July 2026

Two from this weekend's WSJ:

Tech Giants Spotlight Volatile Month

AI concerns, the Iran war and the Federal Reserve whipsawed U. S. stock market

BY SHRADHA DINESH AND SAM GOLDFARB

… The blue-chip index (Dow) added 0.3% during July, while the S&P 500 edged lower 0.1% and the Nasdaq slipped 3.2%. All three gained 1% or more for the week.

July has been a turbulent period for stocks in which AI concerns, the Iran war and the Federal Reserve whipsawed markets. Worries

about the cost of AI investment and concerns the spending won't yield the expected blockbuster profits sparked sharp swings in some stocks over recent weeks. …

The Fed added significant pressure to markets this past week. Treasury yields extended recent gains on Friday after three central bank officials explained why they cast dissenting votes in favor of raising interest rates this week. The yield on the 10-year U.S. Treasury note rose to 4.743%, its highest level since January 2025. The 30-year yield rose to 5.274%, a new 19-year high, after the sharpest one month rise since 2024. …

and from the front page:

Investors Cheer Rise In Prices—For Now

BY RYAN DEZEMBER

The continuing closure of the Strait of Hormuz is beginning to hit Americans' wallets far beyond the pump. Companies say they are raising prices on products ranging from french fries and beer to paint and packaging to offset their own rising commodity and freight costs. …

The price increases have been cheered by investors, who have bid up shares of several companies following notice of increases. Sharp gains in shares of manufacturers, materials producers and makers of consumer staples have helped buoy the broader stock market as concerns about the data-center splurge have dragged down technology stocks that powered indexes to new highs this year.

Yet higher prices on everyday items threaten to ignite a new round of inflation that could muddy the path of interest rates and become a big factor in this autumn's midterm elections. …

The cost of living was already a hot political issue in late February when the U.S. began bombing Iran, which retaliated by restricting passage through the Strait of Hormuz. Roughly 20% of the world's oil supply moved through the strait before the war, as well as much of its aluminum, fertilizer and other materials.

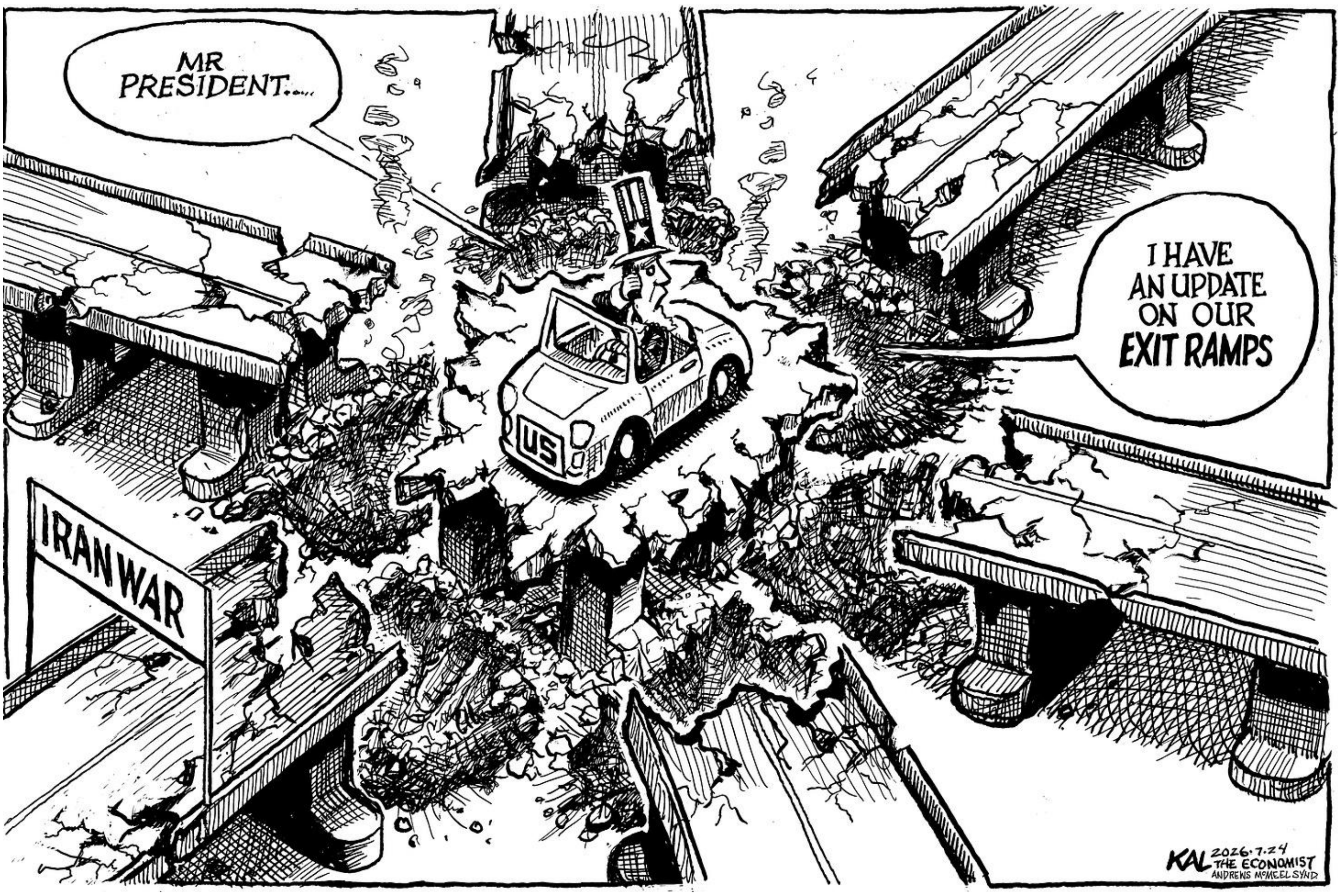
Prices at the pump immediately surged, straining household budgets and boosting costs for businesses. Traders went from expecting the Federal Reserve to reduce borrowing costs to positioning bets in the futures market in anticipation of rate increases, according to CME Group data.

Fed officials on Wednesday voted 9-3 to leave rates unchanged. The central bank's rate-setting panel is scheduled to next meet in September.

"What we're trying to understand is to what extent are these shocks broadening in their effects, broadening in their impact on prices that are quite far removed from it," Fed Chairman Kevin Warsh said.

