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Rise in oil prices highlights market risks for investors

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Oil prices jumped after the latest data showed an unexpected draw in US crude inventories for the first time in seven weeks, with Brent crude trading above USD 84 per barrel on Thursday, the highest level since early November. The potential for supply disruption after Ukrainian attacks on Russian refineries in recent days has also added to investor unease.

Brent's price movement marked the biggest daily rise since early February, and is a reminder that geopolitical conflicts remain a source of market volatility. While we see fundamental tailwinds that can continue to support the equity rally, investor sentiment is also susceptible to a range of economic and market risks.

Both the Russia-Ukraine and Israel-Hamas wars are ongoing. Ukraine's latest attack against Russia with drones saw several oil refineries damaged and shut temporarily. According to a Reuters report, the strikes caused a fire at Rosneft's biggest refinery on Wednesday, as Kyiv stepped up attacks on Russian energy facilities in recent months. It has been over two years since Russia launched a full-scale invasion of Ukraine, and Russian President Valdimir Putin warned on Wednesday that the country was technically ready for a nuclear war. Separately, ceasefire talks between Israel and Hamas remain stalled, and attacks in the Red Sea region have continued. On Thursday, Houthi militants reportedly fired an anti-ship ballistic missile from Yemen into the Gulf of Aden.

The US presidential campaigns have kicked off in earnest. US President Joe Biden and former President Donald Trump both clinched their parties' official nomination this week, kicking off the first US presidential election rematch in nearly 70 years. We continue to believe that investors should avoid overreacting to polls, and that longer-term portfolio decisions should be apolitical. But with the election still some eight months away, headlines around the campaigns are likely to create volatility ahead.

Inflation concerns remain in focus. Market reaction to another month of strong US consumer price index (CPI) data was muted earlier this week, but inflation remains at the forefront of investors' minds. The National Federation of Independent Business' Small Business Optimism Index showed pessimism among small business owners, with inflation and labor quality their top concerns. The latest New York Fed inflation expectations survey also showed that US consumers' longer-term outlook for inflation has increased from a month ago. Market focus now turns to producer price index (PPI) data due today, which feeds into the Federal Reserve's preferred measure of inflation, the personal consumption expenditures (PCE) price index.

So, while we continue to see a market outlook supportive of risk assets, investors should consider several strategies to mitigate portfolio risks, including adding exposure to gold and oil, and utilizing structured investments with capital preservation features. Select hedge fund strategies can also help increase portfolio stability by capturing market gains and reducing drawdowns.

Main contributors - Solita Marcelli, Mark Haefele, Daisy Tseng, Giovanni Staunovo, Vincent Heaney, Jennifer Stahmer

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