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Cadence *clips*

FOCUSED ON WHAT MATTERS MOST.

U.S. Energy Independence Is A Myth By Steve DeBoth

We've been hearing from multiple sources for a few years now that the United States is energy independent because we export more energy than we import. If all energy sources were interchangeable, say you could power your car with petroleum, natural gas, or coal, then maybe we'd be independent, but they're sadly not. Likewise, even if they were interchangeable, those companies sucking petroleum and natural gas out of the ground, or gouging coal out of the earth, have the ability to sell to the highest bidders all over the world. If Australia is willing to pay \$5 per gallon for gasoline, the only way that gasoline stays in the U.S. is if we are going to pay more than that; otherwise, off to Australia it goes. The fact that not all energy is the same, and even not all petroleum is the same, plus the fact that commodity markets are global, means our supposed energy independence still does not guarantee us access to inexpensive ways to power our cars and trucks, or heat our homes, which ripples through our wallets all the way to the U.S. economy itself.

Energy Sources Are Not Interchangeable

The United States has been a net total energy exporter—total energy exports have been higher than total energy

imports—since 2019. Source: [U.S. Energy Information Administration](#)

That statement is technically correct, but also misleading. It aggregates crude oil, refined products, natural gas, coal, and electricity into a single heat-equivalent metric. In doing so, it collapses fundamentally different energy forms with different end uses into one number and obscures a critical reality: the United States still depends on imports of specific fuels—especially heavier crude oil—to keep its energy system running. That distinction matters because oil still dominates U.S. energy, accounting for nearly 40% of the total energy consumed.

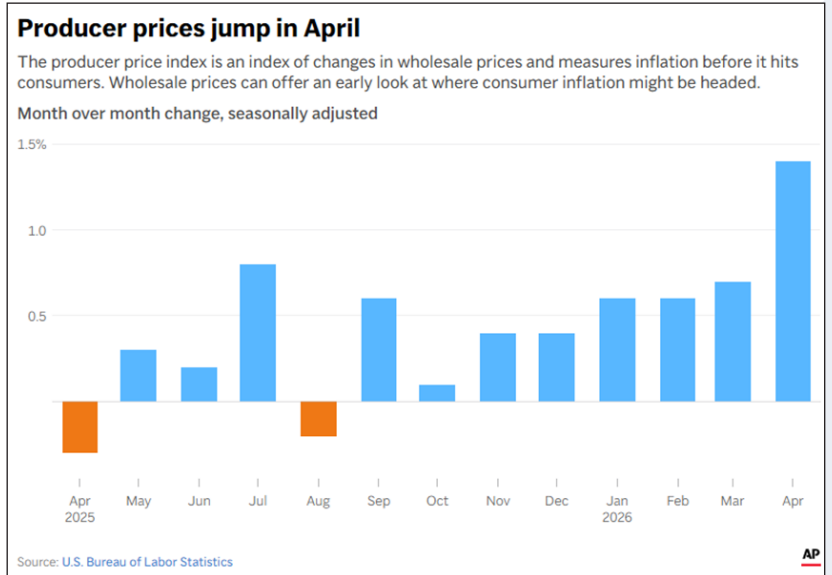
Oil is not just another fuel; in some senses it IS the economy. It powers transport, agriculture, mining, and construction, and it underpins global trade. Most goods either contain oil, or depend on it somewhere in their supply chain, or both. When oil flows smoothly, the economy functions. When it doesn't, everything slows, breaks, or gets more expensive - as we are seeing today at the gas pumps and in other places. We may already be seeing price increases in products that need to be transported around, but what we probably have not

seen much of yet are price increases caused by the rising costs of making products, which is measured by the “producer price index”. It takes time to manufacture something. As a result, it also takes time for the increased cost to manufacture that something to be passed on to consumers, depending on what that something is.

The chart to the right shows that producer prices were already elevated the first few months of this year, followed by a meaningful jump in April.