Benchmark U.S. crude futures traded around $85 a barrel on Friday, up about 25% since the war began. Prices for gasoline, diesel and many petrochemicals have risen even more sharply and aren't expected to ease until normal tanker traffic through the strait resumes. The national average for a gallon of regular unleaded gasoline was about $4.11 on Friday, up from $2.98 at the start of the conflict. …

From The Economist:



Two from WSJ's Markets A.M. Jul. 16:

Spencer Jakab

Breaking the 'law of one price'

That ridiculously overvalued stock you just sold looked fine to whoever paid you for it. Prices aren't "wrong."

Except when they definitely are. It tends to happen when markets get bubbly, with the latest example being the U.S.-listed shares of SK Hynix.

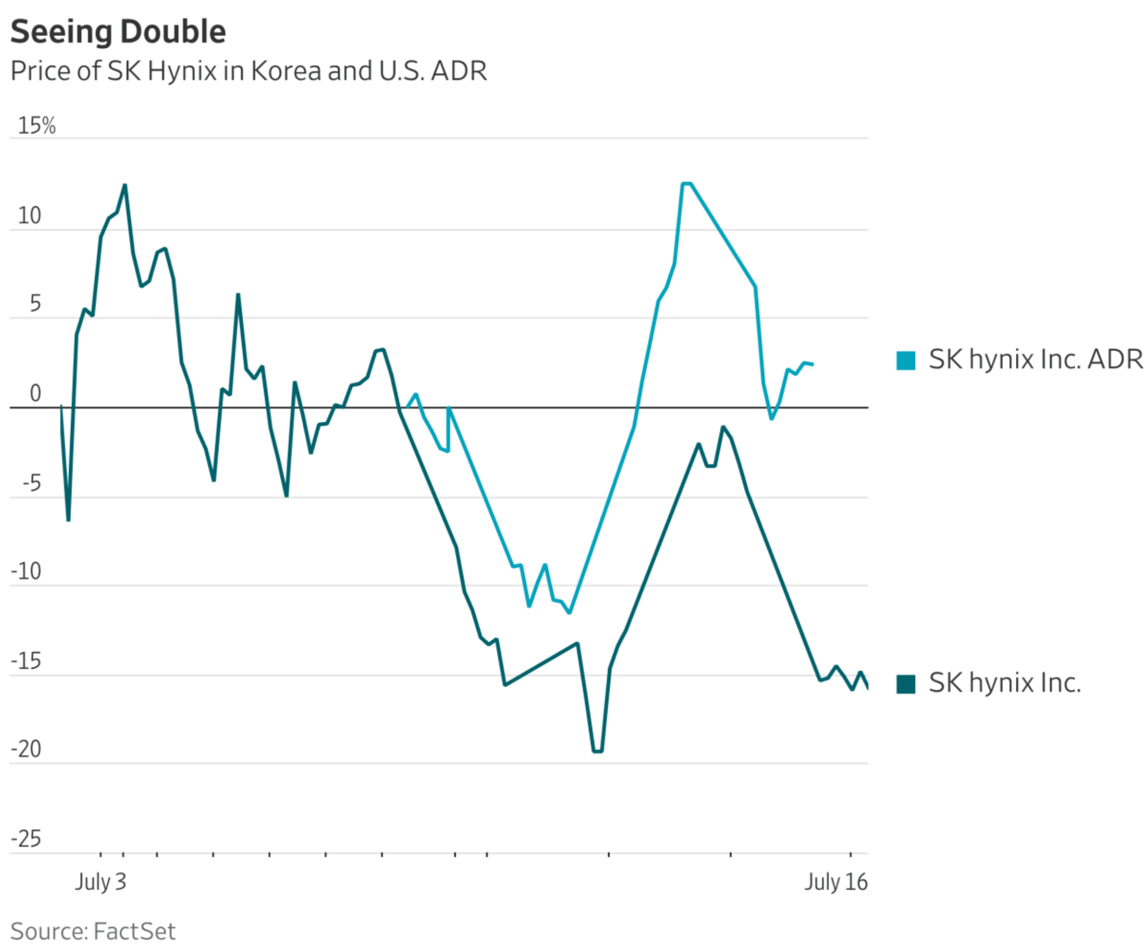
The red-hot Korean memory-chip maker raised $26.51 billion last week by selling American depositary receipts, which U.S. investors can buy in dollars. They have the same claim on earnings as the Seoul-listed shares but can't yet be converted back and forth. Demand for the U.S. version pushed their price to a nearly 50% premium to the Korean ones this week.

The violation of the "Law of One Price" happens when it's hard for sophisticated traders to profit from such differences and often when many novice investors just piled into the market. The most famous example occurred a week before the tech bubble burst when Palm, the maker of then-popular Palm Pilots, was partially sold by parent 3Com.

Despite The Wall Street Journal and others pointing it out, 3Com's remaining Palm stake should have made its price at least 80% higher. Arbitragers would have loved to close the gap but couldn't borrow Palm shares to then sell short.

Closed-end funds that can't just be sold for their net asset value often get out of kilter. Back in late 1989, weeks before the peak of Japan's epic boom, its enthusiastic investors piled into shares of the Germany Fund after the Berlin Wall fell. It swung from a typical 10% discount to a 100% premium.

More recently, the Destiny Tech100 fund, which held private shares of SpaceX, surged ahead of that stock's



June IPO to well above its NAV. It's since down by 60%.

Lunacy cuts both ways. For investors who found it daunting to buy bitcoin during its 2017 rally, the closed-end Grayscale Bitcoin Trust offered a one-click solution. That simplicity boosted its value to a more than 100% premium to the cryptocurrency it controlled.

After bitcoin buying got easier, investors rightly balked at paying fat fees for the privilege. Grayscale went to the opposite extreme in 2023, a discount of as much as 45%. Anyone confident Grayscale's lobbying to turn its trust into an ETF would succeed (it did) made a fortune.

You can justify whatever price you want for SK Hynix, SpaceX or bitcoin, but not two prices. As much as individual investors might resent hedge-fund pros, their greed around mispricing can protect you from yours.

Tempted to try your hand when they can't step in? Watch out: Taking just one side of any of these mispricings could have turned out badly.

Instead, view them as a sign that your fellow investors might be a bit too excited.

Jul. 8:

Spencer Jakab

SpaceX Analysts Are From Mars, Investors Are From Venus

Booster stage

Analyst target prices on SpaceX flooded in Tuesday after the end of a mandated quiet period in the wake of its blockbuster IPO. They're all over the place.

Investors could just average them, but they won't draw any useful conclusions. The actual recommendations won't help either. A more cynical approach might.

Banking and research are supposedly separate, but it's almost unheard of for a major underwriting broker to initiate coverage with anything but a "buy" rating. A rare exception came after Snap went public, and that wasn't a good sign. The social-media company's shares are down by 80% since it began trading.

