Are Oil Prices Driving The Iran Conflict?

In physics, kinetic equilibrium describes a system in which forces are balanced, and motion continues at a steady, unchanging rate. Felix Vezina-Poirier of BCA Research argues that we can apply kinetic equilibrium to the Iran conflict. Unlike most analysts, he believes that oil prices are not the result of the ebbs and flows in the conflict. Instead, he thinks oil prices are steering the conflict. When oil prices are at the lower end of the recent range, both sides appear more comfortable bad-mouthing each other and escalating their actions. Conversely, when oil prices climb, the political pressure forces more constructive communications.

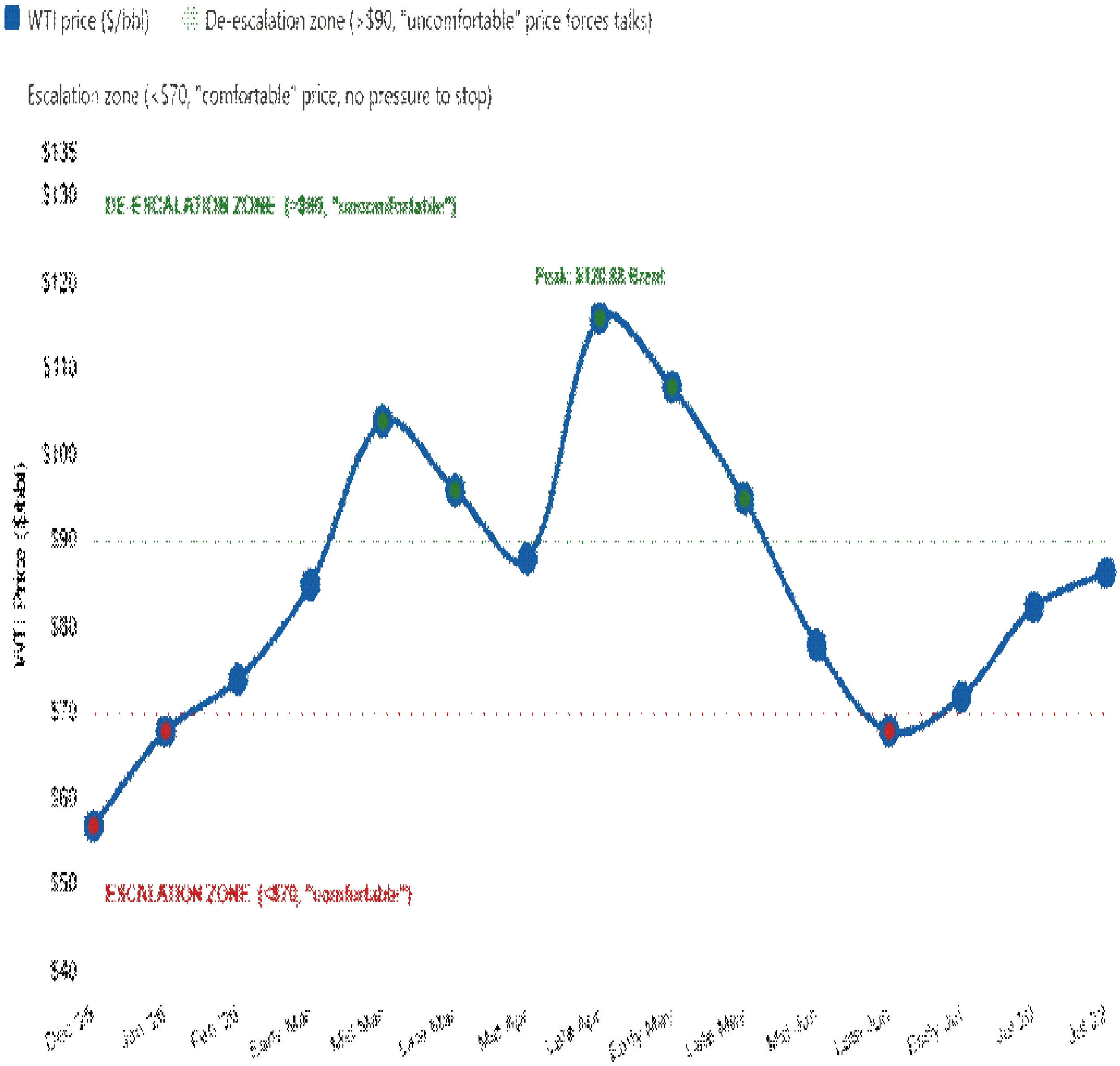
BCA Research?s latest missive extends the logic. Iran?s negotiating team is under growing pressure, he says, ?*while the approaching midterms are increasing pressure on the US administration*.? His conclusion is not surprising: ?*as prices approach the upper end, escalation gives way to de-escalation.*?

