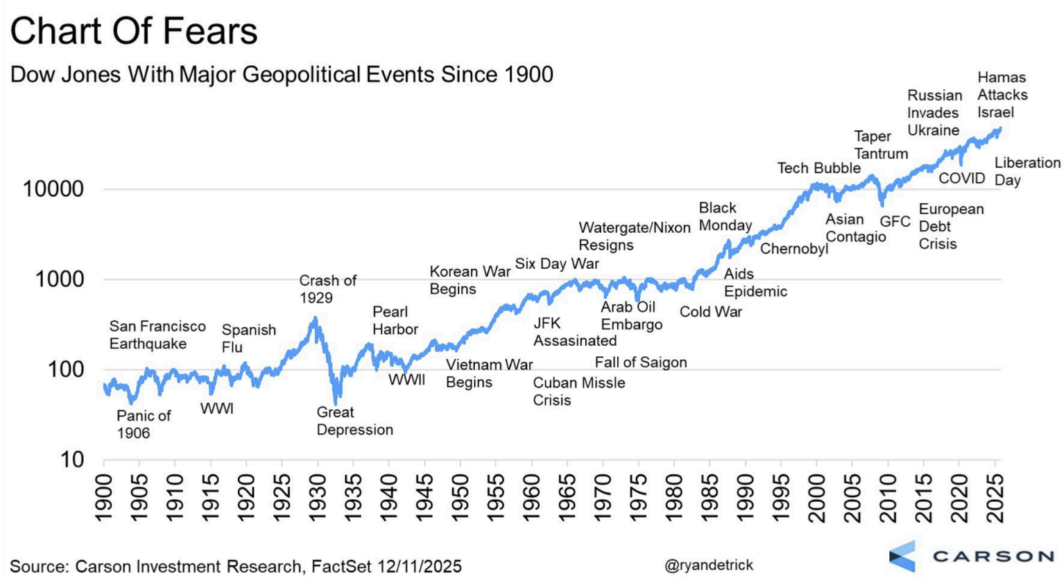

Source 1: The Globe and Mail

Source 2 (Graph): Carson Investment Research

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