

Oil at 90 Will Trigger The Next Recession

Why the Current Energy Shock Will Top Equities and Risk Assets

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Introduction

Oil has surged dramatically in a very short period of time. Just a few weeks ago crude was trading near \$60 per barrel. It has now moved close to \$90, representing roughly a 50 percent increase in a matter of weeks. Moves of that magnitude rarely occur without broader economic consequences. Energy sits at the foundation of the global economy. Oil powers transportation, manufacturing, agriculture, shipping, and supply chains across the world. When energy prices rise sharply, the effects spread quickly throughout the economic system. The danger is that oil shocks push inflation higher while simultaneously slowing economic growth. That combination creates one of the most difficult environments for financial markets and central banks.

If this move continues, there is a real possibility that stocks are putting in their highs for the year, and markets may struggle to make new highs until the inflation pressures created by this energy shock are resolved.

Oil Supply Was Already Tight Before the War

The war may have accelerated the move higher in oil prices, but the underlying supply problem began long before the conflict. After the last energy downturn, global oil companies significantly reduced spending on exploration and new production. For years, investors and policymakers assumed oil demand would eventually decline due to electrification and the energy transition. That assumption discouraged long-term investment in supply. As a result global spare production capacity has quietly fallen.

At the same time global oil demand has continued rising. Emerging markets such as India and China are expanding their energy consumption as transportation, infrastructure, and industrial activity grow.

The result is a market that was already tightening before geopolitical tensions escalated. When disruptions in the Middle East increased uncertainty around global supply routes, prices moved quickly because the system already had very little margin for error. The war did not create the supply imbalance. It simply revealed it.

AI Is Increasing Global Energy Demand Beyond Just Nuclear

Another structural force that investors are beginning to recognize is the energy demand created by artificial intelligence. AI requires enormous computing power, and computing power requires electricity. The rapid expansion of data centers is dramatically increasing global energy consumption. Large AI data centers can consume as much electricity as small cities. Analysts now estimate that data center power demand could grow dramatically over the next decade as AI infrastructure expands. Globally, data centers already consume a meaningful share of electricity, and that number is expected to rise significantly as artificial intelligence adoption accelerates. Much of this electricity still depends on fossil fuels.

This means the AI boom is increasing global energy demand at the same time oil and gas supply growth has slowed. Instead of energy demand declining, the world may actually be entering a period of higher structural energy consumption. AI will only work if we transition to a nuclear-based energy system, but that doesn't mean we won't need massive amounts of oil and natural gas before that migration is complete.

That dynamic makes the current oil spike potentially more than just a temporary geopolitical event.

The Inflation Shock

The move from \$60 oil to \$90 oil represents a 50 percent increase in energy costs. Energy feeds into nearly every part of economic activity. Gasoline prices rise when crude increases. Diesel becomes more expensive, raising freight and transportation costs. Airlines face higher jet fuel prices. Manufacturers pay more for shipping and raw materials. These increases eventually appear in consumer prices. If inflation had previously been trending lower, a sudden oil shock can reverse that progress very quickly. Instead of falling toward the Federal Reserve's target, inflation can begin rising again. That is exactly the type of development central banks fear.

Oil Spikes and Recessions

History shows a consistent pattern. Large oil spikes have appeared before many of the major economic downturns of the past several decades.

In the early 1970s an oil shock helped trigger the stagflation crisis that sent stocks into a severe bear market. In 1990, oil surged during the Gulf War and the U.S. economy entered recession shortly afterward. In 2008 oil exploded to nearly \$150 per barrel just before the global financial crisis. More recently oil surged again in 2022 as inflation accelerated and financial conditions tightened.

Economists have long observed this pattern. Research from the Federal Reserve Bank of Dallas has shown that oil price shocks tend to reduce economic growth and significantly increase recession risk. One common rule of thumb among macro economists is that when oil rises more than 50 percent within a year, recession risk increases sharply. The recent move from \$60 to \$90 already meets that threshold.