Crude oil prices, as shown below, have climbed roughly 20% over the past month, touching a six-week high near $90 as the US military has carried out numerous strikes and Iran has responded with missile attacks on neighboring countries. Their kinetic equilibrium theory regarding military conflict in Iran is about to be tested. Will higher prices force both sides toward talks?

We have written about how a durable decline in oil prices would flow through to CPI, take rate hikes off the table and possibly reopen the door to Fed rate cuts. BCA?s kinetic equilibrium theory offers the geopolitical trigger that might produce that decline. If the conflict continues to be swayed by oil prices, the next several weeks should bring renewed diplomatic movement rather than further escalation. However, if the kinetic equilibrium fails with prices continuing higher and escalating military actions, &#2013266080;the markets may become less complacent about the conflict.&#2013266080; &#2013266080;

WTI crude oil ($/bbl), December 2025 to July 2026, with BCA's escalation and de-escalation zones

Real Investment Advice



Sources: Forbes Advisor, TradingEconomics, OilPriceAPI, CNN, BOE Report, BCA Research. WTI series compiled from multiple confirmed spot price reports across the conflict timeline, monthly and biweekly points interpolated for a smooth read, precise daily figures may vary by source. Per BCA's Marko Papic, comfortable low prices give both sides room to escalate, while uncomfortable high prices create the political pressure that historically pushes Iran and the US toward the table. Dec 16, 2025 Brent 52-week low $58.66, Apr 30, 2026 Brent 52-week high $120.88; July 20-22, 2026 WTI $82.38 to $86.35 confirmed

What To Watch Today

Earnings

COMPANY (TICKER)	TIMING	EPS EST.	REV. EST.
American Express (AXP)	Before open	$4.40	$19.62B
Verizon (VZ)	Before open	$1.27	$35.31B
NextEra Energy (NEE)	Before open	$1.08	$7.97B
Schlumberger (SLB)	Before open	$0.51	$8.67B
HCA Healthcare (HCA)	Before open	$7.41	$19.92B
Charter Communications (CHTR)	Before open	$10.24	$13.9B est.
Booz Allen Hamilton (BAH)	Before open	$1.49	$3.0B est.

Every S&P 500 name on the tape reports before the open; there are no notable after-close reports on a summer Friday. The Magnificent 7 cluster (MSFT, META, AAPL, AMZN) reports next week around the July 28–29 FOMC meeting.