Another harbinger of bad things is a very wide range of target prices, which is the case with SpaceX.

Major investment banks that underwrote the record IPO, including Goldman Sachs ($205 a share), Morgan Stanley ($300) and UBS ($210) were all predictably optimistic. Smaller "co-manager" Raymond James stood out with an $800 target that would value SpaceX at $10 trillion.

That's ludicrous for a money-losing company. So why do it? Maybe because an analyst at a second-tier firm who boldly goes where no one has gone before could live long and prosper if they even temporarily get it right.

In 1998, during another bull market, CIBC Oppenheimer's then-unknown Henry Blodget issued a wild but prophetic $400 target on Amazon and became a star. He was soon hired to replace major broker Merrill Lynch's less-enthusiastic analyst for reported compensation of $18 million.

More interesting are targets from independent firms. The team at New Street Research, including David Barden and Pierre Ferragu, make some optimistic, but not unreasonable, assumptions to arrive at a price of $165. (SpaceX started the week there but closed just below $150 on Tuesday).

Price targets can get awkward, even for companies that went public decades ago. Scuffling Oracle, for example, needs to appreciate by 80% to reach analysts' average target as tracked by FactSet. One optimistic analyst's valuation implies 180% upside.

Targets tend to magically rise as a stock's price does (see the chart below on Nvidia), but they get sticky in reverse. Slashing a target price but maintaining a "buy" rating looks bad.

That can provide a useful signal, though, according to Adam Parker, founder of Trivariate Research. He and his team found that stocks whose target prices are in general agreement tend to do better than those with widely dispersed targets—not a great sign for SpaceX.

Another that bodes poorly is the cheerful consensus: Trivariate looked at analyst rating summary scores tracked by S&P Capital IQ over 25 years. If an investor had bet on stocks with the highest percentage of buy ratings and bet against those with the lowest percentage then he or she would have trailed the market.

Who said analysts aren't useful?

Playing Catchup

Analyst target and actual price for Nvidia

Source: FactSet

BCA Research has changed their offerings, with Peter Berezin now Chief Economist. From Friday:

The 2000-02 episode continues to be a useful analogue for today. That period was marked by two phases: a rotation phase that started in March 2000, followed by a recession phase that began in May 2001 and lasted until October 2002 (**Chart 1**).

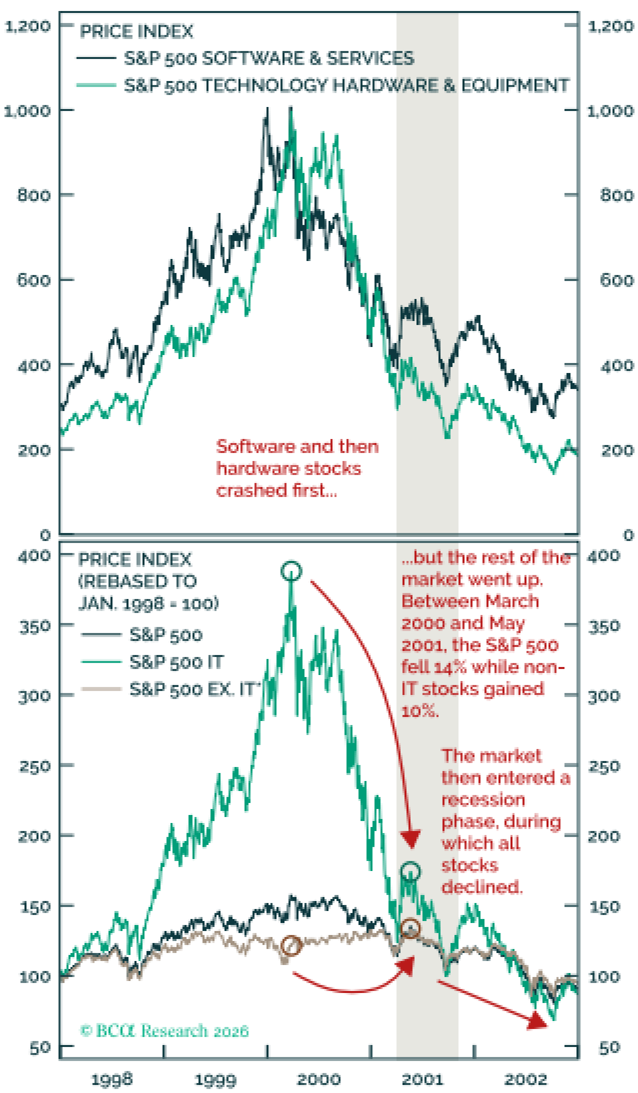
Similar to what has transpired over the past 11 months, the rotation phase in 2000 began with weakness in software stocks amid ongoing strength in hardware names. By September 2000, however, hardware began to break down. The broader S&P IT index, which was already down from its peak 10% by then, proceeded to fall a further 80%.

Remarkably, during the entire period between March 2000 and May 2001, non-IT stocks managed to gain 10% as investors shifted from growth to value. It was only once the economy had succumbed to a recession that everything began to fall in tandem.

It is too early to say whether the recent selloff in semiconductor stocks marks the end of the tech cycle, but growing concerns about the rate of return on AI capex are certainly weighing on the sector. As in 2000- 01, funds are shifting from past winners to stocks that had previously been overlooked. Our recommended trade of going long the equal-weighted S&P 500 relative to the cap-weighted index has gained 2.5% since we initiated it on December 11, 2025.

Could a tech downturn push the economy into recession, as it did in 2001? Unfortunately, the answer is yes. Relative to

CHART 1
The 2000-02 Episode Continues To Be A Useful Analogue For Today



* SOURCE: BCA CALCULATIONS.
NOTE: SHADED AREA DENOTES NBER-DESIGNATED RECESSION.

