Q: How does the oil drop below $50/barrel impact the markets?

Brian Lockhart, CFP®: Answering this question has become far more complex than just 10 or 15 year ago. In the past, low oil and gas prices were the equivalent of a tax cut for consumers and resulted in higher consumer confidence and spending driving GDP higher. With the advent of fracking and other technological advancements on drilling leading to U.S. energy independence, the impact is far different today. Yes, low gas prices do lead to more discretionary income for Americans, but a rather large and growing percentage of our economy is energy production.

West Texas crude below $50/barrel is likely to result in a reduction in well count and lower spending among oil service companies in states like Texas and Oklahoma. Layoffs and lower wages in the sector will negatively impact the economy and offset the benefits of higher discretionary income in other sectors of the economy. The result remains a net positive for consumers at a national level but also raises the risk that lower oil production will lead to more energy imports in the future.

Clint Pekrul, CFA: A quick look at the S&P 500 Energy sector returns will tell you how difficult the market has been. So far this year, the sector is down about -18%, and has lagged the broader market for the past decade. To some, the fall in the price of oil is seen as a signal of weakening global aggregate demand. The assumption is that falling oil prices could correlate with declining equity prices, since weaker overall demand will hurt bottom line earnings. If you look at the more recent past, particularly in 2015 and 2018, decreases in oil prices as measured by West Texas Intermediate corresponded with declining equity prices. However, if you look at 2015, the year began with a fairly substantial collapse in WTI from roughly $105 per barrel down to about $30 by the end of the year. That decline of approximately -70% didn't coincide with a recession. Part of the reason is that the energy sector as a percentage of the overall economy isn't close to what it was back in 2007, just prior to the Great Recession. So, while the price of oil is worth watching and markets will respond in the short run, I'm not sure its importance is quite as meaningful as it once was.