Economy

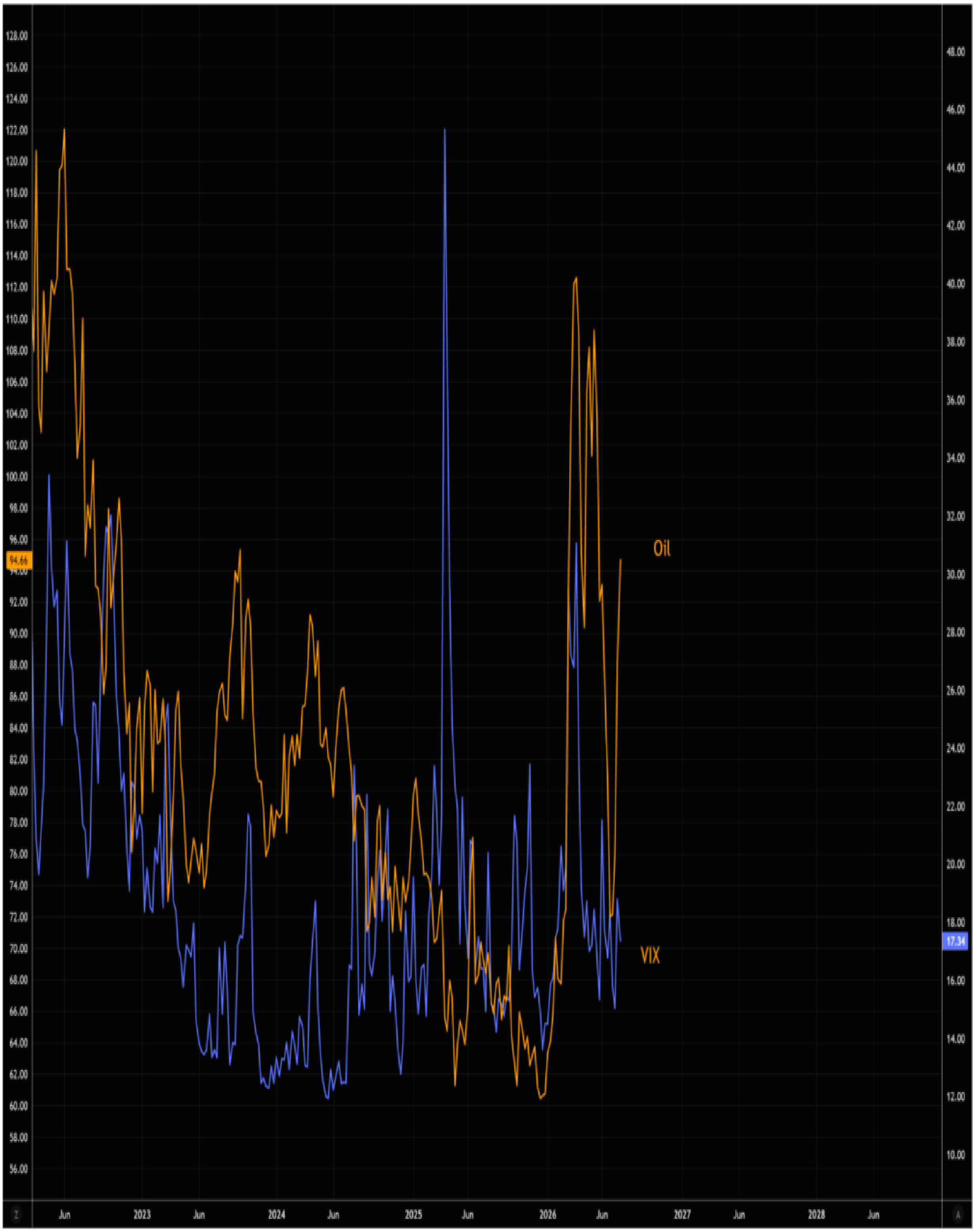
TIME (ET)	RELEASE (PERIOD)	PRIOR	CONSENSUS	FORECAST
10:00 AM	New Home Sales (June, SAAR)	580K	650K	640K

Market Trading Update

In ***yesterday?s report***, we looked at Polymarket and why a real-money bet on the next open can sharpen our read on crowd sentiment. Today, I want to point to the one gauge that is NOT flashing any concern at all, even with a mega-cap earnings gauntlet and next week?s FOMC directly in front of us. That gauge is the VIX.