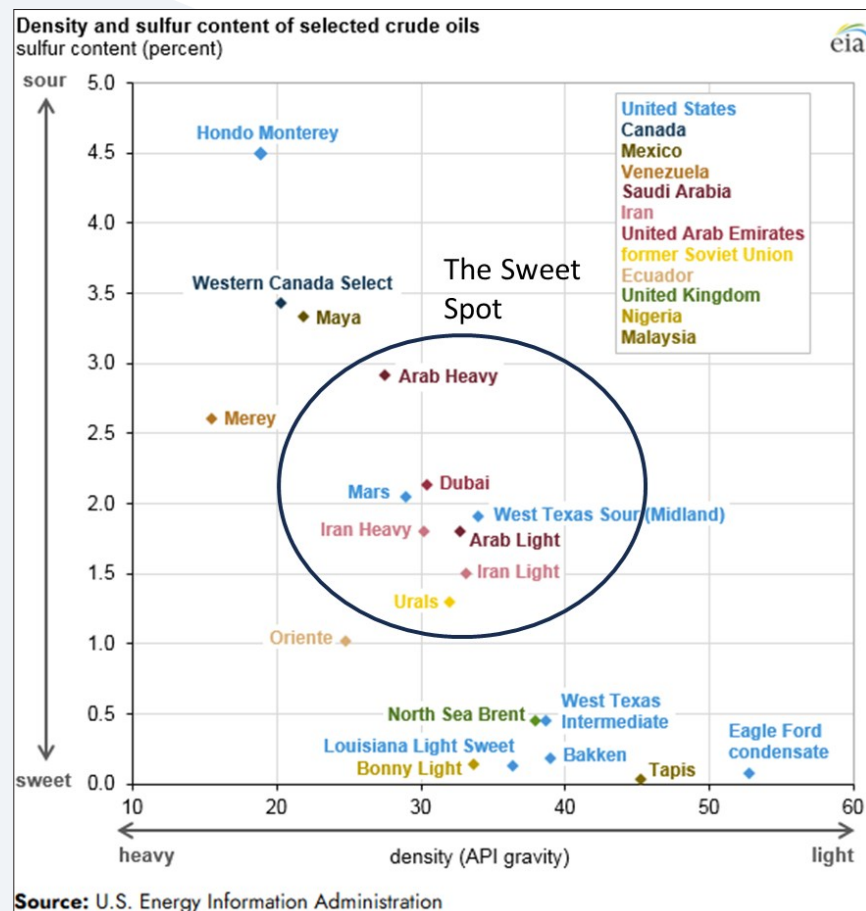
If the manufacturers don’t absorb all these elevated costs and instead pass them along to consumers, that process takes a few months before those production costs ripple out into prices at the stores.

Because energy sources are not interchangeable, the supposed energy surplus the U.S. runs still does not prevent price spikes in certain energy sources, such as crude oil, from acting as a drag on household finances, and therefore the broader U.S. economy.



With All Our Oil Production, Why Do We Still Import Oil?

Despite our net energy exporter status, the United States still remains a substantial net importer of crude oil. Imports averaged about 6.3 million barrels per day in 2024 and 2025, while exports were only about 4.0 million barrels per day.



Why does the U.S. both import and export large volumes of crude oil? Because not all oil is the same. Most U.S. oil production is categorized as light and sweet crude. Many U.S. refineries, however, were built to meet strong demand for diesel and jet fuel, which require heavier, sour crude in the mix. The refineries were designed to run that heavier oil alongside lighter barrels. The U.S. shale boom flooded the system with light, sweet crude that refineries weren’t configured to fully absorb, creating a persistent surplus in some oil, and a persistent shortage in other oil.

Middle Eastern oils sit near the global “sweet spot”—balanced in a way that allows refineries to produce gasoline, diesel, and jet fuel efficiently with minimal adjustment. This is one reason why even though only 20% of the world’s crude flows out of the Middle East, it is having such a massive effect on global gasoline prices. A shortage of the very best oil is not easily balanced by making up that differ-

ence by combining the lower quality oils. Many global refineries use some light oil like U.S. shale and some heavy oil like Canadian or Venezuelan crude, but the backbone of the system is medium-grade oil from the Middle East.

