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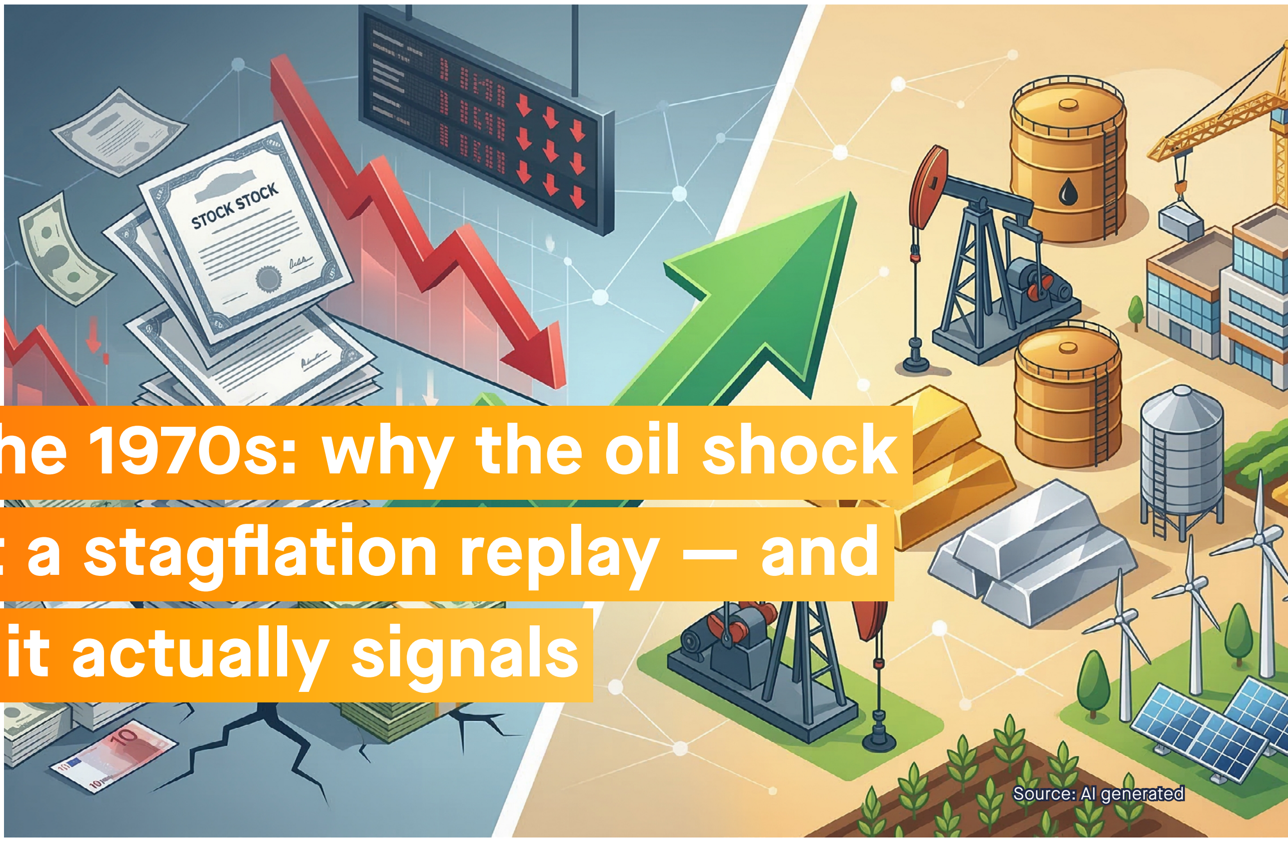

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Not the 1970s: why the oil shock is not a stagflation replay — and what it actually signals

The surge in oil prices following US-Iran tensions has revived fears of stagflation. Those fears are misplaced. What markets may actually be pricing is a structural regime shift — from paper assets to real ones.

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The stagflation headline is seductive — but the analogy breaks down

Every time oil spikes, the word stagflation surfaces. It happened in 2022. It is happening again now. The reflex is understandable — oil is inflationary by nature, and higher energy costs bite into growth. But the comparison to the 1970s and early 1980s, the defining stagflation era, requires a great deal more scrutiny than most headlines allow.

Stagflation, in its classical form, is a toxic and sustained combination: entrenched inflation running well above target, stagnating or contracting economic output, and — critically — an absence of policy tools capable of breaking the cycle without making things worse. The United States in 1973 and again in 1979 met all of those conditions simultaneously. Today, it does not.

Start with inflation. The 1970s saw CPI averaging above 7% for much of the decade, with peaks above 13% in 1979. Inflation was not a spike — it was a structural condition baked into wages, expectations, and energy policy. Today's inflation, while elevated relative to the post-2008 era, has already been declining from its 2022 peak and remains far more contained. Central banks have credibility they lacked in the Burns-era Federal Reserve. Inflation expectations remain anchored. That is not a minor technical distinction — it is the central difference.