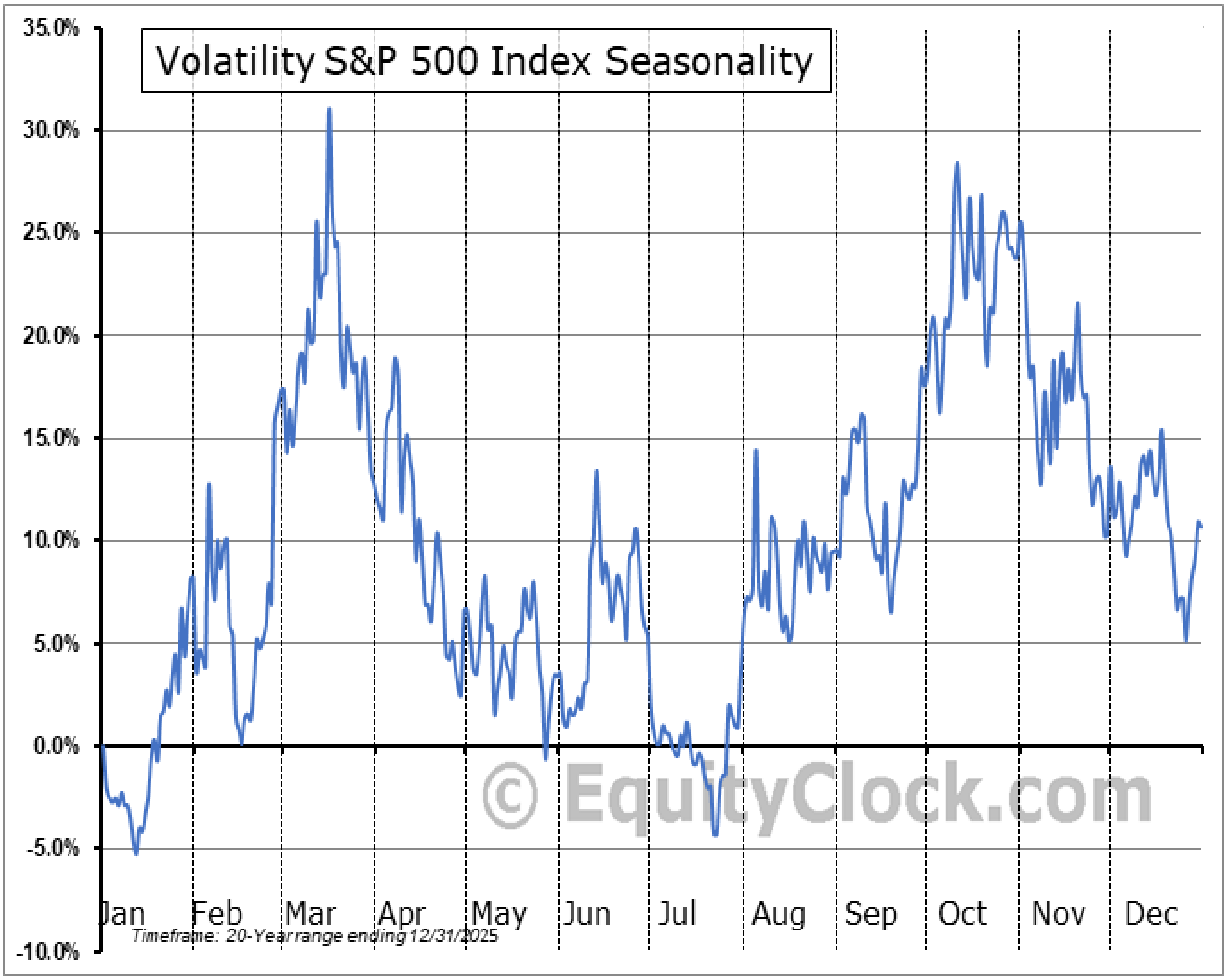
The volatility index sits in the high teens this morning, near the low end of its 12-month range, and it barely flinched while Alphabet dropped 5% and Tesla fell 7% on their prints. Think about that. Two of the largest companies in the index had violent single-day moves, and the market?s fear gauge shrugged. Volatility is being sold into event risk, not bought ahead of it.

There is a mechanical reason. Goldman?s volatility desk has flagged one-month S&P implied correlation near its lowest level in twenty years. When correlation is this low, index volatility stays cheap because single names zig and zag against each other and wash out at the index level. That is how the VIX can sit near 19 while individual mega-caps swing 5% to 7%. The catch is that the cushion disappears fast the moment those names start moving together.



The VIX has stayed subdued in the high teens even as oil and energy volatility pushed higher. Source: LSEG Workspace.

Here is the part that matters for timing. As the seasonality chart below shows, August through October is historically the highest-volatility stretch of the calendar year. We are walking straight into that window with protection priced near the lows. Man Group said it plainly this week: the VIX isn?t worried, but maybe it should be.



Positioning says the same thing. Nomura notes that asset managers? VIX futures positioning sits near record lows, and historically that setup has preceded some of the strongest forward gains in VIX futures. This is not a crash call. It is an asymmetry. Howard Marks reminds us that risk is highest precisely when it feels lowest, and right now it feels very low.

So here is what we are doing. We are NOT selling volatility to reach for a little extra yield, which is exactly what this tape is tempting managers to do. In client portfolios, we keep our hedges on, and where mandates allow, we reposition as needed. We hold quality, we keep dry powder, and we let the seasonally weak window come to us. When protection is this cheap and the calendar is this heavy, you buy the umbrella before it rains. Manage risk accordingly.