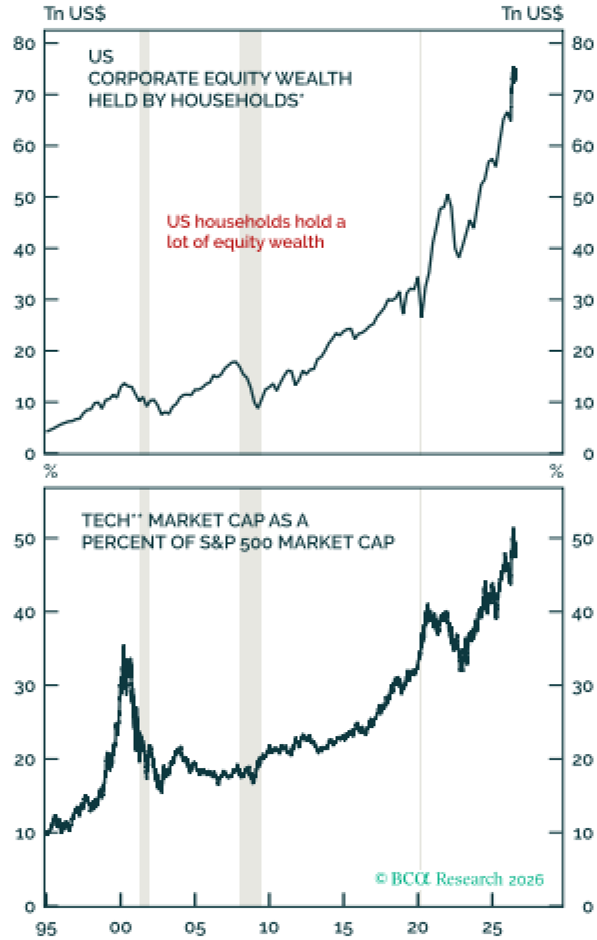
CHART 2
IT Capex As A Percent Of GDP Is Higher Today Than In 2000

SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA).

the size of the economy, IT capex is higher today than in 2000 (**Chart 2**). US households hold $74 trillion in equity wealth (230% of GDP) compared with $13 trillion (130% of GDP) in 2000. And an even larger portion of that wealth is in tech stocks than at the peak of the dotcom bubble (**Chart 3)**.

CHART 3

US Households Hold A Lot Of Equity Wealth That Is Concentrated In Tech



* DATA INCLUDES DIRECTLY AND INDIRECTLY HELD CORPORATE EQUITIES BY HOUSEHOLDS & NONPROFIT ORGANIZATIONS. INCLUDES BCA FORECAST FOR Q1 AND Q2 2026. SOURCE: FEDERAL RESERVE.
** INCLUDES INFORMATION TECHNOLOGY, BROADLINE RETAIL, AND INTERACTIVE MEDIA & SERVICES. SOURCE: S&P GLOBAL, MSCI INC (SEE COPYRIGHT DECLARATION), AND BCA CALCULATIONS.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

From July 23rd:

Chief Economist’s View: Late-Cycle Dynamics

Points that Matter

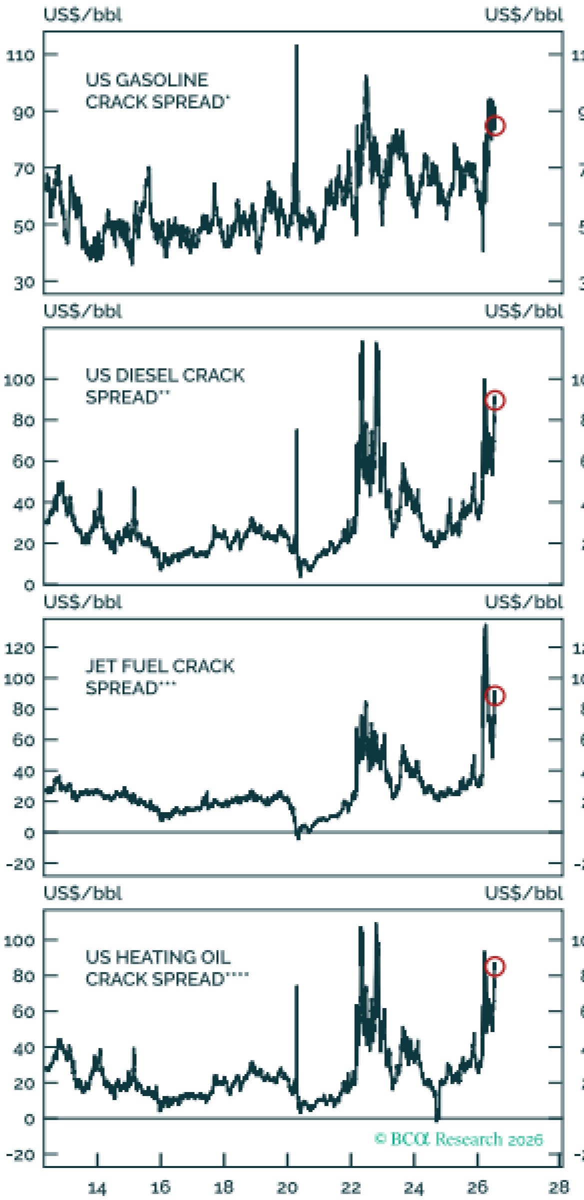
1. Growth expectations in most of the major economies have come down in the wake of the oil shock, although arguably less than one might have feared back in March. The latest Bloomberg consensus forecast is for euro area GDP to rise by 0.6% in 2026, down from a projection of 1.2% at the start of the year. Growth estimates for the UK, Canada, Australia, and Japan have also fallen. The US is the only major developed economy for which 2026 growth projections have risen, albeit modestly.

2. Looking beneath the headline GDP figures, we are seeing a divergence between the manufacturing PMIs, which have generally strengthened, and the services PMIs, which have weakened. The softening in the services PMIs likely reflects the squeeze on real incomes from higher fuel prices. In contrast, manufacturing has benefited from precautionary buying by companies worried that the oil shock will gum up the global supply chain. In addition, the AI boom is generating significant demand for semiconductors, electrical equipment, and other inputs necessary to build data centers. The immediate expensing of capital equipment under the One Big Beautiful Bill Act (OBBBA) has also supported manufacturing activity in the US.

3. The rebound in oil prices following the resumption of hostilities between the US and Iran represents the most immediate threat to growth. Short-dated Brent futures have increased from a low of $72/ bbl at the beginning of July to $99/bbl. Complicating matters, a shortage of refining capacity, exacerbated by Ukraine’s attacks on Russian installations, has raised crack spreads (**Chart 3**). In the US, WTI is up 58% since the beginning of the year, while gasoline futures are up 102% and diesel futures are up 100% (**Chart 4**). Natural gas prices in Europe and Asia have also risen.