Then there is growth. Real GDP continues to expand at a solid pace. The labour market, while softening at the margins, is not in freefall. Corporate earnings, outside of a few interest-rate-sensitive sectors, have held up. The consumption engine — powered by a still-employed, still-spending consumer — has not stalled. An oil shock is a headwind, not a recession trigger, when the underlying economy is running on a fundamentally sound base.

Finally, consider the supply-side context. The 1970s oil shocks were the product of deliberate OPEC embargoes targeting Western economies — a politically motivated stranglehold on a commodity for which there was virtually no substitute and no domestic alternative. Today, the United States is the world's largest oil producer. The shale revolution fundamentally changed the supply equation. A shock in Iran raises prices but it does not replicate the structural vulnerability that made 1973 a civilisational rupture.

The honest verdict: there is upward inflationary pressure from energy, and there is some drag on growth at the margin. But stagflation, as an economic condition, requires more than an oil spike. It requires a broken economy, which we do not have.

What the oil shock does tell us: trade the spike, own the shift

The more instructive question is not whether this is stagflation — it is not — but what the oil surge actually signals about where markets are heading.

History offers a useful pattern. Over the past ninety years, major geopolitical shocks have produced a consistent sequence in commodity and equity markets. In the first three months following a shock, oil is the best-performing major asset, rising roughly 18% on average. Gold gains around 6%. Equities follow with a modest 4% advance, often on relief that the shock was not worse.

But the picture changes materially at the six-month mark. Gold continues climbing, averaging gains of around 19%. Equities stall and fade. Oil, meanwhile, gives back most of its initial surge as supply adjusts and the immediate fear premium deflates.

The tactical implication is clean: *trade oil on the shock, own gold through the uncertainty.* The geopolitical risk premium is real but transient in oil. In gold, it tends to crystallise into something more durable — a reflection of deeper anxieties about dollar credibility, fiscal trajectories, and the reliability of paper-based stores of value.

The bigger story: from paper assets to real ones

Zoom out further, and the oil move starts to look like one chapter in a larger story that markets are only beginning to price.

For most of 2024 and 2025, the equity market had a single playbook: buy artificial intelligence. Capital flowed relentlessly into a narrow group of mega-cap technology platforms — the companies spending billions building out AI capacity. The thesis was self-reinforcing: AI would dominate, therefore own the dominators.

But in 2026, the leadership is quietly rotating. The biggest winners are no longer the companies spending on AI. They are the companies building the physical infrastructure that makes AI possible — semiconductors, materials, energy systems, industrial supply chains. And the new short positions cluster around the mega-cap platforms themselves, which face rising costs and structurally disrupted software revenues.

This is not merely a sector rotation. It reflects a deeper repricing of a decades-long imbalance.

For years, capital markets systematically rewarded companies that consume resources while starving the industries that produce them. Asset-light business models attracted premium valuations. Software was described as eating the world. Physical economy businesses — miners, drillers, utilities, industrials — were treated as legacy industries, underinvested and undervalued.

Yet the physical economy never disappeared. And its centrality is now accelerating, not declining.

Consider what the next decade actually requires. The global build-out of artificial intelligence depends on electricity — enormous quantities of it, from data centres that consume power at a scale that is straining grids across the United States, Europe, and Asia. Electrification of transport and industry requires copper on a scale that existing mine supply cannot easily meet. Reindustrialisation — driven by supply chain reshoring, defence spending, and energy security policy — demands steel, critical minerals, and engineering capacity that has been hollowed out over three decades of offshoring. Energy security, now a first-order political priority in every major economy, requires investment in domestic production infrastructure that was deferred for a generation.

All of these trends converge on the same conclusion: **the materials and energy that power the real economy are scarce, underinvested, and increasingly in demand.**

When capital begins to recognise a multi-year supply deficit in strategically critical commodities, the repricing can be dramatic and sustained. The initial moves in copper, gold, uranium, and energy infrastructure this year may be early signals of exactly that kind of rerating.

The investment implication: this is a structural shift, not a tactical trade

The stagflation narrative frames the current moment as a problem to be endured — a period of pain before the return to normalcy. That framing is wrong in both directions.

It overstates the macroeconomic risk. The economy is not broken, inflation is not entrenched, and growth is not collapsing. The conditions for classical stagflation are not present, and investors who position as though they are will be overweight defensive assets at the wrong time.

But the stagflation narrative also understates the structural opportunity. If this is the early phase of a sustained rotation from paper assets to real ones — from digital platforms to the physical economy that underpins them — then the investment playbook is not about protection. It is about positioning.

The long side of that trade is not complicated: builders over spenders, physical infrastructure over digital platforms, scarce hard assets over abundant financial ones.

History suggests that when these rotations begin, they tend to last longer and go further than consensus expects. The underinvestment cycle in commodities has been running for nearly fifteen years. The demand tailwinds — AI power consumption, electrification, reindustrialisation — are structural, not cyclical.

This is not the 1970s. But it may be the beginning of something comparably significant: a prolonged regime shift in which the physical economy reclaims its place at the centre of capital markets — and rewards investors who recognised it early.

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