The U.S. uses as much of its own light oil as it can, exports the surplus, and imports heavier crude—mainly from Canada—to complete that blend. Even as the world's largest producer, the U.S. still depends on imports. As long as the U.S. requires foreign crude to produce usable gasoline, it's not energy independent—no matter what anyone says, and no matter how much total energy we create above the total we consume. Even if we did produce the perfect mix of light and heavy crude, we probably still wouldn't be energy independent because the rest of the world would be incentivizing our producers to send the oil their way by bidding up the price. We are more interdependent than independent when it comes to the price we pay for a gallon of gas, and that interdependence is leading to elevated prices despite our net energy exporter status.

The Difference Between Energy Independence and Energy Security

It sounds straightforward in its wording, but energy independence has always been an ill-defined, unachievable goal. Depending on whom you ask, it means reaching self-sufficiency in energy production or immunity from foreign turmoil. But even if the U.S. sourced every drop of oil we use from within our own borders, we would still be vulnerable to international price shocks because oil is a globally traded commodity. Its price is not set by how much the U.S. extracts at home, but by the laws of international supply and demand. A disruption in the flow of oil anywhere affects prices everywhere.

It may not sound as good, but a better goalpost than “energy independence” is “energy security,” meaning an uninterrupted flow of hydrocarbons and electrons at an affordable price. That requires both strong domestic production and secure sources from abroad. For the most part, that is what we have enjoyed for the past 35 years, with the average price per gallon of gasoline in the country at \$3.00 or less over 70% of the time since 1990, per the U.S. Energy Information Administration.

To really maximize energy security, the U.S. would need to minimize the way energy price volatility can affect our economy, and we are years and years away from that, if we are even trying to achieve it at all. Even were the U.S. to create policies saying all oil produced in the U.S. has to stay in the U.S., the fact that we don't produce enough heavy crude means that policy wouldn't help much – we would still need to import the type of oil we cannot produce enough of ourselves. There are a lot of opinions on how the U.S. could increase its energy security, with many of them contradicting the others. Suffice to say that without true energy security, our economy and our wallets will continue to feel pain any time the supply of energy gets reduced, as the flow of crude oil out of the Middle East has been the past few months. Until then, it is up to all of us individually to shield ourselves from the effects of higher energy prices.

We frequently talk about times like these when we are planning, these theoretical times where we may need to tighten our belts one or two notches. We probably have not yet seen how expensive many of our necessities are going to get. Even though almost all Cadence portfolios have some investments benefitting from higher energy prices, now is still a time to consider keeping a closer eye on spending. We do not know how high oil prices may rise, nor when the flow of the crude that U.S. oil companies cannot produce enough of will increase again, but we do know we have the ability to adjust your financial plan to match this scenario. We cannot change what the world's energy prices throw at us, but we can plan for it.

Reality As We See It

By Casey Clarke

We find ourselves spending much more time these days trying to sort fact from fiction, as stories and narratives seem to be raining down on us like a volley of arrows. Narratives are nothing new. There have always been multiple sides to a story - some different perspectives on truth, others deliberate attempts to deceive. The difference now, however, is in our access to information. It has enlightened us while simultaneously making it easier to mislead us. It's confusing and exhausting, but rather than give up, we need to spend more time separating signal from noise. Understanding reality is too critical to managing risk and maintaining and achieving financial well-being to give up on.

So how does one go about investing successfully when flooded with hyped-up razzle-dazzle every time he opens a web page or jumps on YouTube? Our thought is that you lean on the fundamentals rather than the latest narrative. If information seems like it came to you on a silver platter, it's likely unfriendly noise. If, on the other hand, you sought it out and it makes good objective sense, then there's a decent chance it's signal. Like we've discussed ad nauseam, knowing the source and its embedded incentive structure and conflicts of interest helps tremendously here. The more potential signals point in the same direction, the better the odds your process has you viewing the world or a particular issue more realistically. Certainty isn't the goal, and the more complex the world, the more that should be true. The moment we feel certain about something, we become rigid and closed off to new information. After all, why would we welcome additional input if we already have it all figured out? We can probably, almost certainly, all relate to this. (See what I did there?) We find it helpful in our daily duty to understand global economic and market developments to consider all information, no matter how "out there", and assign a probability to it being valid, no matter how small that probability. This keeps the mind open and flexible, even if our process never leads us back to consider that low probability thing further. The aim is to formulate a picture or hypothesis by prioritizing individual pieces of information with a high probability of being true – and to have our confidence level driven by some measure of probability that changes with new information, rather than by certainty that fails to adapt. Here's the best part: once we've tuned out the noise, sought out signal, and thought it all through to arrive at a sensible view of things, we can go back and more dispassionately evaluate the noise. What was the message? What was the source? What was the motivation for that particular message at that particular time? Oftentimes understanding the nature of the noise can amplify the signal.