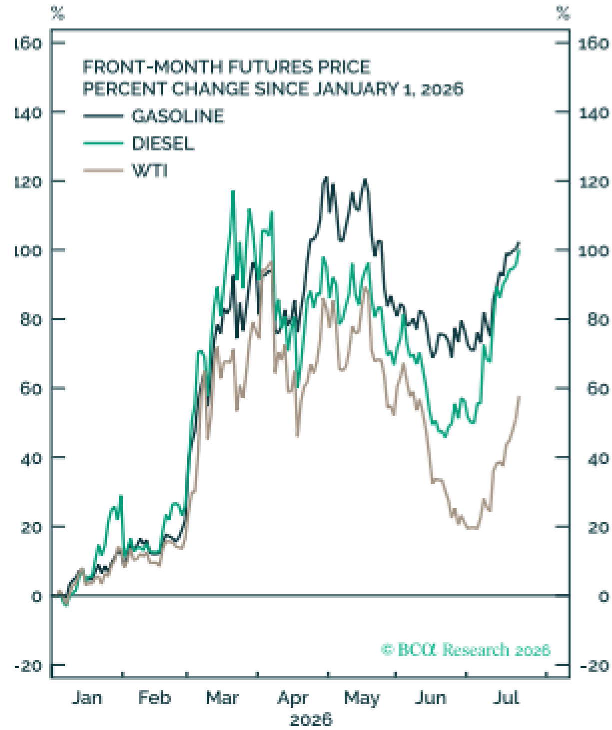
4. Although some commentators have characterized the ongoing standoff between the US and Iran as a new equilibrium, that is not the best word to describe it. An equilibrium suggests that a situation can persist indefinitely. That is manifestly not the case given that oil inventories continue to drop rapidly. Even with increased pipeline capacity, unless ship traffic through the Strait increases, oil prices may need to rise sharply to

CHART 3
Crack Spreads Have Widened



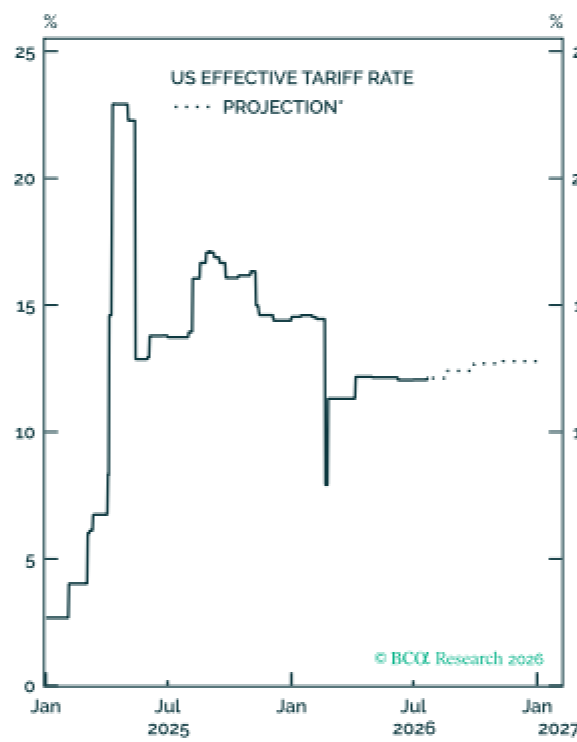
* NATIONAL AVERAGE REGULAR UNLEADED GASOLINE PRICE MINUS WTI CRUDE PRICE. SOURCE: AMERICAN AUTOMOBILE ASSOCIATION AND MACROBOND.
** NY HARBOR LOW SULPHUR DIESEL PRICE MINUS WTI CRUDE PRICE. SOURCE: EIA AND MACROBOND.
*** ROTTERDAM BARGE JET FUEL PRICE MINUS BRENT CRUDE PRICE. SOURCE: BLOOMBERG FINANCE L.P. AND INTERCONTINENTAL EXCHANGE (ICE).
**** NY HARBOR HEATING OIL PRICE MINUS WTI CRUDE PRICE. SOURCE: EIA AND MACROBOND.

CHART 4
Gasoline And Diesel Prices Have Risen More Than WTI



SOURCE: CHICAGO MERCANTILE EXCHANGE (CME).

CHART 6
The Effective Tariff Rate Is Well Above Where It Was When Trump Took Office



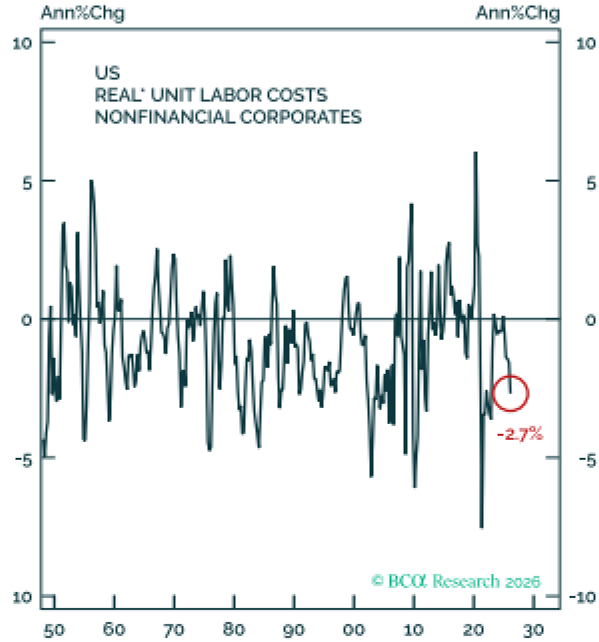
* ASSUMES THAT THE SECTION 122 TARIFFS EXPIRING AT THE END OF JULY ARE REPLACED WITH NEW SECTION 301 TARIFFS BASED ON THE US TRADE REPRESENTATIVE'S JUNE 2026 "FORCED LABOR" INVESTIGATION ANNOUNCEMENT.
SOURCE: THE BUDGET LAB AT YALE.

choke off enough demand. This could reduce global growth and lift inflation. Roukaya Ibrahim, BCA's Chief Commodity Strategist, believes that such an outcome could be reached by the end of this year or early 2027. (See Positions below on our sale of Dino for clients investing in individual stocks.)

5. Oil is not the only source of inflation.
Goldman Sachs estimates that rising prices for memory, electricity, and AI-enabled software have raised US core PCE

inflation by 0.2 percentage points. Based on their analysts' forecasts for computer and smartphone prices, Goldman expects AI's contribution to inflation to rise to 0.5 percentage points by year-end.

