

Oil & Gas

War, Energy, and the Market



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The Iran war shows no sign of ending and with damage to critical oil infrastructure in the region oil prices will be higher for longer.

War, Energy, and the Market

The Iran war shows no sign of ending. Now in its eighth month, the conflict has left both sides deeply entrenched. To “win” the war, the U.S. would need to achieve regime change in Iran, replacing the theocratic leadership with an American-backed regime, but for Iran to “win” they merely need to survive. For Iran, this war is an existential threat, but for the U.S. the various shifting narratives suggest a muddled strategy with no clear objectives.

Achieving regime change in Iran seems extremely unlikely. Iran is a country of 93 million people occupying a landmass greater than that of the U.K., Spain, France and Germany — combined. On three sides the country has mountain walls, and the large central plateau, which is largely desert, covers over half the country, making a successful ground war and subsequent occupation extremely unlikely.

The war will continue for the foreseeable future. President Trump is unlikely to declare victory and go home as this would likely be interpreted by the U.S. public as a humiliating defeat. With the odds of a successful ground war abysmally low, we believe we are in a long, grinding war with no obvious off-ramp. In September, some U.S. administration officials stated that they don’t believe the war will end until Trump’s term is over.

We believe that oil prices will remain higher for longer as the conflict continues. The longer the war continues, the more likely it is that the infrastructure in the region will be damaged. Even a quick cessation of hostilities is unlikely to bring oil prices down substantially, as war-damaged infrastructure could take months, if not substantially longer, to repair, further pressuring the oil market.

Economic Chokepoints and Drones Have Revolutionized Warfare

The Iran war is the largest oil supply disruption in history. The supply shock has been delivered by the effective closure of the Strait of Hormuz, a narrow waterway separating the Gulf of Oman and the Persian Gulf, through which 20% of the world’s oil transits (26% of seaborne crude). The Iranians, with their geographic proximity to the strait, have been able to use drones as well as missiles to halt virtually all commercial traffic in and out of the strait.

In past oil shocks, infrastructure was not attacked. What Iran has discovered is that refineries, oil fields and pipelines are easy targets and their destruction can cause significant economic pain. Damaged infrastructure can take months or years to be brought back online and in some cases the destruction is permanent.

Prior to the start of the war, there were 178 daily transits, and after the commencement of hostilities, in the first three weeks of March, there were only 111 in total. Insurance for vessels soared from 0.25% of hull value (e.g. \$250,000 on a \$100,000,000 vessel) to 5% of hull value, making it uneconomic to hazard a passage through the strait.

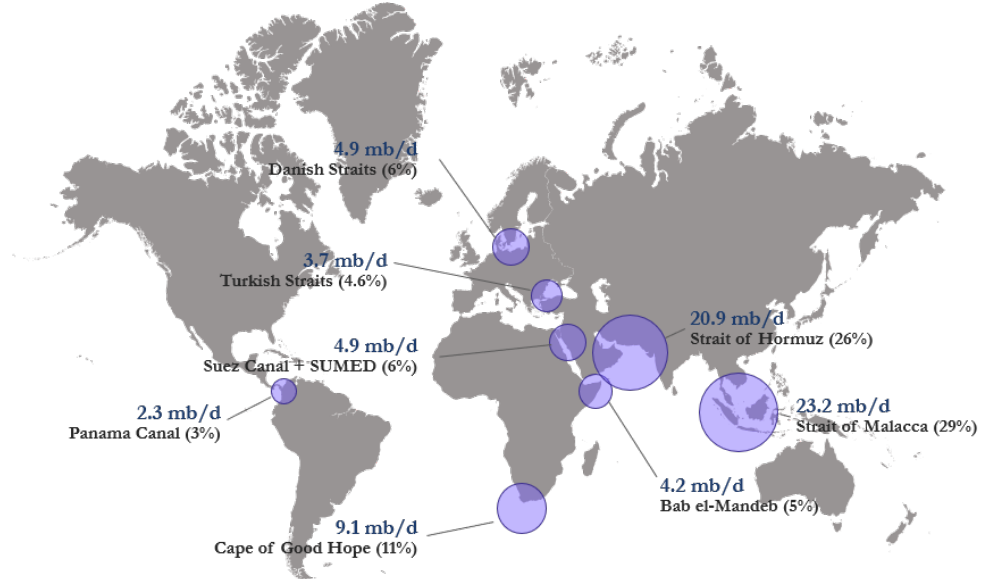
The Iran-allied Houthis from Yemen have been successful in attacking Saudi tankers in the Red Sea and have recently taken the port city of Mocha some 75 kilometers north of the Strait of Bab el-Mandeb, which connects the Red Sea to the Gulf of Aden. Should the Houthis be able to close the Strait of Bab el-Mandeb, through which ~5% of global seaborne crude oil transits, this could further pressure crude prices. Ships unable to use the Red Sea and Suez Canal would need to travel instead around South Africa’s Cape of Good Hope to reach Asian ports, adding time