So, let's apply this process to the current state of the economy and markets and see where we end up. Depending on which news channel you watched or podcast you just listened to, the economy's either great or horrible. By extension, the stock market is either a great place to be with its best days ahead, or a complete train wreck waiting to happen. Inflation is either ramping up to impoverish the average Joe or it's "transient" and nothing to worry about. All that noise aside, let's look at some fundamental data points to see if we can find some signal and draw our own high probability conclusions.

Inflation

This can be a tricky one for most to understand. We have asset price inflation and consumer goods inflation, with different forces driving each. To simplify, long-term inflation of both tends to be the result of credit creation through the banking system. We can look at this as money printing – it literally gets created from nothing, added to the economy via loans, and begins pursuing the same assets and consumer goods that all the old money was. This increases demand and pushes prices higher. Voila! – Inflation. We can also get more temporary inflation through reductions in supply. The current Hormuz oil shock is a good example of this. Estimates are that roughly 12 million

barrels a day have been taken off the global market since the start of the conflict, and that even if transit resumed today, there would be a cumulative shortage of somewhere between 1.5-2 billion barrels of oil. Most independent analysts agree, and it stands to reason, that this hit to supply would have fairly significant impacts on price – some we’ve already seen and others that have yet to materialize. We can apply this same calculus to other goods and materials that have been withheld from the global economy due to the closure. Unless demand drops proportionally with supply, prices must rise. So, in the short to medium term, a rise in consumer price inflation as a result of more expensive input costs seems imminent.

And so, what about that noise saying everything should be fine? Well, that could be politically motivated, designed to prevent panic or hoarding, or just to keep investors investing. Bottom line, there are plenty of potential reasons to distract people from what appears to be a very real risk of prices rising in the weeks and months ahead.

Iran conflict aside, when we look at a broad basket of commodity prices (chart below), we can see that they have risen, let’s say, 75% since the beginning of 2020. That’s 8.5% annually. If we were to use this broad basket of commodities to help us assess the price increases in the things we actually spend money on, such as food, energy, automobiles, home renovations, etc., we quickly come to the realization that the most recent official government consumer price inflation (CPI) figure of 3.8% is somewhat laughable. This isn’t a surprise to us since our government has an interest in making inflation seem lower than it actually is. The financial interest being that a low CPI keeps Social Security cost of living adjustments more manageable and helps make “real” Gross Domestic Product (GDP) appear higher than it actually is. More on that later. The point is that the price increases most Americans have noticed with their own eyes and in their pocketbooks in recent years have been higher than what the government acknowledges. Don’t trust those lying eyes, eh?

(In the chart below: Green is the CRB commodity index, tan - 10yr treasury yields, orange - brent oil, and blue – a diversified agriculture commodity fund.)