CHART 9
Real Unit Labor Costs Are Falling In The US

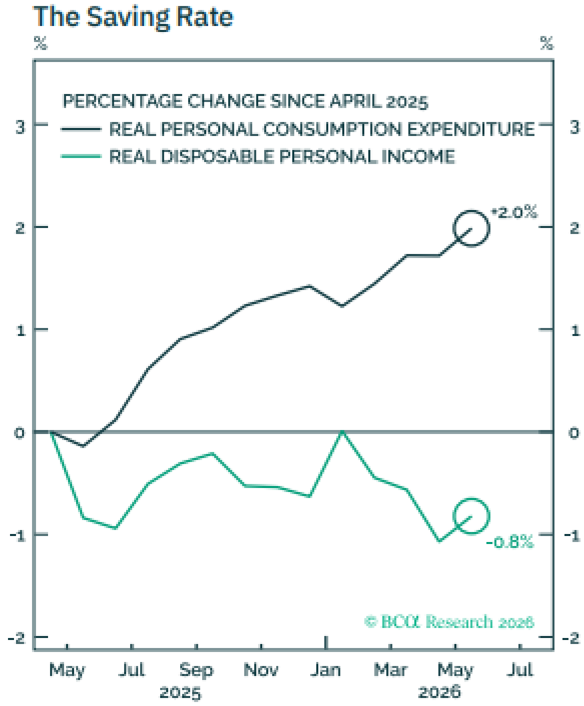


* DEFLATED BY RATIO OF HOURLY COMPENSATION TO REAL HOURLY COMPENSATION.
SOURCE: BUREAU OF LABOR STATISTICS (BLS).

6. Tariffs are another wildcard. After the Supreme Court struck down the IEEPA tariffs, the Trump administration introduced temporary 10% tariffs under Section 122 of the Trade Act of 1974. These tariffs expire on Friday. The administration has fast-tracked a new set of tariffs under Section 301 of the Trade Act of 1974, with rates ranging from 10% to 12.5%. Although the justification for these tariffs – alleged unfair trade practices, including forced labor – is rather flaky, there is a higher chance that they survive court challenges than Trump's earlier efforts. The Yale Budget Lab estimates that the US effective tariff rate will end up around 12%. This is down from an average of 15% in H2 2025, but well above where it was when Trump took office (**Chart 6**).

7. Despite the inflationary impact of higher oil prices, the AI boom, and tariff policy, market-based inflation expectations remain well behaved in most countries. This is partly because investors now expect some tightening from central banks, but also because labor-market slack has increased meaningfully over the past few years. On average, real wage growth is close to zero in the G7. After accounting for productivity growth, real unit labor costs are falling. In the US, they were down 2.7% year-over-year in Q1 2026 (**Chart 9**).

CHART 10
Spending Growth Has Exceeded Income Growth In The US Thanks To A Decline In The Saving Rate



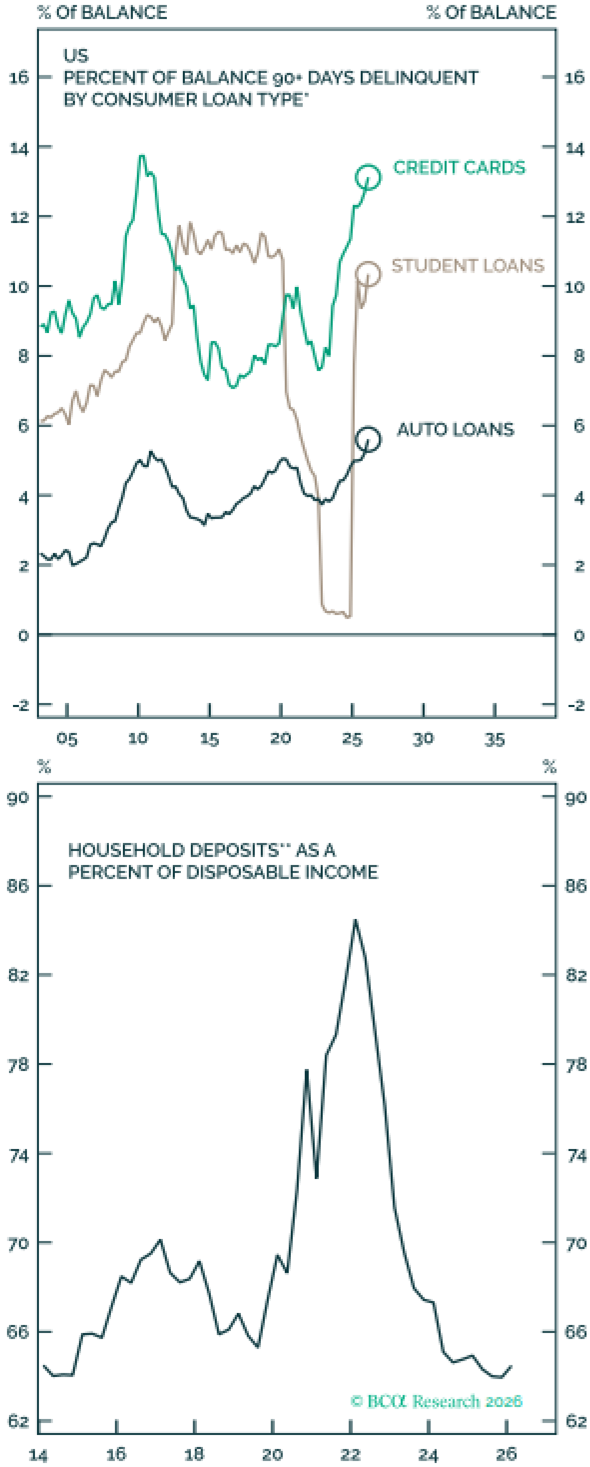
SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA).

8. Unfortunately, tepid wage growth also implies subpar income growth for households. Despite receiving $50 billion in additional tax refunds under the OBBBA, US households have seen their real disposable income contract by 0.8% since Liberation Day (**Chart 10**). This has come at a time when delinquency rates on credit card, auto, and student debt are near their Great Recession highs and bank deposits have shrunk in relation to income (**Chart 11**).

9. Even if inflation remains contained, it is doubtful that real incomes will rise by enough to sustain the current pace of consumer spending without a further decline in the saving rate. The problem is that the personal saving rate was only 3% in May, which is below the levels reached during the dotcom bubble. It is also below our estimate of fair value. Granted, the saving rate dropped to less than 2% during the housing bubble. However, that was an era when rampant use of home equity lines of credit (HELOCs) allowed households to spend well beyond

