

➤ On the Minds of Investors

What is the outlook for energy stocks?

Published: 1 day ago



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Energy sector profits are likely to pick up in Q1 and Q2 but growth may fade in the second half of the year.

Investors are in the thick of the fog, trying to determine for how long and how high oil prices may climb, as headlines whipsaw markets. When it's difficult to look ahead, it can be useful to look back at how similar events played out in the past. Historically, geopolitical conflicts tend to have a limited and short-lived impact on equity markets but pronounced yet fleeting impacts to oil and the energy sector.

Looking at geopolitical events since the 1970s, the typical sell-off on the S&P 500 is about 5.3%, occurring over 11 trading days and recovering 12 days after that. Twelve days into this conflict, the S&P 500 is down just 1.5%, with a maximum drawdown of 2% by day 5.

The impact on oil markets, however, tends to be more acute. Since the mid-1980s, the median oil spike has lasted 51 trading days, with prices increasing about 25.7%. However, not every event garners the same reaction. During the 2014 annexation of Crimea, oil prices barely budged, and later that year, oil prices declined after the intervention in Syria. The broader context was that oil prices were collapsing as the world was awash with shale oil supply. Similarly, oil prices declined after 9/11 as oil supply was not threatened, global growth fears grew, airline travel stalled and the U.S. was already in recession, stunting demand.

In contrast, the invasion of Ukraine in February 2022 catapulted oil prices, but for a relatively short period. WTI oil surged 37.6% but oil prices recovered to prior levels by August. However, for investors, the energy sector finished the year 59% higher. Profits leapt 80% q/q in the second quarter, stayed elevated in the third, and then gradually moderated to pre-invasion levels by 2Q23.

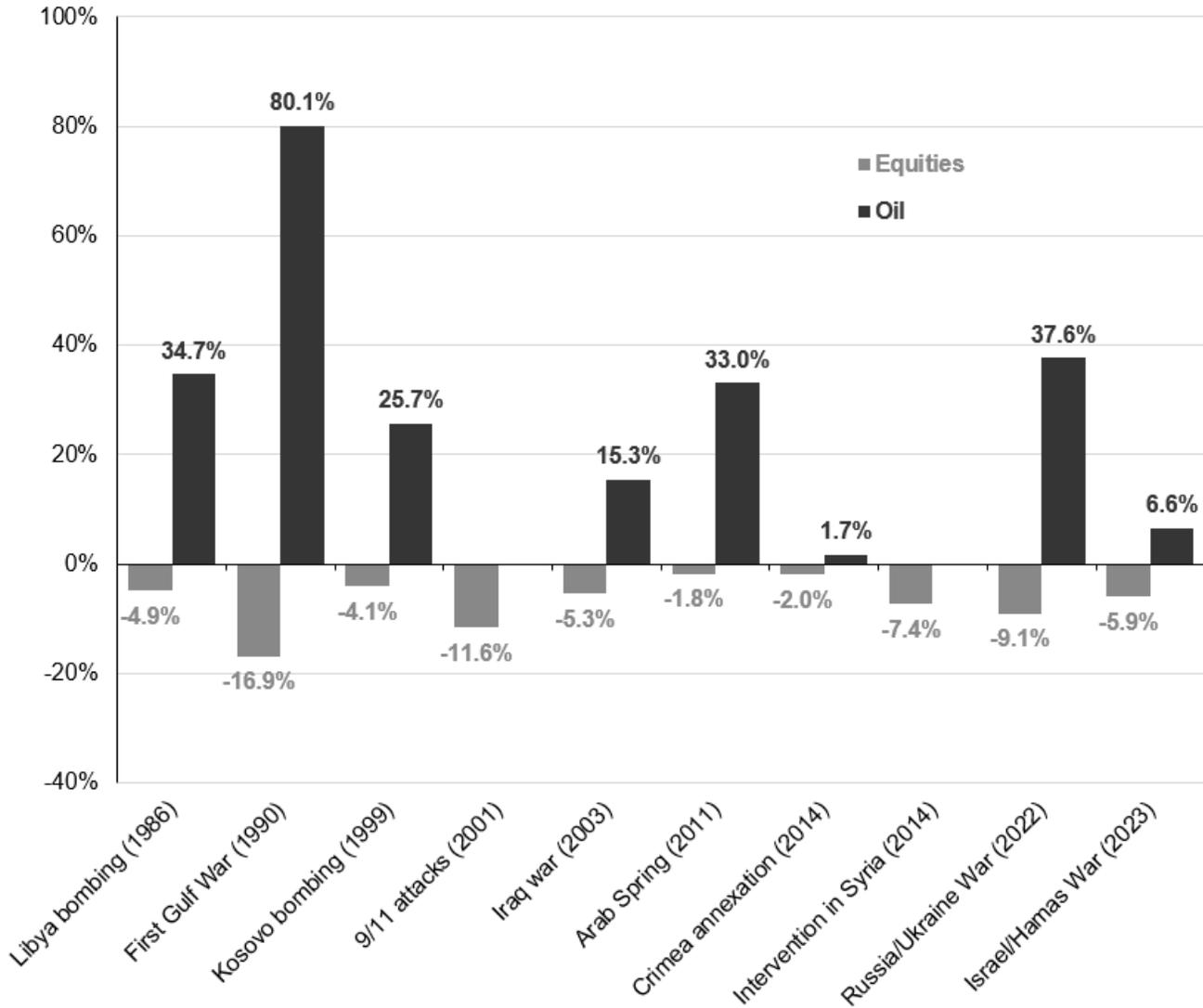
This time around, should the Strait of Hormuz reopen in the next few weeks, energy sector profits are likely to pick up in Q1 and Q2, but growth may fade in the second half of the year. However, in contrast to 2022, the energy sector is not as highly leveraged, so as profits jump, companies may enjoy solid free cash flow, enabling them to buy back shares (increasing EPS), further reduce leverage or consider M&A. Capex is unlikely to accelerate as oil prices may recover faster than plans can be initiated, and global oil supply is ample for now despite the current challenges with supply movement.

From an earnings perspective, U.S. upstream (exploration, production) and downstream (refiners) companies are likely to be the biggest beneficiaries. U.S. petrochemicals also stand to benefit from short-term supply disruptions increasing prices, providing a chance to deliver. Effects on midstream profits (transportation, storage) should be neutral, while oilfield services may face near-term headwinds given operating exposure in the Middle East.

Even before the war, the energy sector was up nearly 25% YTD due to the events in Venezuela and the rotation out of tech into less expensive sectors like energy. Since Iran, the energy sector is up just 1.7%. For investors, that means it is too late to chase a broad sector rally, suggesting active stock picking with an eye towards quality and strong balance sheets.

Geopolitical shocks tend to impact oil prices more than U.S. equities

S&P 500 corrections and WTI oil spikes around major geopolitical events



Source: Factset, J.P. Morgan Asset Management. Oil prices fell after 9/11 and the intervention in Syria, so no oil price spike is shown. Data are as of March 11, 2026.

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