HARTFORDFUNDS
Our benchmark is the investor.®

Oil, the Real Influencer in the Venezuela Intervention

Venezuela's dramatic political shift and vast oil reserves are fueling market optimism, but uncertainty still looms over the path ahead.

The capture and arrest of Venezuelan President Nicolás Maduro on January 3 will have broad geopolitical and global market implications, potentially for years to come. While the situation remains fluid and there are many unknowns, risk markets are viewing the events as positive, with Venezuelan bonds and equities both up as of this writing, as are equities in many Latin American and developed markets (DM). DM bond yields are down on the expectation of lower inflation, giving the Federal Reserve (Fed) room to ease rates further this year and maintain supportive conditions for risk taking. Oil prices are up due to near-term supply risks but also possibly because positioning was already short. Gold prices are up as well.

I think the short-term positive reaction is supported by the overarching expectation that Venezuela will eventually be able to produce much more oil than its current one million barrels per day. The country's oil reserves amount to around 300 billion barrels or around 20% of global reserves, so there's plenty of upside.[1] After more than a decade of neglect and mismanagement by Venezuelan leadership, President Donald Trump is focused on revitalizing this industry, increasing production, and transitioning the Maduro government to one with US-aligned interests.

Against this backdrop, I'm tracking four potential sources of uncertainty:

1. **Time and money** – Restoring production will take time, money, and a regulatory framework. Estimates suggest it will take $80–$100 billion to restore facilities. I'll be watching for signs of investment.

2. **Political instability** – Free elections aren't being contemplated at this point, despite opposition leader María Corina Machado and her party having popular support. I'm watching for strikes, violence, and other forms of unrest.

3. **Degree of compliance** – Hardline Maduro supporters are still leading the military and intelligence. Will the country's interim president, Delcy Rodríguez, be able to comply with US demands if the minister of defense and intelligence chief are committed to regime survival? I'm watching for changes inside the regime.

4. **Broader conflict** – At this point, it's unclear under what conditions the US administration might stage another military action. There are also broader geopolitical questions: If spheres of influence are becoming more hardened, will the US back away from Ukraine or Taiwan? Could we see an escalation of US-Iran tensions, given Iran's close ties to Venezuela and US concerns about its nuclear, missile, and drone programs? (This could be another reason oil prices moved higher in response to the US raid.) On the other hand, since China and Canada could be hurt by moves to redirect Venezuela's oil to the US, Trump may have a stronger hand in trade negotiations.

Insight from sub-adviser Wellington Management

Nanette Abuhoff Jacobson
Managing Director and Multi-Asset Strategist at Wellington Management and Global Investment Strategist for Hartford Funds

Key Points

- Venezuela's unfolding political events are drawing global attention and could have far-reaching consequences.
- Reviving Venezuela's oil industry will require major investment and faces challenges from ongoing political instability and regime uncertainty.
- Investors should remain alert to both emerging opportunities and persistent risks as geopolitical tensions and policy shifts continue to unfold.

Investment Implications

Notwithstanding these risks, in the short term, I see several positive investment implications:

- **For risk** – Expectations of more oil supply and lower prices could put a cap on overall inflation (though it may not have a material effect on service prices). Lower inflation could support further Fed easing, which would be a powerful risk-on signal and would contribute to liquidity in the financial system.
- **For US oil refiners** – With lower prices for heavy crude, refiners can buy it at a discount and sell refined products priced off global benchmarks, boosting margins. On the other hand, I see a negative impact for US oil producers given the prospect of lower oil prices.
- **For emerging markets** – I see potential opportunities in select debt and equity markets. Latin America, in particular, could benefit from closer political and trade ties to the US.
- **For precious metals** – Increased geopolitical volatility and fragmentation of the global order could support precious metal prices. Miners may also get a lift as energy is the largest cost.
- **For longer-dated government bonds** – Along with relatively steep yield curves[2] around the developed world, lower inflation expectations and potential Fed easing could benefit bonds.

Talk to your financial professional about how to position your portfolio amid geopolitical uncertainty.

[1] CNN, "Trump Says US Is Taking Control of Venezuela's Oil Reserves. Here's What It Means" 1/3/26.

[2] The yield curve is a line that plots interest rates of bonds having equal credit quality but differing maturity dates; its slope is used to forecast the state of the economy and interest-rate changes.

Important Risks: Investing involves risk, including the possible loss of principal. • Foreign investments may be more volatile and less liquid than U.S. investments and are subject to the risk of currency fluctuations and adverse political, economic and regulatory developments. These risks may be greater, and include additional risks, for investments in emerging markets or if focused in a particular geographic region or country. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. • Investments in the commodities market may increase liquidity risk, volatility and risk of loss if adverse developments occur. • Investments linked to prices of commodities may be considered speculative. Significant exposure to commodities may subject the investors to greater volatility than traditional investments.