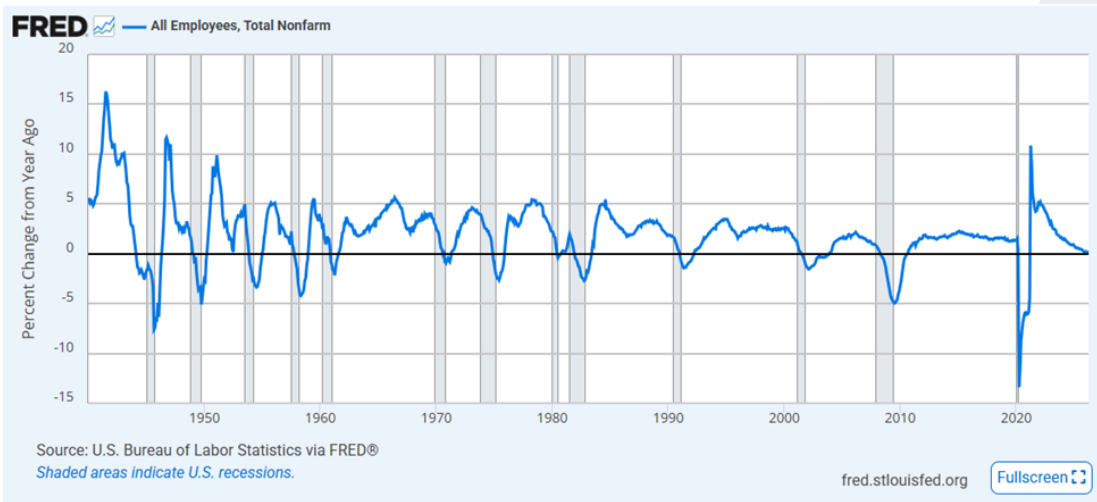


Employment

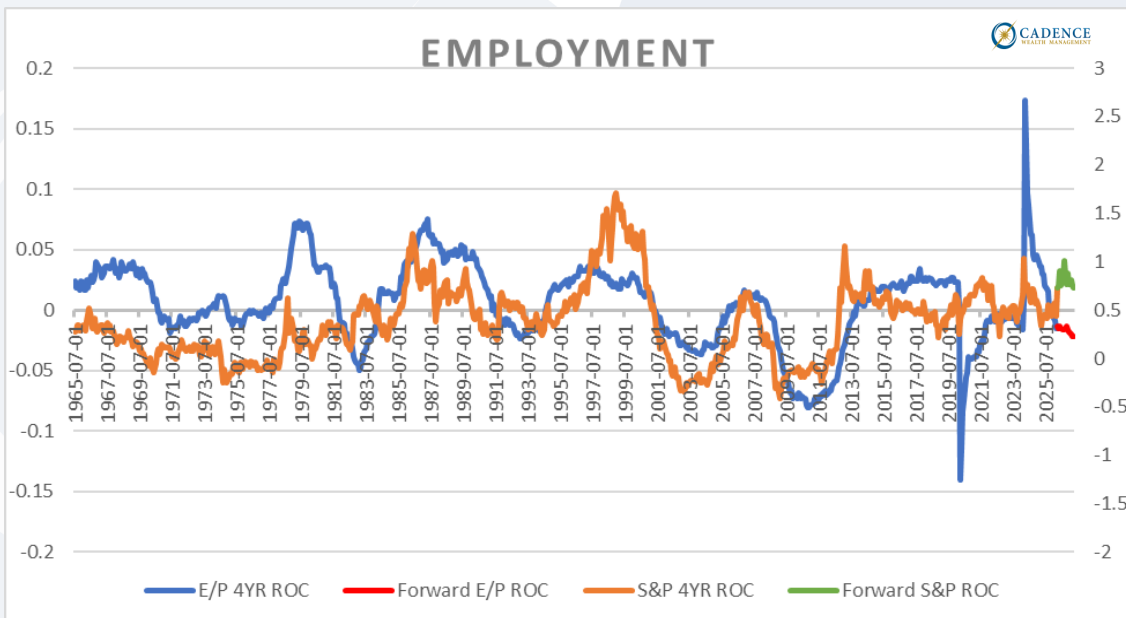
The chart on the following page shows the year-over-year change in the total employment level in the United States. On the far right-hand side of the chart, you’ll notice that the rate of employment has been falling consistently since the very temporary post-Covid boom and is now sitting on the zero line, representing no growth. The interesting part is that employment tends to be very lagging and usually doesn’t go into contraction until deep into an economic recession. Note the vertical gray recession bands and where employment growth is at the beginning

and end of those recessionary periods. What employment suggests, based on historical norms, is that we should be in the middle of, if not toward the end of, a recession right now.

Now back to that understated CPI figure for a second. If a recession is defined by two consecutive quarters of negative real GDP growth (nominal GDP minus the inflation rate), and we've been marginally positive in recent quarters based on a carefully curated measure of inflation, where would real GDP growth be using an inflation figure that our commodity price chart above supports, or that the average Joe would attest is more realistic? Suffice it to say, that GDP figure would likely be negative and more in line with what we're seeing on the employment chart below.



