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6/30/26 Outlook Theme #1: Backwardation Has Reversed

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Oil's volatile quarter closed with it back near its pre-war price, falling in line with the signal the market had been sending throughout the conflict: The disruption would be temporary.

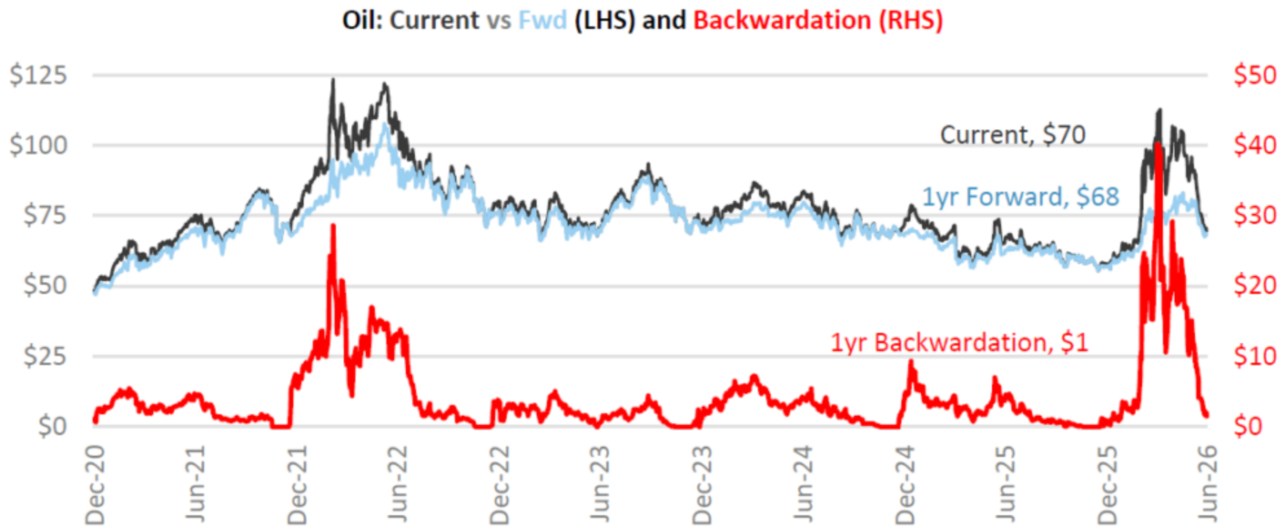

Chart 1

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The chart above demonstrates this. The dark line represents the current month's price of oil, while the light blue line reflects the price of oil futures one year out. The next closing contract, or "front month," is the price cited when markets are discussing "the price of oil." Usually, the current price of oil trades at a slight premium to the future price, which is known as backwardation, reflected by the red line. As the chart shows, backwardation jumped to a record $30 per barrel on 3/31/26, a sign the market viewed the disruption as temporary and the current price was expected to normalize toward the forward price.

By the end of the quarter, with oil back down to $70 and the 1yr forward price to $68, backwardation is back to normal, a sign that, in the market's opinion, the energy disruption had passed.

Backwardation has Reversed. Now that backwardation has returned to normal levels, the current price of oil around $70 can be considered a reliable measure of where oil will be in a few months, and this is a level that both the markets and policymakers will factor in. Rather than thinking about the impact of oil at $100, the Fed will be making their decisions based on oil at $70.

At this price, it still creates some inflation pressure, but not enough to force a policy shift on its own. For now, it has contributed to the Fed putting its planned 2026 rate cuts on hold, but it does not seem to be pushing them to raise rates. For the economy, and stocks, while the price spike was seen as a short-term challenge, it was not seen as disruptive to growth.

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