

DATE: March 27, 2026

TITLE: **The Oil Shock Is Becoming a Policy Problem**

TRANSCRIPT:

**Host:**

**Eric, it feels like the tone in markets has shifted again this week. What's driving it now?**

**Eric:**

What's changed is that this is no longer just an oil story — it's becoming a policy problem.

Geopolitics is effectively doing the tightening that central banks were hoping to avoid. Oil prices are elevated, bond yields are rising, and central banks are starting to openly acknowledge the inflation risk.

And importantly, markets are no longer reacting to headlines — they're reacting to direction. Even with delays in military escalation, investors are looking through the noise and focusing on what higher energy prices actually mean for inflation and policy.

**Host:**

**And central banks are reinforcing that shift?**

**Eric:**

Very clearly — and more explicitly than before.

You've had the Fed signalling that inflation risks are rising again, and the OECD now stepping in and effectively validating that concern. Their latest outlook is important — they're saying this isn't just a temporary oil spike, it's something that could keep inflation higher for longer.

In the US, they've revised 2026 inflation meaningfully higher. In Europe, they're even talking about the possibility of rate hikes again.

So the key shift is this: markets are starting to accept that central banks may not just stay on hold — they may actually need to tighten further.

**Host:**

**That's quite a change from just a few weeks ago when rate cuts were the base case.**

**Eric:**

Exactly — and that's the critical repricing.

We've gone from "when do cuts start?" to "are rates actually restrictive enough?"

And that's a very different world for markets, because it removes the idea of a safety net. If inflation is being driven by energy, central banks can't easily step in to support growth.

**Host:**

**Markets have been weak, but not disorderly. What are you watching most closely?**

**Eric:**

The really important signal isn't equities — it's rates.

We've seen Treasuries sell off at the same time equities are falling. That's unusual. Normally, bonds act as a hedge in risk-off environments.

But this week, that relationship broke down. And that's a big deal.

What it's telling you is that inflation risk is dominating everything. Bonds are no longer providing protection — because higher oil means higher inflation, and that pushes yields higher regardless of growth concerns.

**Host:**

**So the traditional playbook isn't working?**

**Eric:**

Exactly. The classic diversification model is being challenged.

If equities fall because growth is slowing, bonds should rally. But if equities fall because inflation is rising, bonds can sell off at the same time.

That's a much harder environment for portfolios.

**Host:**

**What about the data flow this week — has that helped clarify things?**

**Eric:**

If anything, it's made things more difficult.

We've had early signs of inflation building — import prices in the US were stronger than expected, inflation expectations in the UK have jumped, and Japan is now seeing more domestically generated inflation.

But at the same time, key data like US PCE has been delayed.

So markets are operating with incomplete information — which means they're trading energy prices, central bank commentary, and positioning rather than hard data.

That tends to increase volatility and reduce conviction.

**Host:**

**And how is this playing out globally?**

**Eric:**

It's becoming very uneven — and that's where the real story is.

Energy importers are under pressure. You're seeing it in currencies — the Indian rupee hitting record lows, the yen weakening towards intervention levels.

Policymakers are starting to respond — cutting fuel taxes, supporting bond markets — but those are defensive measures.

The bigger issue is external balance stress. When oil is above \$100, countries that rely on imports start to face pressure on growth, inflation, and currency stability all at once.

**Host:**

**You've mentioned before that the real risks often show up in credit before equities. Are we seeing that now?**

**Eric:**

Yes — and it's subtle, but it's there.

We're seeing signs of stress in funding markets — weaker bond auction demand, liquidity support measures in places like Korea, and earlier in the week, restrictions on withdrawals in parts of private credit.

This is how tightening shows up in the real world.

It doesn't start with defaults — it starts with liquidity tightening, higher funding costs, and reduced flexibility.

And that's important, because it tells you financial conditions are tightening even without central banks actively raising rates.

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