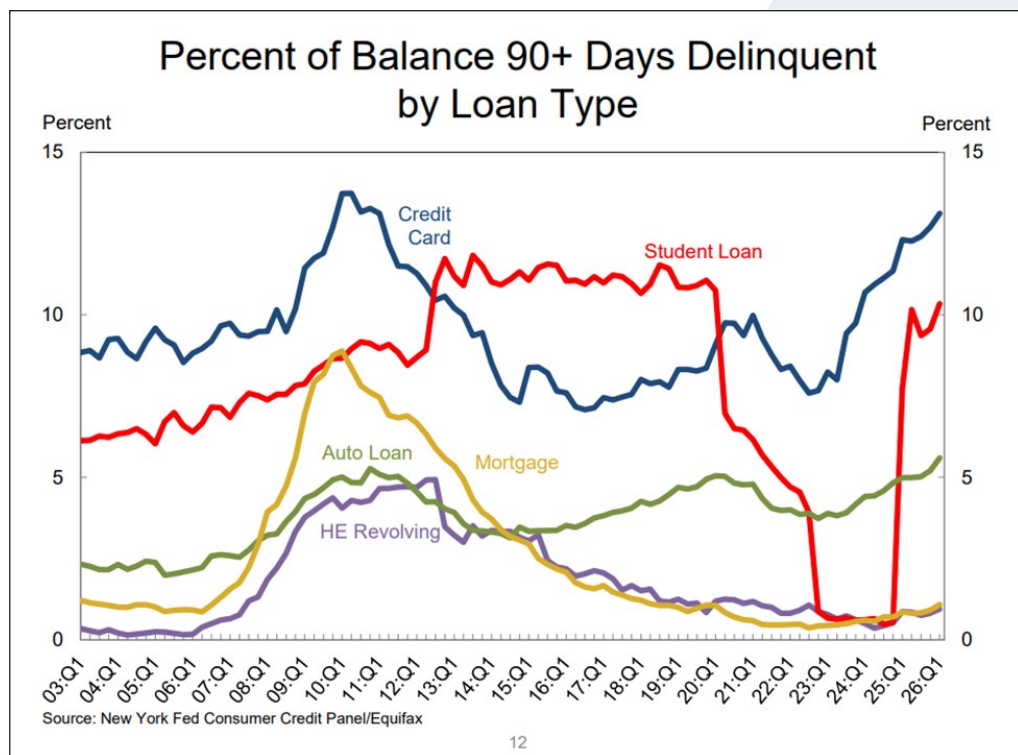
A bit more on the employment picture relative to stock market performance. Over long periods of time, it's hard to have strong stock market performance when employment is weak. Below we see the employment to population ratio in blue and the stock market in orange – both are four-year rate of change figures, and the correlation between the two is easy to detect. On the far right, you see employment falling and the stock market rising. It's subtle, but the move in opposite directions would appear a temporary break in correlation. With employment likely to come under continued pressure from the tail end of the business, investment, and debt cycles, as well as the proliferation of artificial intelligence (AI), we'd expect, going forward, both lines to continue moving downward rather than upward.



Late-Stage Debt Cycle

The end of a debt cycle is characterized by lots of debt that becomes hard to pay off. Unlike the government, we the people can't simply borrow more money to pay off prior debts in seeming perpetuity. That game comes to an end rather quickly once lenders realize the Ponzi nature of our situation. And so, the eventual resolution to too much debt that we can't pay off is either bankruptcy, where lenders don't get paid back, or a sharp recalibration of spending habits where non-essentials don't get purchased. Either way, if enough people resolve their debt dilemmas at the same time, it's almost impossible for there not to be some sort of ripple effect through the broader economy.

