



Oil Stays Calm as Strong Earnings Keep Bull Market Intact

7/13/2026

Despite renewed geopolitical tensions in the Middle East, markets continue to display remarkable resilience. Major equity averages sit within striking distance of new all-time highs while oil, perhaps the biggest surprise of the year, remains anchored in the low \$70s despite renewed hostilities. That combination, a contained energy shock alongside historically strong corporate profitability, continues to support an optimistic outlook for equities.

The behavior of oil has become one of the market's most important signals. Earlier this year, few investors would have expected crude to remain near current levels if fighting in the region resumed. Yet expanding global production capacity, alternative export routes, adequate inventories, and softer demand have significantly reduced the market's sensitivity to geopolitical disruptions. While gasoline prices have temporarily firmed because refinery crack spreads remain unusually elevated, crude itself has remained remarkably stable. If refining margins normalize over the coming months, gasoline prices could resume their downward trend, providing another modest tailwind for consumers and inflation.

The broader economy continues to show few signs of deterioration. Estimates for second-quarter GDP have converged around a healthy 2% to 2.5% growth rate, an encouraging outcome considering the uncertainty created by tariffs and geopolitical events earlier this quarter. Consumer spending remains solid, money supply continues expanding at a pace consistent with healthy credit conditions, and financial conditions remain accommodative without signaling excessive inflationary pressure. Those fundamentals continue to support the expansion.

This week's inflation data will receive significant attention. Lower gasoline prices should produce another favorable headline CPI reading, although core inflation is unlikely to improve as rapidly. An underappreciated factor is the surge in memory chip prices driven by unprecedented AI infrastructure spending. Recent research suggests this alone could add roughly half a percentage point to core PCE inflation by year-end, even while contributing only modestly to CPI. Since the Federal Reserve places greater emphasis on PCE, policymakers will need to recognize that part of the inflation persistence reflects technology input costs rather than broad-based demand pressures.

That distinction argues for patience rather than additional tightening. If oil remains near current levels and energy prices avoid another sustained advance, the Federal Reserve has little reason to raise interest rates further. The more likely outcome is an extended period of policy stability while officials evaluate how much of the remaining inflation reflects temporary sector-specific factors rather than underlying macroeconomic pressure. Long-term Treasury yields also appear comfortable around current levels, with geopolitical developments likely to produce only temporary fluctuations rather than a lasting shift in trend.

Perhaps the most remarkable development remains corporate earnings. Consensus expectations call for nearly 24% year-over-year earnings growth—an extraordinary pace outside of a recession recovery. Unlike previous profit surges driven by accelerating economic growth, today's earnings expansion is primarily the result of widening margins fueled by AI investment and productivity gains. Businesses continue finding ways to generate substantially more profit without requiring extraordinary GDP growth or an unsustainable surge in consumer demand. This may be one of the most unusual profit cycles investors have witnessed in decades.

Early earnings reports are reinforcing that message. Delta Air Lines maintained its full-year outlook despite higher jet fuel costs, highlighting continued strength in travel demand and corporate profitability even as geopolitical events temporarily pushed energy prices higher. Companies are demonstrating an ability to absorb cost pressures while maintaining healthy margins, another encouraging sign for investors heading into earnings season.

The market continues to reward that underlying resilience. While short-term volatility tied to geopolitical headlines will undoubtedly persist, the fundamental backdrop remains constructive. Economic growth is holding near trend, liquidity continues expanding, inflation pressures are becoming increasingly concentrated rather than broad-based, and corporate earnings continue surprising to the upside. Those are the ingredients that have historically supported higher equity prices, even amid an uncertain global backdrop.

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