CHART 11

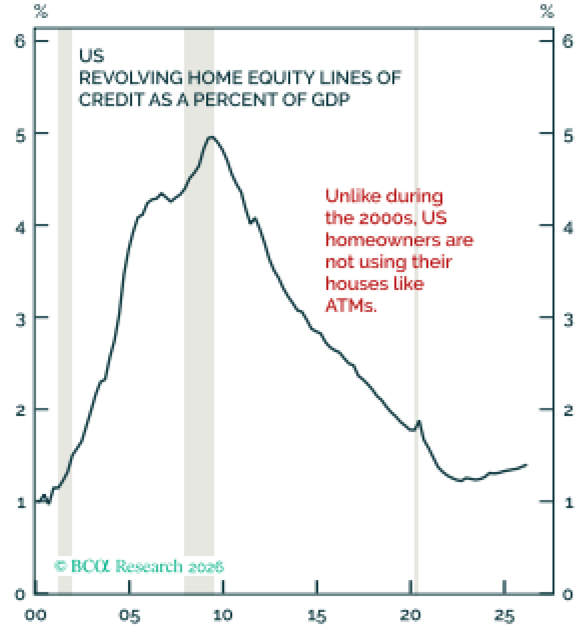
Consumer Delinquency Rates Are Near Their GFC Highs And Household Bank Deposits Have Shrunk



* SERIES SHOWN AS A 4-QUARTER MOVING TOTAL.
SOURCE: FEDERAL RESERVE BANK OF NEW YORK.
** HOUSEHOLD AND NONPROFIT ORGANIZATIONS' CHECKABLE DEPOSITS, CURRENCY, AND TIME AND SAVINGS DEPOSITS.

CHART 13

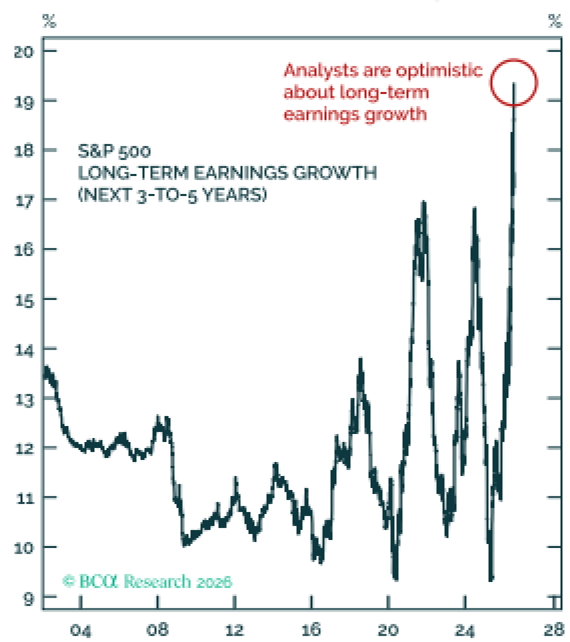
Outstanding Balances Under Home Equity Lines Of Credit Are A Shadow Of What They Were During The Housing Bubble



SOURCE: FEDERAL RESERVE BANK OF NEW YORK AND BUREAU OF ECONOMIC ANALYSIS (BEA).
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

CHART 14

Long-Term Earnings Growth Expectations Are At Record Highs



SOURCE: FACTSET.

their means. Today, HELOC debt stands at 1.4% of GDP, a shadow of its Q2 2009 high of 5.0% (**Chart 13**).

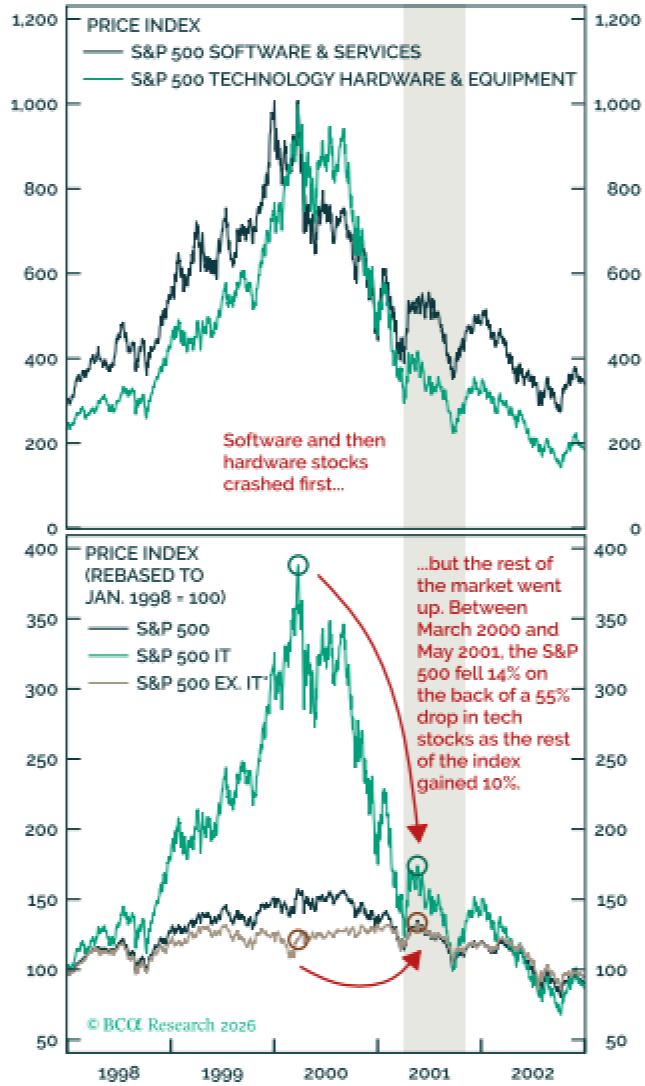
10. With the bottom half of the K-shaped economy ("high-income earners and asset owners thrive and move upward, while lower-income groups and everyday workers fall behind and face financial strain") tapped out, the only way for the saving rate to fall further is for wealthier US households, who hold the bulk of equity wealth,

to spend even more. This would probably require further gains in equity prices. That, in turn, would likely require further increases in earnings estimates

from a starting point where profit margins are already at record highs and analysts expect faster earnings growth over the next three to five years than at any time in history (**Chart 14**). I discussed the outlook for US profit margins in a recent report. My broad conclusion is that while there are good structural reasons for why margins have risen over the past few decades, much of the recent rise in margins reflects cyclical factors that will eventually reverse. …

13. Even if the S&P 500 struggles to move meaningfully higher over the coming months, this does not mean there is no money to be made in equities. Indeed, a good substitute for stocks may be… other stocks. In 2000-01, a "Great Rotation" occurred where first software and then hardware stocks crashed, but the rest of the stock market went up (**Chart 17**). While it is too early to short tech, it is not too early to shift capital from growth stocks to value stocks. That approach worked well at the tail end of the dotcom bubble, and I think it will work well again.

CHART 17
A Great Rotation During The Dotcom Bust



* SOURCE: BCA CALCULATIONS.
NOTE: SHADED AREA DENOTES NBER-DESIGNATED RECESSION.

