

VENEZUELA, OIL & THE IMPACT ON PORTFOLIOS

Recent events in Venezuela have raised investor concerns around oil prices, the economy, and financial markets. What do investors need to know to keep this all in perspective?

The arrest of Venezuelan President Nicolás Maduro by U.S. forces represents an unexpected and significant geopolitical event. The U.S. military successfully conducted an operation that detained Maduro on charges related to drug trafficking and corruption. President Trump stated in a press conference that the United States will "run" Venezuela and work to expand its oil production.

While the humanitarian and geopolitical implications for the Venezuelan people and the region are most important, investors may naturally wonder what all of these issues mean for their portfolios. The move raises many questions around the role of the U.S. in the region, whether this will pave the way for democratic elections in Venezuela, the effect on the narcotics trade, if oil production will increase meaningfully, and how it will impact the sphere of influence of countries like Iran and China.

History provides important context: geopolitical events often create short-term volatility, but their long-term market impact tends to be limited. This is because these events don't typically change the direction of broad economic and market drivers, even if oil production is affected. Understanding this can help investors maintain perspective and focus on the factors that historically drive market performance.

Historical Perspective

It's helpful to briefly review the history of U.S. involvement in the region, since the discussion around U.S. intervention in Venezuela is complex. The Monroe Doctrine, first articulated by President James Monroe in 1823, established that European powers should not interfere in the Western Hemisphere. Applied to recent events, it would suggest that South America represents the country's "backyard," so any hostile act in the region would be viewed as an act against the United States.

This is far from the first time the U.S. has intervened in a Latin American country. In 1990, the U.S. captured Manuel Noriega in Panama based on drug trafficking charges. And while the latest operation in Venezuela was generally unexpected, Maduro has been under indictment by the U.S. Department of Justice since 2020 on charges of narco-terrorism and drug trafficking. The Biden administration had maintained sanctions on Venezuela and, in early 2025, placed a \$25 million bounty on Maduro, which was then raised to \$50 million by the Trump administration.

Like other U.S. military and law enforcement actions, there are many interrelated objectives. The fact that many nations view Maduro's rule as illegitimate, based on the country's 2024 election, strengthens these. Prior to the presidencies of Maduro and Hugo Chávez, Venezuela was a democracy and one of the wealthiest in the region.

Oil Connects Geopolitics to Financial Markets

For investors, the effect on oil prices may be the most consequential issue. This is because the primary channel through which geopolitical events affect financial markets is through commodity prices, and oil remains central to the global economy. Venezuela is important in this regard since the country possesses the world's largest proven oil reserves.

Despite these vast reserves, Venezuela produces far less oil than other countries. Venezuelan oil production has declined dramatically over the past two decades due to mismanagement, lack of investment in infrastructure, and sanctions. Today, production has fallen to less than 1 million barrels per day, compared to the U.S. of nearly 14 million. If Venezuelan production is increased, it will likely take time and investment to meaningfully add to global supply. This minimizes the immediate effect on markets.

Over time, U.S. energy companies could see an opportunity to increase their access to these reserves, although a lower oil price due to greater supply could offset some of this upside. For the broader economy and consumers, any shock to markets could potentially be positive since increased Venezuelan production would place downward pressure on oil prices. This makes it different from other conflicts such as Russia's invasion of Ukraine in 2022, which disrupted existing supply and drove oil prices to nearly \$128 per barrel.

Current oil prices remain far below those peak levels. In fact, prices have been subdued over the past year, with WTI crude trading below \$60 per barrel and Brent crude just around that level. The immediate response to events in Venezuela by OPEC+ countries has been to keep their production quotas steady. The fact that the U.S. is now the largest producer of oil and gas in the world helps to further reduce the impact on the domestic economy.

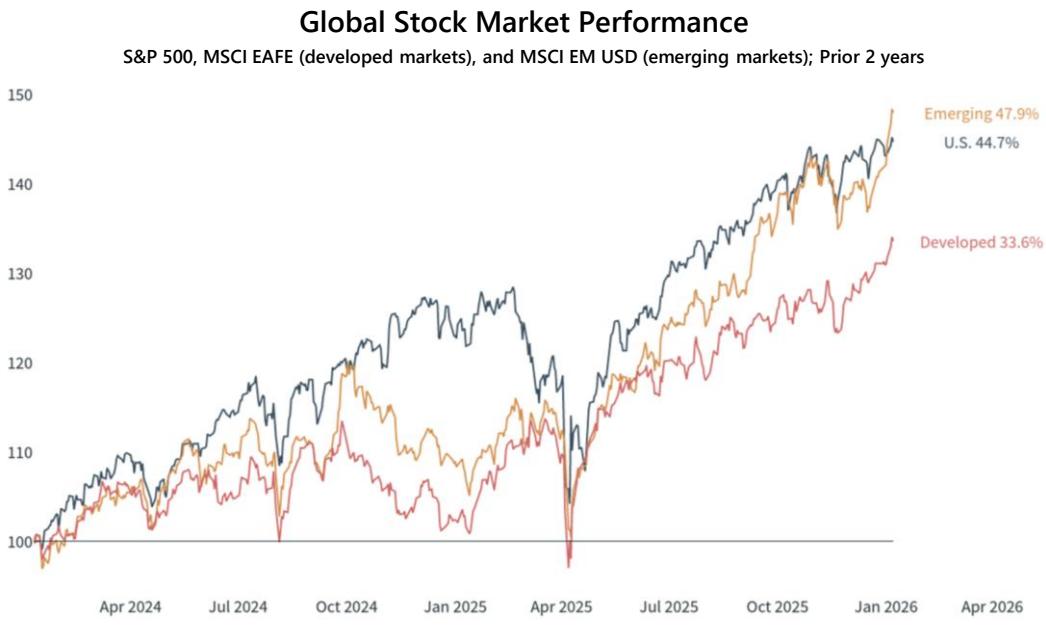
Geopolitical Events and Subsequent S&P 500 Performance

Event	3 Mos.	6 Mos.	1 Year
Hamas Attacks Israel (Oct 2023)	9.0%	21%	33%
Russia Invades Ukraine (Feb 2022)	-5.4%	-3%	-7%
North Korean Missile Crises (Jul 2017)	4.3%	10%	12%
Russia Annexes Crimea (Feb 2014)	3.5%	8%	13%
Iraq War Begins (Mar 2003)	13.6%	17%	27%
9/11 (Sep 2001)	4.0%	7%	-17%

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Venezuela Plays a Minimal Role in Global Markets

Another key fact is that Venezuela plays an insignificant role in global financial markets. Its stock market is small and illiquid, with limited foreign participation. It is not included in the MSCI Emerging Markets Index, so most international investors have minimal or no direct exposure to Venezuelan stocks. When it comes to the bond market, Venezuela has been in default since 2017 when it failed to make payments on its debt. Bondholders have been negotiating restructuring terms, but the bonds trade at deeply distressed levels reflecting the expectation of significant losses.



The situation in Venezuela will continue to evolve, and there may be additional developments that capture market attention. The indirect effects on oil prices and uncertainty are likely to outweigh the direct effects from the country and its stock market. Rather than trying to predict exactly how the situation might play out, investors should instead focus on aligning their portfolios with their financial goals.



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