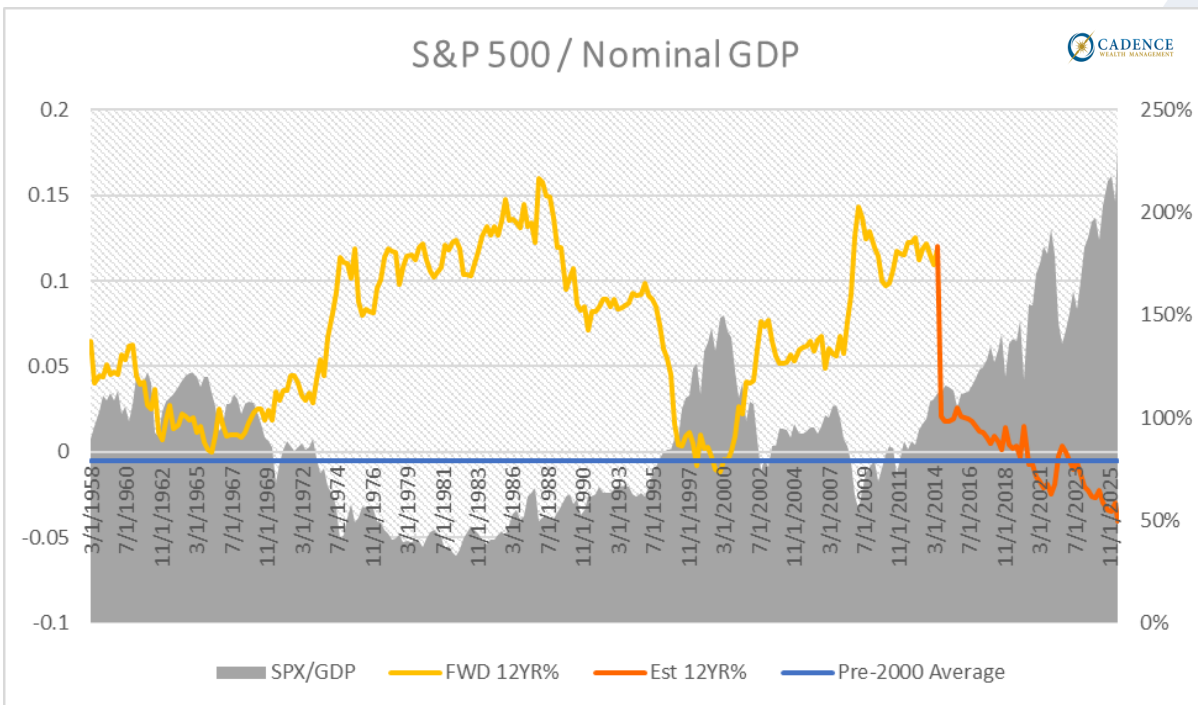
The chart to the right, from the New York Federal Reserve, shows student, auto, and credit card loans that are more than 90 days past due, all of which are beyond levels associated with the first parts of the 2007-2009 financial crisis and recession. Housing-related debt payments don't seem much farther behind. Interestingly, these high delinquency rates being present while employment remains at much higher levels, indicates to us that there is much more room for the employment picture and broader economy to deteriorate from current levels.



The Lynchpin

And this brings us to the U.S. economy... I mean, stock market. The reality is, the stock market has become the single most important driver of the U.S. economy. If you have your doubts, just look at where the wealth in this country resides. It's not with middle class Americans who've saved diligently within the banking system, or even with owners and CEOs of local companies that have served their communities. It's almost without exception on the balance sheets of Americans who have led, worked for, or have invested in the largest publicly traded companies in the stock market. Thus, if the majority of economic activity (and government deficit spending) is being driven by these people, then the fate of the economy rests on the success of the stock market. This isn't a recent development. It's been true for at least a couple decades, but the dilemma has certainly gotten worse. The hard reality is that the stock market supports the economy, and the wealth associated with it can vanish a lot faster than more durable, tangible wealth - that defined by hard assets, real estate, blue-collar skills, productive local business, machines, etc. There's a reason financial media and politicians are constantly talking up the stock market and downplaying its risks. Pull this lynchpin and the whole thing falls apart. Keep the charade going, and we get more inflation, less affordability, and a bigger and bigger Ponzi scheme underlying our society. It's a true no-win situation at this point, but it's human nature to continue kicking the can until it ricochets off a wall and hits us square in the forehead. The only question is, where's that wall, and are policymakers smart or courageous enough to see it?

Below shows the extreme state of stock market valuations relative to the size of the underlying economic (GDP) engine in gray. The red line represents estimated annual returns over the next 12 years based on those valuations. In sum, it's a -66% decline back to the average valuation level (blue line) and/or an average annual return of ~-3% for 12 years. There's a lot of froth that needs to be knocked off the top of the mug before anyone can reasonably expect to get liquid to their lips.