Tesla And Alphabet Flop On Earnings

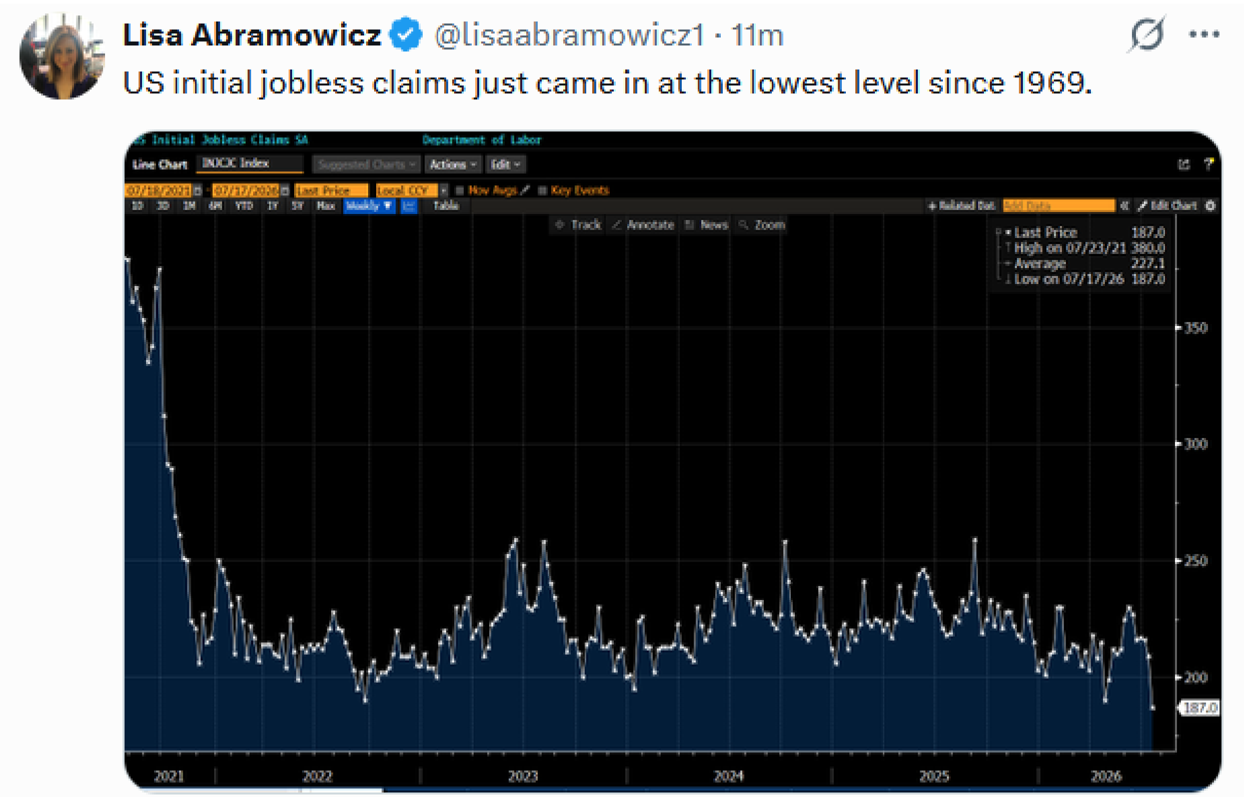
Alphabet and Tesla both beat revenue expectations, yet both fell sharply. Alphabet dropped over 5%, and Tesla declined by over 10%. Both companies are good examples of how investors are increasingly looking beyond traditional revenue and EPS data for guidance.

Alphabet?s headline results were strong. Google Cloud revenue surged 82% to nearly $25 billion, with the segment?s operating margin jumping to 35.6% from 20.7% a year earlier. Janus Henderson?s Alison Porter called it ?*one of the strongest revenue growth quarters that Alphabet has had in five years*.? The problem, however, seems to be its free cash flow, which swung to negative $5.9 billion from nearly $25 billion a year ago. Furthermore, the company raised its 2026 capex guidance by about $15 billion. Alphabet?s CFO Anat Ashkenazi told analysts the increase reflects ?*an acceleration in the delivery of capacity to meet growing demand*.?

Tesla?s story was not as good. While the automotive business grew revenue by 23%, operating expenses climbed even faster, and free cash flow turned negative for the first time in over two years. Elon Musk defended the spending toward robotaxis, Optimus, and semiconductor production, calling it ?*probably the fastest industrial scale-up since World War II in America.*?

The market?s message across both names is consistent: Investors are currently more concerned about the amount of AI-related capex than the potential benefits down the road.

Tweet of the Day



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