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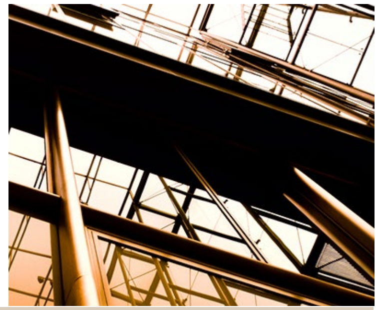
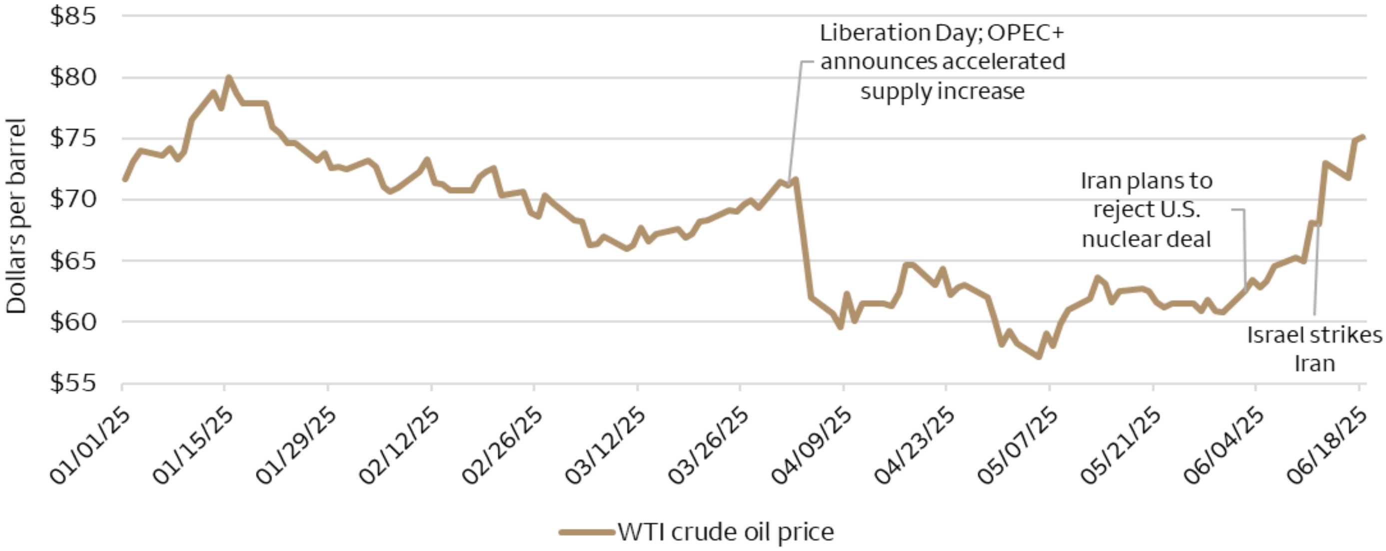


Chart of the Week

Weekly analysis of key themes in markets | June 24, 2025

The geopolitical risk premium is back in oil



Sources: FactSet and Wells Fargo Investment Institute. WTI = West Texas Intermediate. Data as of January 1, 2025 – June 18, 2025. OPEC+ = a group of 24 oil-producing nations, made up of the 14 members of the Organization of Petroleum Exporting Countries (OPEC) and 10 other non-OPEC members.

Oil prices have generally declined thus far in 2025, but escalating conflict has led to a reversal

The ongoing Iran-Israel war has led to a geopolitical premium being priced into oil. This is shown in the chart above as oil prices have generally declined in 2025, but the escalating conflict has caused this trend to reverse. Prices reached $75.14 on June 18, up from $60.79 at the end of May, and there are concerns that further escalation could cause global oil supply disruptions.

We do see several dynamics that could buffer the impact of potential disruptions to oil supply arising from this conflict, including spare production capacity from OPEC+ and the International Energy Agency's commitment to release oil from its emergency stockpiles to keep the market in balance, but we believe that investors should not ignore the tail risks. Ultimately, we expect oil prices to remain volatile, potentially with an upside bias in the near term.

What it may mean for investors

We believe that investors should consider Energy sector exposure within a diversified portfolio as a potential hedge against the inflationary impact that higher commodity prices may have. Our guidance is neutral on the Exploration & Production sub-sector, which has the most direct exposure to commodity prices, and we favor the Integrated Oil sub-sector, with a preference for the largest companies given their broad diversification and strong financial flexibility.

Ian Mikkelsen, CFA; *Equity Sector Analyst, Energy*

Excerpted from Investment Strategy report (June 23)

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Sector** investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

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