The Conclusion

What we can fairly confidently conclude from all of this is that inflation is high and likely rising, employment is weak and likely weakening, the average American is finding it difficult to pay off their debt, and those positioned most closely to the stock market are much better off. It's also apparent that what little economic growth we allegedly currently have is extremely dependent on the stock market holding up and the government continuing to make up the difference with nearly 2 trillion dollars in annual deficit spending.

Given that we can't have permanently high asset prices without inflation and affordability issues that ultimately crush society, our thought is that they must eventually come down, either on their own or with the "permission" of policymakers. We find it reasonable to assume that these policy decision-makers see the same issues we do and would eventually spot the wall off of which the can could ricochet. Savvy investors, just as they have throughout history, eventually move to protect their capital by shifting it from pricey and increasingly risky assets to cheaper, more attractive ones. There's good evidence in the commodity markets and related natural resource stocks that many have already started making this move.

What makes things most difficult to assess is the unsustainability of the current Western trajectory. Most understand that in the U.S., we have more debt than we can possibly pay off – nearly \$40 trillion in government debt, with annual interest payments north of \$1 trillion, representing 14% of annual spending. Most of the Western world is in a similar situation. Late stage, no good options. Once we accept that Western governments can't repay their debt or maintain current obligations to their citizens under the current operating structure, it opens up a whole range of possible outcomes, all of which are different from those we've experienced and would normally expect.

Extreme fiscal restraint, debt default, the sale of national assets through privatization schemes, engineered inflation to facilitate repayment? We simply don't know which, but it's likely to be something new, unanticipated, and less than ideal. This assessment has us viewing certain geopolitical events such as the Hormuz Strait situation more skeptically. The resulting inflation shock certainly gives the new Federal Reserve chair, Kevin Warsh, more cover to raise interest rates, establish credibility by being "tough", and potentially and simultaneously take some air out of the stock market balloon, bring longer duration interest rates to heel, and nip inflation sufficiently to get a desperately needed win with the average American. This isn't for us to know, but it's one potential scenario that we need to consider when making portfolio allocation decisions. This particular one, as well as a number of others, tend to favor government bonds, cash, and real assets over bubbly tech stocks. This of course will change as events play out, but our guess is that there's still a lot of capital that needs to move in this direction for it to be safe from the eventual pin-prick. It remains to be seen if that happens organically and mechanistically, or because of the not-so-benign set of circumstances we're currently facing with respect to a potentially serious energy and materials supply shock that steamrolls an already struggling consumer with higher prices. Either way, now seems a good time to place more value on the tangible than the financial and ephemeral. This remains the theme.

Extra: A Seismic Shift in Narrative

We find it fascinating, although not unsurprising, that we are currently witnessing a pivot away from the anthropogenic climate change narrative among those most responsible for driving it (along with the broader Environment, Social, Governance (ESG) directive) toward an argument for the construction of massive data centers that will consume more power, water, and natural resources than one can even begin to comprehend. In an October, 2025 memo from Bill Gates' entitled, "Three Tough Truths About Climate", he walks back the apocalyptic view common within the "climate community" by calling for a pivot away from an obsessive focus on CO2 emissions cuts in favor of increased attention to human welfare. Larry Fink, the CEO of the world's largest asset manager, and a key amplifier of the ESG corporate focus, has similarly de-emphasized the seriousness of climate change in favor of "energy pragmatism", where he now argues for the importance of traditional, reliable, "dispatchable" power to help fuel artificial intelligence (AI) data centers. This shift will likely go unnoticed by many while making others upset that climate is being sacrificed for profit. Others still might continue to embrace both narratives simply because they are being communicated and promulgated by "experts". We would argue that the information value in this shift lies in what these two diametrically opposed views have in common – profit and control. Both of which are desperately needed in a world that is "late stage". We'll leave it to the reader to determine the veracity of the long-held, official anthropogenic climate change narrative, but it's becoming increasingly clear that the strongest and most powerful proponents of it are finding that it's getting in the way of a more lucrative... I mean, important, pet project.

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