Global Matters Weekly

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A Right R-Oil Mess

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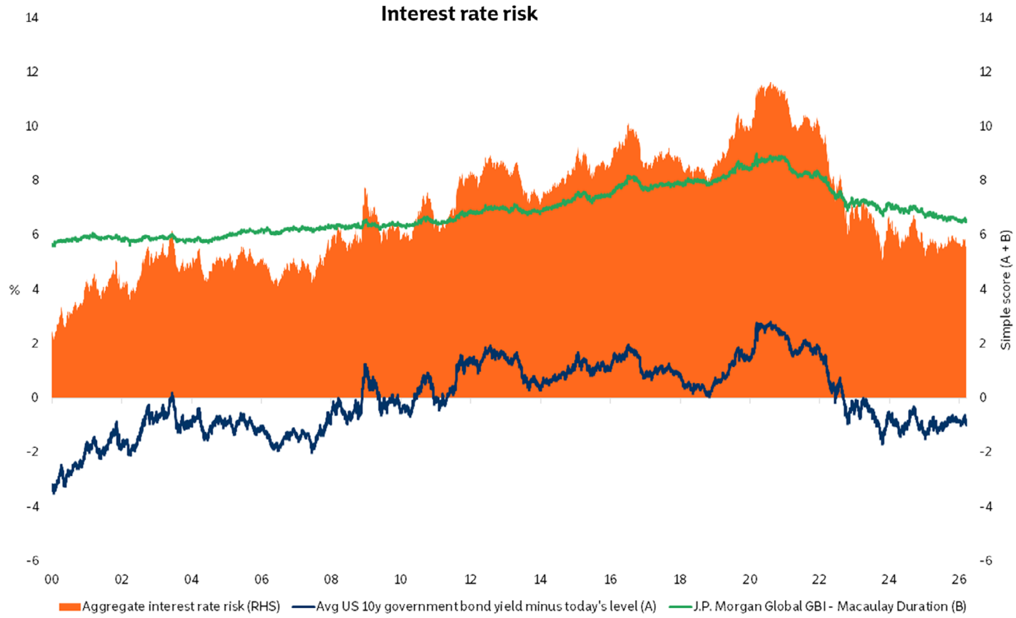

Source: Momentum Global Investment Management, Bloomberg Finance L.P. Data to 20 March 2026.

What does the chart show?

There is a lot to be worried about currently. Two things that give me comfort are, firstly, the clear incentive for both sides to deescalate – the US has significantly degraded Iran's military capabilities but there appears to be little appetite for an extended war among American voters; while Iran has shown it can hurt opponents whatever their size, but does it need to continue doing it, with some form of sanctions relief now a realistic prospect? And secondly, the starting point for financial markets. The chart above sums two variables that together provide a simple approximation of risk in the financial system: the blue line looks at where borrowing costs are relative to their long term average – a high number is something to watch out for: it tells us borrowing costs have been higher in the past and could head back there in the near term. The green line looks at the sensitivity of government bond prices to borrowing costs – again, a high number is a warning sign: a reading of 8%, for example, tells us that a 1% increase in borrowing costs would prompt an 8% fall in the value of any government bonds in one's portfolio. Finally then, the orange shaded area is the sum of those two variables, with a high reading indicating more risk in the system.

Why this is important

Where are we today in terms of this simple risk measure? Thankfully we're low (30th percentile): interest rates are already quite high in the context of the past 25 years and – the two things are related – the impact of a 1% rise in borrowing costs is also lower than it has been for some time. Compared to 2022, when financial assets fell in unison in response to higher interest rates, risk in the system is significantly reduced today. Some comfort then, but now is still the time to have protection built into portfolios, as we do in the form of cash, defensive equities and certain explicit protection strategies.

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Important notes