

MONTHLY MACRO FOCUS



Oil, huh! What is it good for?

June 2025

A silhouette of a person holding a rifle, set against a dramatic sunset or sunrise sky with a bright sun and scattered clouds. The person is positioned in the lower half of the frame, looking towards the right. The sky transitions from a dark blue at the top to a bright orange and yellow near the horizon.

Power and peril

OIL, HUH! WHAT IS IT GOOD FOR? POWER AND PERIL.



The world once again finds itself at a crossroads where geopolitics, oil and markets collide.

Following the recent US airstrikes on Iranian nuclear facilities, investors are asking: what does this mean for oil, inflation and the global economy?

And who really benefits when the drums of war beat?

Oil remains the lifeblood of the global economy.

Despite the green transition, oil remains the world's most traded commodity and a pillar of global commerce.

In 2025, global consumption exceeds **103 million** barrels per day, fuelling transport, industry and the production of countless goods.

Oil prices serve as both a barometer of economic health and a trigger for inflation.

Iran's leverage: The Strait of Hormuz

Iran is not just another oil producer. In May 2025, the country produced **3.3 million** barrels per day, exporting nearly **1.8 million** a day, mostly to China.

But its true leverage lies in geography. The Strait of Hormuz is a **33** kilometre-wide chokepoint at the mouth of the Gulf, with shipping lanes just **3km** wide. Around **20%** of the world's oil and gas passes through it.

Any disruption here could trigger the largest oil supply shock in history, which would send prices skyrocketing. Iran's parliament has approved closure of the Strait, though the final decision lies with the country's top leadership.

Closure would not just impact the US, but Iran's own finances as well as China, one of the few countries willing to buy Iranian oil.

*Over **103 million** barrels are consumed daily, much of it flowing through the 3km wide Strait of Hormuz, energy's most critical chokepoint.*



OIL, HUH! WHAT IS IT GOOD FOR?

History repeats: oil shocks, wars and market turmoil

Past crises show how quickly oil markets can spiral:

- 1973 Yom Kippur War & embargo: 9% of global supply lost, oil prices quadrupled, global recession followed.
- 1979 Iranian Revolution: 6% of supply lost, prices nearly tripled.
- 1990 Gulf War: 7% of supply lost, prices more than doubled.



A closure of the Strait today would dwarf these events. Some economists warn of oil at **USD130** per barrel and US inflation nearing **6%**, a combination that could derail growth and force central banks to rethink rate cuts.

Iran has the capability to shut the Strait temporarily using mines, submarines and drones.

Doing so would almost certainly provoke a major conflict to reopen it.



OIL, HUH! WHAT IS IT GOOD FOR?

Who wins when the world goes to war?

Most would echo Edwin Starr's sentiment that war is "good for absolutely nothing". "Destruction of innocent lives, war means tears, to thousands of mother's eyes".

While nations suffer, a few sectors benefit and asset prices swing:

- **Defence contractors:** Raytheon, Boeing and BAE Systems typically see surging demand. The sector has gained since Russia's invasion of Ukraine and rising defence budgets.
- **Oil companies:** Price spikes can generate windfall profits even as consumers and importing nations bear the cost. Gains tend to be short lived.
- **Safe havens:** Investors often flock to US Treasuries, gold and the yen. The dollar's safe haven status, however, is no longer assured. ARC's recent Market Sentiment Survey showed increased uncertainty.
- **The rebalancers:** Large market moves can provide better entry points. Investors who rebalance with discipline often benefit over time.

America's role: Still the anchor.

The US dollar remains the world's reserve currency, used in over half of global trade transactions. America's military presence and economic scale give it significant leverage, even as public appetite for foreign interventions fades.

President Trump's recent actions have exposed rifts within his base, many of whom favour an "America First" approach.



War reshapes markets

While economies strain, defence stocks rally, oil profits spike and disciplined investors find opportunity in the chaos.

OIL, HUH! WHAT IS IT GOOD FOR?



What next? Potential scenarios:

De-escalation: Iran's retaliatory missile strikes on US bases may have helped it save face without provoking a larger US response. A negotiated settlement remains the clearest path to stability.

Escalation: A serious move to block the Strait would trigger an oil shock, market panic and likely military action.

Protracted uncertainty: Ongoing skirmishes and political drift could keep oil prices and inflation elevated, with markets oscillating between fear and hope.

Key takeaways for investors

Expect volatility: Oil, equities, and currencies will react to headlines from the Gulf.

Safe havens shine short term: Identifying the safe havens is always easy in hindsight. Historically the US dollar and gold have fared well, though at present there is some uncertainty as to the US dollar's status.

Defence and energy stocks: These sectors tend to outperform during geopolitical shocks. Long-term resilience matters: Past crises show markets often rebound after the initial shock, but the timing and magnitude are uncertain.

Stay alert, stay diversified and remember: in every crisis lies both risk and opportunity.

