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Ken Kozlowski and the
Markets & Investing podcast present:

Energy Markets with Wellington Investments

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May 2026 Transcript

This is an auto-generated transcript that has been edited for clarity and ease in reading.

Ken: Hello everyone, I'm Ken Kozlowski, Chief Investment Officer of Equitable Investment Management and in this Markets and Investing podcast, I have the pleasure of welcoming Joy Perry from Wellington Management. Joy is an Investment Director in Equity Product Management and meets regularly with clients, prospects, and consultants to communicate Wellington's investment philosophy, strategy, and positioning. Joy is also a frequent author of energy and commodity Insights alongside EQ Wellington Energy Portfolio Manager Tom Levering, which is why we're thrilled to bring you such depth of knowledge on a very, very timely topic.

So with that, Joy, thank you for coming and welcome. And we're going to jump right in.

Joy: Well, thanks, Ken. I'm looking forward to the conversation and just really appreciate you having me.

Ken: All right, so over the last month, we've seen obviously a really noticeable spike in oil prices alongside all the tensions that have arisen in the Strait of Hormuz. Can you just walk us through some of the things that you've been seeing?

Joy: Of course. So maybe just to level set for the audience's benefit, I think it's really helpful to recognize that before this conflict broke out at the end of February, about 30% of seaborne oil trade and about 20% of global LNG trade was going through the Strait of Hormuz. So, the Strait is actually quite significant for the transportation and mobility of energy. Now, before the conflict, it's really interesting, at Wellington, we were projecting for 2026, an oil market that was actually going to be in surplus. That means that we were producing more oil than we were demanding.

Now, as a result of the conflict, where the Strait of Hormuz has essentially been closed to transport for the better part of the last two months, we have seen the oil balances meaningfully tighten. So we've gone from having that surplus that I mentioned to essentially forecasting a meaningful deficit for 2026.

As we sit today, we've also drawn, and lost, a meaningful percent of crude inventories since the conflict broke out. This is important because this has enabled us to cushion the impact to actual oil and refined product prices over the last two months. So, what I mean by <<that is>> we've lost crude inventories, we've been able to draw down our strategic petroleum reserves or the SPR in the US. We've had the benefit of floating storage, which was essentially oil that was already at sea or in transit. We've also been able to deplete commercial inventories. So this is why, while we've seen a historic disruption in the oil market since the breakout of the crisis, oil is currently trading right around \$110 per a barrel for Brent, which is the global oil price, versus \$70 at the start of the crisis, or even \$61 at the start of 2026.

So we've not seen oil go to demand destruction levels. And that's really important. And that's again, because we've been able to draw down inventories and tap into the SPR and realize the floating storage that was already at sea.

Ken: Got it. So, if we look beyond the headlines, what things have we learned over the last month about how resilient or vulnerable the global oil market really is when all these geopolitical risks flare up?

Joy: Yeah. So unfortunately, the crisis has really highlighted to us how vulnerable the global oil market is. In some ways, there are similarities to 2022 when the Russia and Ukraine conflict broke out. That also served to highlight how vulnerable, particularly our natural gas infrastructure globally was.

So when we think about what's happened in the market, we've seen oil up about 55%, while gasoline and diesel prices are up closer to 65%. That's causing us to focus on how we can shorten supply chains. How we can, as individual countries, invest in our own resources. So it's leaning into this theme that we've seen over the last couple of years of resource nationalism, and it has given us at Wellington greater conviction in the role of integrated oil companies or big oil companies, because these companies have exposure to LNG, global gas, and refined products, we think that having diversified exposure and control over the entire value chain is going to help strengthen these companies and actually allow them to emerge from this crisis in a stronger position.

So this is definitely just highlighted how vulnerable we are, but it's really leaning into some of the themes that we've seen across the energy market over the last couple of years around energy security and resource nationalism.

Ken: Got it. Thanks for that. So Joy, if this current event in the Middle East goes on for a protracted amount of time, at what point do you get demand destruction in terms of the oil price going forward?

Joy: Well Ken, that's a really great question. And it's a really important one for investors, given we're two months into this crisis. And we've actually been able to moderate the impact on the commodity price, given the draws on the SPR, the floating storage I referenced earlier, along with depleting those commercial inventories. So we've somewhat softened the blow to date. But the longer that this disruption goes on, the more realistic that we could see \$150 to even \$200 oil, which is really what we would need to see for meaningful demand destruction.

One of the challenges that we see right now is that the oil futures curve is not currently sending a signal to oil producers to produce more oil.

So it's actually, the price for oil is actually higher today than it is if you look out in the futures market for a month or two months. So what that's doing is its incentivizing producers not to adjust their production and push it out into the future, which is what we would like to see. This is also driving meaningful tightness across our products.

So investors are probably feeling this at the gas pump and in terms of jet fuel prices.

And that's where we also expect to see more tightness and higher prices as we go through the summer, given how much inventory we have in those commodities to date.

So bottom line, the longer this goes on, the higher we're going to see commodity prices move. And the impact is going to be more; the impact is going to be exponential relative to what we have felt in the first two months of this crisis.

Ken: Final question, what should investors keep in mind when evaluating how energy exposure fits into their broader portfolio and risk management strategy?

Joy: So first and foremost, I think it's really important just to recognize that we are inevitably going to continue to need oil and gas going forward. In order to meet the demand for oil and gas and also the demand for broader energy globally, we are going to have to invest in these resources. So I think that that's something for investors to really keep in mind.

This is an industry that has seen capital discipline over the better part of the last decade. And so we haven't necessarily been focused on developing and exploring for new oil and gas reserves, but we are going to need to continue to invest in these resources going forward.

From an allocator perspective, it's also really important to keep in mind the role that energy can play during periods of supply shock like we're seeing right now. So an allocation to energy equities can help protect a diversified portfolio from these types of supply shocks when higher oil prices can actually be quite detrimental to other risk assets where you're seeing margin pressure given the impact that higher oil prices can have for many companies and many industries.

So it really reinforces the role of energy as a hedge in your portfolio, particularly during periods of geopolitical instability and oil supply shocks. So I think it's really underwritten the role for the allocation for many investors.

Ken: So in short, you see energy as an alternative and great source of diversification within someone's long-term asset allocation for the reasons that you just took us through. You know, that was a great summary. I appreciate that.

Joy: Thank you. But you said it best. It's an incredible diversifier. And we've seen the benefits of that diversification over the last two months.

Ken: Joy, thank you so much for your insights. Really helpful, especially in this crazy environment that we've been in over the last couple months. And thanks again for spending time with us. We really appreciate it. Thanks, Joy.

Joy: Been my pleasure. Thanks, Ken.

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