The Oil and Stock Market Relationship

Another interesting observation comes from veteran trader Larry Williams, who has argued that over longer macro cycles stocks often move inversely to oil prices with a lag. The relationship does not necessarily work day to day, but large oil rallies frequently precede periods of equity market weakness months later. The reason is simple. Rising energy prices gradually squeeze the economy. Higher fuel costs reduce consumer spending power and increase operating costs for businesses. Those pressures eventually appear in corporate earnings and economic data. Because that process takes time, the stock market often reacts after the oil spike has already occurred. This delayed effect helps explain why oil rallies have historically appeared before major equity market downturns.

Why This Could Be the Market Peak

The stock market has experienced a powerful rally over the past several years, and valuations in many sectors are already elevated. That means markets are vulnerable to any shift in the inflation narrative. Oil spikes pressure stocks from two directions simultaneously. Higher energy costs squeeze corporate margins, while rising inflation forces investors to assume interest rates will remain higher for longer. Higher interest rates reduce the valuation investors are willing to pay for future earnings.

Because this oil shock is happening right now, the market may soon begin adjusting to these macro pressures. Markets often peak before the economic damage becomes obvious. By the time inflation data and corporate earnings reflect higher energy costs, equities may already be moving lower. That is why there is a real possibility that the current rally represents the high for the year.

The Federal Reserve Trap

All of this creates a difficult situation for policymakers. The Federal Reserve is responsible for maintaining stable prices and strong employment. Normally when inflation rises the Fed keeps interest rates high. When the economy weakens it cuts rates to support growth. An oil shock can cause both problems at the same time.

Inflation rises because energy prices are higher, while economic growth slows because consumers and businesses are paying more for energy. If unemployment begins rising while inflation remains elevated, the Federal Reserve becomes trapped. Cutting rates risks reigniting inflation, while keeping rates high risks pushing the economy deeper into recession. Periods where the Fed faces this dilemma often produce the most volatile moments in financial markets.

The Math Behind the Risk

The economic impact of higher oil prices becomes clearer when looking at the numbers.

Energy accounts for roughly 7 percent of the Consumer Price Index directly, but its true impact is much larger because energy costs flow through transportation, manufacturing, agriculture, and logistics. The move from \$60 oil to \$90 oil represents a 50 percent increase in energy costs. That alone can quickly slow the progress of falling inflation. The bigger risk appears if oil continues rising. If crude were to move from \$90 to \$120, that would represent a doubling from the original \$60 base. At that point the energy shock would begin affecting corporate earnings as well as consumers. Stock prices ultimately depend on earnings and valuation multiples.

Imagine a company earning \$10 per share trading at 20 times earnings, implying a stock price of \$200. If higher energy costs reduce margins by just 10 percent, earnings fall to \$9 per share. If inflation pressures also force interest rates to remain higher, the market multiple could fall from 20x to 17x. That change alone would push the stock price from \$200 to roughly \$153, a decline of more than 23 percent. That type of repricing does not require a financial crisis. It only requires modest margin pressure combined with slightly higher interest rates.

That is exactly the type of environment an oil driven inflation shock can create.

What This Means for Bitcoin & High Beta

Bitcoin historically performs best during periods of excess liquidity and stimulus in a response to a recession - a condition which is currently absent from our market environment.

If the current oil shock eventually contributes to an economic slowdown, policymakers may ultimately be forced to respond with easier monetary policy. Those environments have historically been positive for Bitcoin once the recession phase passes.

Final Thoughts

Oil moving from \$60 to \$90 in a matter of weeks is not a normal market event. The war may have accelerated the move, but the underlying problem was already developing. Years of underinvestment in energy production combined with rising global demand have tightened the system. At the same time the expansion of artificial intelligence is increasing global energy consumption. If oil remains elevated, inflation could stop falling while economic growth begins slowing. That combination would leave the Federal Reserve with very few good options.

Markets rarely ignore energy shocks like this. And if history is any guide, by the time investors fully understand the implications, the market peak will already be behind them.