Dr James R Cooke

Deputy Chief Investment Officer



June was experienced with bated breath, as markets processed the implications of Trump's "One Big Beautiful Bill Act".

The Congressional Budget Office estimates that the bill will increase US debt by **USD3tn** over the next **10 years**, adding to the existing **USD37tn** total debt pile.

Tariff negotiations dominated news feeds, as world leaders scrambled to make deals with the US. However, markets overlooked this, with the S&P reaching new record highs.

The Israel-Iran war increased geopolitical volatility in June, though its impact on markets was largely contained to commodities, with Brent crude prices temporarily pushed higher.

In the US, first quarter GDP was revised to **-0.5%**, reflecting an increase in imports and a decrease in government spending.

An unexpected strength in US employment saw nonfarm payrolls increase **147,000** in June, though nearly half was attributable to the government sector. The unemployment rate was little changed at **4.1%**, down from **4.2%** in May.

US CPI rose to **2.4%** from **2.3%** in April. Tensions between the Fed Chair Powell and President Trump intensified, following Fed's push-back against calls to lower borrowing costs. The President is looking to replace Powell as soon as September.

Economists' predictions of stagnant GDP growth in the Eurozone, due to uncertainty in US trade policy, were confirmed in June, with the private sector lacking growth.

The ECB cut its three key interest rates by **25 bps** at the start of the month. The European Commission expects inflation to come in at **2%** in June, with services expected to have the highest annual rate.

Trump's "Beautiful Bill" to add USD3tn to US debt

*The Congressional Budget Office warns the bill will deepen the US's already **USD37tn** debt pile over the next decade.*

Markets shrug off war and tariffs to hit new highs

Despite Middle East conflict and trade tensions, the S&P climbed to record levels in June.

Eurozone stalls as ECB cuts rates and growth flatlines

Sluggish private sector activity and US trade uncertainty weighed on the bloc's outlook.

Trade negotiations have continued, with reports that the EU is willing to accept Trump's **10%** blanket tariffs conditional on an extension of trade talks and possible concessions on the existing **25%** tariff on cars and car parts and **50%** tariff on steel and aluminium.

In the UK, the first quarter GDP growth of **0.7%** met expectations.

In output terms, growth was driven primarily by an increase in the services sector and production.

In expenditure terms, growth was driven by increases in gross fixed capital, net trade and household consumption. Following rising food prices and the risk of raised oil prices, the Bank of England opted to keep the base rate at **4.25%** and avoid making cuts too soon.

A proposed Labour Party bill to make welfare policy changes was met with resistance, albeit passed on 1 July with significant revisions.

UK growth steady as BoE holds rates at 4.25%
GDP rose 0.7% in Q1, driven by services, trade and household spending, while rate cuts were paused amid rising food and energy costs.

ARC INDICES



Q2 estimates for the ARC Wealth Indices are now available on suggestus.com.

ARC Private Client Indices	Jun-25	YTD	2024	10 Year	Annualised 10 Yr Return
ARC GBP Cautious Index	1.1	1.9	4.6	27.0	2.4
ARC GBP Balanced Asset Index	1.4	1.6	6.4	43.1	3.6
ARC GBP Steady Growth Index	1.7	1.3	7.9	60.6	4.9
ARC GBP Equity Risk Index	1.9	1.0	9.3	75.8	5.8
ARC USD Cautious Index	1.4	3.8	5.2	28.5	2.5
ARC USD Balanced Asset Index	2.3	5.7	7.7	49.1	4.1
ARC USD Steady Growth Index	3.0	7.0	9.2	73.0	5.6
ARC USD Equity Risk Index	3.7	8.0	11.1	101.1	7.2
ARC EUR Cautious Index	0.3	1.1	5.9	12.6	1.2
ARC EUR Balanced Asset Index	0.5	-0.1	9.5	25.3	2.3
ARC EUR Steady Growth Index	0.5	-1.0	11.8	46.5	3.9
ARC EUR Equity Risk Index	0.5	-1.7	14.2	68.6	5.4
ARC CHF Cautious Index	-0.3	0.4	4.9	3.8	0.4
ARC CHF Balanced Asset Index	-0.2	0.1	7.3	16.0	1.5
ARC CHF Steady Growth Index	0.2	-0.5	9.7	28.6	2.5
ARC CHF Equity Risk Index	0.0	0.3	10.7	43.4	3.7
ARC CAD Cautious Index	0.9	2.9	7.4	36.2	3.1
ARC CAD Balanced Asset Index	1.7	3.9	12.0	61.2	4.9
ARC CAD Steady Growth Index	2.3	4.5	15.7	86.8	6.4
ARC CAD Equity Risk Index	2.8	5.1	18.5	106.5	7.5

Source: ARC Research

ARC SUGGESTUS APP ON APPLE & ANDROID

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Search for "ARC Suggestus" in your app store.



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