The Outlook: Oil and Geopolitics

Why Energy Still Matters

When oil markets swing, portfolios are affected. In March 2022, following Russia's invasion of Ukraine, Brent crude briefly surged above US$100 per barrel – it's sharpest spike since 2014.

Fast-forward to early 2026. Despite dramatic geopolitical headlines coming out of Caracas, crude markets remained relatively calm. This is largely because the global oil market is currently better supplied. Inventories are adequate, non-OPEC supply has grown, and OPEC has paused planned production increases into the first quarter of 2026 to avoid adding supply into a projected surplus. This has kept the market anchored and explains why the initial reaction to Venezuela's political upheaval was far more subdued than many expected.

Even with the continued rise of renewables such as solar, wind and battery-powered electrification, the world remains heavily dependent on oil and gas. Most people think of oil as a single price, but the market runs on key benchmarks that behave differently. Brent and WTI, the light and sweet global benchmarks most often quoted, anchor pricing for gasoline and jet fuel. Brent serves as the world's primary reference for seaborne crude, guiding what global refiners pay. WTI reflects U.S. supply conditions and influences domestic fuel costs.

Venezuela, however, produces a different barrel. Its flagship grade, Merey-16, is a heavy, sour crude used mainly for diesel and industrial fuels rather than lighter products tied to Brent and WTI. Because these grades serve different segments of the economy, disruptions do not always move the headline benchmark prices. However, they can tighten markets that matter for transport, manufacturing and electricity costs.

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The energy system is layered, and shocks in any segment-- whether global benchmarks or grade-specific markets - ultimately feed into transport costs, inflation, and financial markets. This is why energy remains central to economic risk, even as cleaner technologies gain ground.

The Venezuelan crisis illustrates this dynamic. Venezuela holds more than 300 billion barrels of proven reserves, the largest globally, placing the country at the centre of geopolitical attention. Yet decades of under-investment and the cumulative effects of sanctions have reduced production to below one percent of global supply. As a result, the near-term impact on headline oil markets remains limited.

Even after January 2026 reports of U.S. intervention and political transition efforts involving President Nicolás Maduro, markets have remained measured. While discussions have surfaced about transferring operational rights to major U.S. oil companies, investors understand that meaningful increases in Venezuelan output would require multi-year capital investment, contract stability, debt restructuring and a credible regulatory regime. Political significance, in other words, does not automatically translate into immediate supply.

Globally, the geopolitical stakes remain real. The US action raises the risk of retaliation or regional energy disruptions, including pressure on allied states. These developments may not immediately spike Brent prices, but they elevate risk premiums, weaken global investor confidence and introduce volatility into specific crude streams.

Energy prices also shape the broader macro environment. Sustained higher oil prices tend to slow global GDP growth, while additional output from OPEC, the U.S., Brazil or eventually Venezuela could counteract that negative growth outlook. Inflation remains sensitive to energy. Higher prices push inflation upward, while additional supply generally provides relief.

Central banks, including the Federal Reserve, remain cautious. Persistently high energy prices could delay rate cuts, while a stable or easing energy backdrop gives policymakers more room to manoeuvre. Financial markets respond in predictable but nuanced ways. U.S. Treasury yields often fall during periods of heightened geopolitical uncertainty, reflecting a flight to safety, while the yield curve often fluctuates between growth concerns and inflation risks. Corporate bond yields have remained relatively stable despite U.S.–Venezuela tensions, supported by solid investor demand and strong balances in U.S. investment-grade debt. High-yield spreads remain elevated but have not widened drastically, suggesting that investors still view near-term corporate credit risk as contained.

For diversified portfolios, the practical approach is to prepare for episodic volatility rather than assume persistent price spikes.

For Jamaica, these developments carry clear and immediate implications. As a net energy importer, Jamaica remains exposed to both headline oil prices and grade-specific movements, particularly those affecting diesel-rich heavy-sour supplies. Rising fuel costs feed directly into electricity tariffs and transportation expenses, placing upward pressure on inflation and influencing the Bank of Jamaica's policy rate stance.

When oil prices rise, manufacturers, logistics companies and construction firms face margin pressure, and households encounter higher living costs. At the same time, exporters and tourism-linked businesses that earn US dollars may prove more resilient if external demand remains firm and foreign-exchange inflows hold steady. Lower oil prices, by contrast, tend to ease inflation, reduce business operating costs and support consumption, although global volatility can still weigh on foreign investment sentiment. The central bank must find the delicate balance between inflationary risks and exchange-rate stability.

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In Jamaican fixed income markets, a prudent strategy is to keep JMD exposure shorter and steadier, using mid-range maturities or floating-rate bonds and to hold some USD liquidity in safe, short-dated U.S. Treasuries or investment-grade securities for stability. In equities, companies with pricing power, such as the larger consumer brands, telecoms and cement producers, tend to perform better when energy costs rise. By contrast, businesses that rely heavily on diesel or fuel-intensive operations, such as manufacturing companies, warrant closer monitoring.

Even in an era of transition, oil continues to anchor the global economic cycle. Inflation, interest rate direction, earnings and currency all react to shifts in the energy market. OPEC's current strategy and the near-term supply cushion are helping to keep prices orderly, but geopolitics has not faded.

Venezuela's upheaval is a reminder that control of resources remains a lever of international power, and that energy markets can reprice long before new supplies reach the surface. For Jamaican investors, the imperative is to stay diversified, maintain USD buffers, favour sectors with pricing power and manage duration carefully.

This approach helps translate geopolitical noise into disciplined, resilient portfolios — whatever the next headline may bring.