The war is widening not shrinking as the Houthis have been attacking Saudi tankers as well as pipelines and have recently taken the port city of Mocha.

Narrow straits have become oil chokepoints allowing some smaller countries to exert near complete control over a portion of the world's seaborne oil trade.

(approximately an additional two weeks), fuel consumption and transport costs to their journeys. While Mocha's capture does not yet mean that the Houthis control Bab el-Mandeb, the capture does mean that they are in a better position along Yemen's Red Sea coast and brings them closer to areas overlooking the strait.

Exhibit 1: Oil Supply Chokepoints – The World's Energy Achilles Heel



Source: Granite Point Research

Oil Prices Moved Higher with the Outbreak of War

Brent oil prices moved up 94% in the first few months of the war from US\$71.32 per barrel on February 27, 2026, to US\$138.21 on April 7, 2026. In March, Brent, the international benchmark, rallied 65%, the largest monthly gain on record with physical cargoes trading as high as US\$150/bbl in late March.

Exhibit 2: Oil Prices Spiked with the Outbreak of War

Brent Crude Oil Spot Price (\$/barrel)



Source: FactSet, Granite Point Research

Brent prices nearly doubled with the outbreak of war.

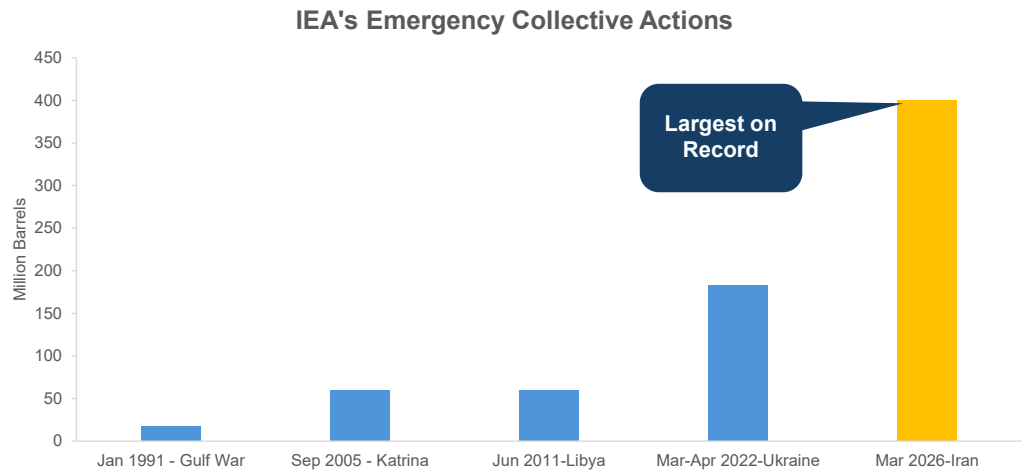
A 400-million-barrel release of oil from the strategic reserves of IEA member countries helped blunt oil's rise.

