

Summer 2026

It's a beautiful summer morning, still cool enough to keep the car in the garage, save a few bucks on gas, and walk or jog to a favorite cafe or diner. You slip on your Lululemon yoga pants and athletic top and lace up the Nike Pegasus shoes. Rub on some Neutrogena sunscreen, grab your Under Armour water bottle, insert your AirPods, and you're out the door and hitting the pavement, hoping to burn enough calories for a guilt-free breakfast.

On the surface, nothing about this scenario would make one think about the price of oil. But every brand-name product listed, and many, many more, are made using crude oil derivatives (as is the pavement, of course). And the same would hold true if we'd asked you to imagine yourself bypassing the exercise and crisp bacon in favor of tackling some household chores like laundry, painting, and gardening.

Oil and natural gas as a percent of the world's gross domestic product (GDP) makes up only about 4% directly. But when you include products like the ones mentioned above that are composed of oil-based materials and ingredients, the indirect percent of GDP attributed to oil and gas jumps between 25% and 40%. Whether oil prices increase or decrease, the effects on economies are far-reaching. All this to say, when prices are soaring at the pump and on Travelocity, a hike in the costs of other goods may also be on the way.

So, why, you might understandably ask, when oil prices are volatile and the Strait of Hormuz has become a household name, are the world's equity markets relatively calm? Well, it seems clear most oil buyers don't expect the Strait's closure, or whatever they're currently calling it, to last much longer. Based on oil futures and recent spot prices (the price paid today for oil to be delivered today), oil rose to around \$120 a barrel in April only to drop to around \$70 (near pre-war levels) and back up to \$92 as of this writing as traffic through the Strait is limited.

In addition, and as often happens when supply chain choke points, such as Hormuz or the Suez Canal or Cushing, Oklahoma, are disrupted, alternative routes are used. In the Middle East, over seven million barrels of oil a day are being diverted from the Strait of Hormuz and loaded into facilities outside the area. This offsets about a third of the 20 million barrels that usually flow through the Strait. The United States has increased exports, adding to global supplies, and China dramatically reduced oil purchases for a spell.

The most important factor in the relative stability of markets, however, may be the massive improvement in oil efficiency. Those of a certain age remember the 1970s as a time of cultural transition, disco, and...unfathomably long lines at the pump. Two major geopolitical oil shocks (the Arab Oil Embargo and Iranian Revolution) were major reasons for the crisis, but another factor was high global demand. In 1973, the year of the embargo, the world used a little less than one barrel of oil to produce \$1,000 worth of GDP (2025 prices). By 2019, the year before COVID hit, global oil usage had fallen to 0.43 barrels per \$1,000 of

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global GDP. That's a 56% decline. Despite all its uses, oil has become a lot less important, and we've become a lot more efficient in making use of it.

We keep all this in mind when evaluating the factors that might fundamentally affect companies and consumers. We consider a company's dependence on the raw materials provided by oil and natural gas. And whether or not energy price increases (or decreases) will be passed through to consumers and, if so, how that might change their buying habits.

It's often not as clear-cut as you might think.

For example, fertilizer companies are greatly impacted by oil and natural gas prices. Which makes sense since natural gas makes up 70% of the raw materials needed to produce nitrogen fertilizer. Farmers, of course, are the biggest buyers of fertilizer, which makes up 8% to 40% of their crop costs depending on what they're growing. But those costs are just one small step in the long journey of food. By the time crops are harvested, processed, packaged, and shipped, fertilizer accounts for less than 5% of the cost of groceries in the store.

For another look at this, let's turn to that little supercomputer you carry in your pocket or handbag. Approximately 40% to 45% of a standard smartphone's mass is directly attributed to petroleum-derived plastics and derivatives. Think durable casings, circuit boards, and display screens. This could lead one to believe the cost of raw petroleum and natural gas would have massive effects on the device's retail price. Except, it makes up less than 1% once that machine gets in your hand.

The U.S. Department of Energy tells us oil and natural gas are used to manufacture over 6,000 everyday products and high-tech devices. And, of course, it powers global transport. Those are some very large numbers. However, the deep dive into the final cost of any product from oil well or farm field to the ultimate final consumer reveals the true story.

Our role is to study the details, follow the journey, and measure the range of outcomes and the potential impact all along the economic chain to make informed decisions when allocating capital.

Have a wonderful rest of your summer.