14. The dotcom bust marked the start of an extended period of European and EM equity outperformance. Such an episode is less likely today. While the German government is slowly ramping up infrastructure and defense spending, high government debt levels elsewhere in the region limit the scale of the fiscal response. Moreover, European banks, which have seen their stock prices more than double since the start of 2025, are unlikely to experience the sort of sustained earnings growth that accompanied the credit boom following the introduction of the euro.

15. China's economy is in a more precarious state than it was 25 years ago. Recent strength in export growth is disguising weak domestic demand, with import volumes, housing, and consumption all struggling. …

16. Global bond yields have managed a stealth move higher so far in July. … If AI capex remains strong, it is difficult to see bond yields falling. However, if stocks were to decline next year on concerns over the monetization of AI capex, yields would probably fall since the resulting tightening in financial conditions would probably cause central banks to pivot to easing. At that point, credit spreads, which are already very low relative to corporate default rates, could widen significantly. …

Gold Is Not an Inflation Hedge

Larry Swedroe
Jul 30, 2026

Gold has long been sold to investors as a hedge against inflation. That story is appealing, intuitive, and wrong far more often than it is right. Rob Brown and Bo Wang, authors of the study "Gold: The Ultimate Behavior Bias," published in the June 2026 issue of The Journal of Investing, make the case that gold is not a reliable inflation mitigant and that its popularity owes much more to behavioral bias than to evidence.

The Question They Asked

Brown and Wang took a different approach to the question. Instead of asking whether gold rises when inflation rises, they asked: Does adding gold to a portfolio improve investor outcomes over a meaningful investment horizon when inflation is high? That distinction matters because the real issue is not whether gold sometimes moves with inflation, but whether it improves the results of a diversified portfolio.

What They Tested

Brown and Wang used monthly data from September 1913 through June 2025 and focused on a hypothetical investor with a 7.5-year horizon. Their baseline was a monthly rebalanced 60/40 U.S. stock-bond portfolio.

They then tested several potential inflation mitigants: gold, diversified precious metals, diversified commodities, 90-day Treasury bills, and an international 60/40 portfolio. They also varied the size of the allocation and how often the mitigant would be added, along with how accurate the investor's inflation forecast might be.

That setup is important because it captures the real-world challenge. If gold only helps when inflation is extremely high, the investor must know in advance when that condition will occur. And if the forecasting skill required is close to perfect, that is not a practical hedge; it is a fantasy.

Key Findings

Gold consistently failed as an inflation hedge. In every scenario they tested, gold subtracted value rather than adding it.

That finding held whether the allocation was 10%, 20%, 30%, or 40%, and whether the investor used perfect foresight or made forecasting errors. 90-day Treasury bills also performed poorly, and diversified precious metals were not much better. Commodities were the only mitigant that occasionally improved outcomes, and even then, the advantage was limited and fragile.

The paper also shows that the statistical relationship between gold and inflation is weak in economic terms. Gold's relative return is statistically related to inflation, but the is only 0.07—inflation explains very little of gold's performance. In other words, gold's returns are driven mostly by forces other than inflation (such as geopolitical risks).

Here's an example I like to cite of why gold should not be considered an inflation hedge over any reasonable investment horizon. On January 21, 1980, the price of gold reached a then-record high of $850. On March 19, 2002, gold was trading at $293, well below its price 20 years earlier. The inflation rate for the period from 1980 through 2001 was 3.9%. Thus, gold's loss in real purchasing power was about 85%. How is gold an inflation hedge when it lost 85% in real terms over 22 years?

Why the Myth Survives

The authors attribute gold's staying power to five behavioral biases: trend chasing, media influence, herding, anchoring, and confirmation bias. Investors often buy what has recently worked, believe a compelling narrative, and then seek out only the evidence that supports the story they already want to believe.

Gold is also helped by the fact that inflation is memorable. People remember high-inflation periods, fear them, and want a visible hedge. Gold feels like protection. But investing is not about what feels safe; it is about what works after costs and across cycles.

Key Investor Takeaways

The main takeaway is not that gold is a poor tool if the objective is to hedge inflation. If an investor wants inflation protection, the evidence in this paper suggests that gold should not be the default answer. A diversified portfolio, disciplined rebalancing, and a careful understanding of what risk is being hedged are more useful starting points than a popular story.

However, if the real objective is not inflation, but broad market uncertainty, gold may have a role. But that is a different problem, and it requires a different framework.

The Bottom Line

Gold is not an inflation hedge in the way many investors believe it is. Brown and Wang's paper is a useful reminder that a popular narrative can survive for decades even when the data do not support it.

For long-term investors, the lesson is straightforward: do not confuse a culturally powerful asset with a empirically one.

Positions

DINO – On July 23rd we sold all positions @ 89.7:

From Energy & Income Advisors on 7/22/26:

… Suffice it to say that US, and global, refining margins (crack spreads) are at, or near, record highs.

It has long been our view that the world was too complacent about refining capacity.

In the US, we have seen significant refining capacity shuttered since 2020 though many of the closures have been localized to California, while key US Gulf Coast capacity continues to operate. Indeed, US refiners are running their operations at 96% of capacity this summer; yet, US diesel and gasoline inventories remain dangerously low.

In Europe, and particularly the United Kingdom, the loss of domestic capacity has been staggering, leading to increased import dependence. **The UK, for example, now relies on imports to meet some 50% of domestic diesel demand and a whopping 80% of its jet fuel demand.**

At the same time, the Middle East and Russia are two of the world's key refined product exporters. Significant Middle Eastern supply is offline due to the ongoing conflict in the region and Ukrainian drone strikes have knocked upwards of 40% of Russia's refining capacity offline, prompting the country to announce a plan to import diesel to meet domestic demand earlier this month.

In our view, refining margins will remain elevated in coming years compared to what was considered normal for much of the past dozen years.

However, the current level of margins is unsustainable. China, the only country in the world with legitimate spare refining capacity, recently lifted its ban on refined product exports, which should aid supply in Asia.

Of course, the longer refining margins, and refined product prices, remain elevated, the greater the risk of real demand destruction.

After all, you don’t put oil in your car, you can’t use oil to run freight trucks or to fill a jet – it’s refined products prices, NOT the price of oil itself, that truly matters to the economy.

Meanwhile, US (and IEA-coordinated) strategic reserve releases, coupled with a 40% drop in Chinese imports as it draws down its own reserves have checked the rise in oil amid Operation Epic Fury. However, reserve releases are finite, and must ultimately be refilled, and China appears willing to step back in to import crude when cargoes are available.

So, we believe it’s likely that oil catches UP to gasoline and diesel in coming months. Since refiners buy oil to manufacture gasoline, diesel and other refined products, that would be bad news for a stock like DINO ….