A Coordinated Policy Response Helped Blunt the Impact

The release of 400 million barrels from strategic petroleum reserves was the largest-ever collective action and blunted the price impact of the oil shock. On March 11, 2026, the 32 member countries of the International Energy Agency unanimously agreed to make 400 million barrels of oil from their emergency reserves available to the market to address disruptions in oil markets stemming from the war in the Middle East.

The release (400 million barrels) was roughly equivalent to four days of global production, while a daily physical withdrawal ceiling of 4.4 million barrels limited its effectiveness.

Exhibit 3: A Coordinated Policy Response Helped Blunt the Impact



Source: IEA, Granite Point Research

The economic impacts of oil shocks have lessened over time as the economy has shifted from manufacturing to services and work from home has become more prevalent.

Historical Impact of Oil Shocks on the U.S. Economy

The impact of an oil shock on the economy over the past 50-plus years has been mixed. During the 1973-1974 OPEC oil embargo, the S&P 500 fell more than 40% and U.S. GDP contracted by 0.5% in 1974. During the 1979-1981 Iranian revolution/Iran-Iraq war, headline CPI reached 9.1% and Paul Volcker, the chairman of the Federal Reserve, raised short-term rates to 20% to crush inflation, yet the impact on the stock market was negligible. Iraq's invasion of Kuwait (1990-1991) resulted in a short, sharp U.S. recession with the S&P 500 falling ~20% before recovering. Since that time the relationship between oil price shocks and the economy/market has been less clear.

Exhibit 4: The Historical Impact of Oil Shocks on the Economy Has Been Mixed

Episode	Trigger	Economic outcome	Equity market
1973–74	OPEC embargo	US GDP contracted 0.5% in 1974; inflation already running 3.4% entering the shock; recession	S&P 500 fell more than 40% in the 1973–74 bear market, with the embargo cited as a major cause
1979–81	Iranian revolution, Iran–Iraq war	Headline CPI reached 9.1%; Volcker raised rates to 20%, forcing the severe 1981–82 recession	Stocks continued to rise apart from a brief pullback in early 1980 — the equity damage came from the rate response, not the oil price
1990–91	Iraq's invasion of Kuwait	Short, sharp US recession	S&P 500 fell roughly 20% as prices spiked, then recovered quickly
1999–2000	Post-Asian-crisis demand rebound	Brent more than tripled with no recession attributable to oil	Stocks plunged in 2000, but attributed to the dot-com bubble bursting, not energy
2007–08	Commodity super-spike to \$147	Oil peaked before the crash; a contributor to, not the cause of, the GFC	Bear market followed, but driven by the financial system
2022	Russia's invasion of Ukraine	Energy a component of the broad inflation surge; no recession	Bear market in 2022, with energy costs part of the cost-of-living shock

Source: Granite Point Research

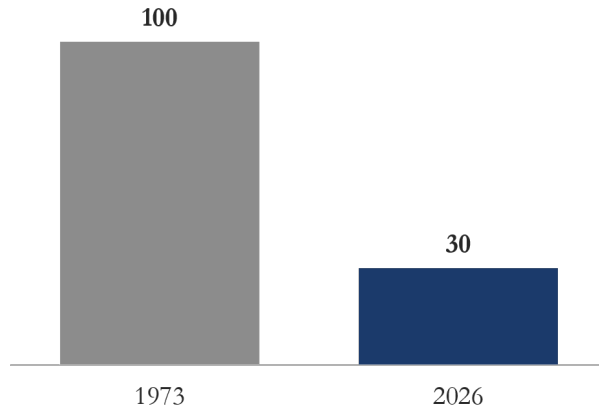
Oil prices matter less today than in the past. The oil intensity of GDP has fallen ~70% since 1973, according to the World Bank. Work from home and a shift in the economy away from manufacturing and toward services have blunted oil's impact on the economy.

Pain was high at the pump for North American drivers. U.S. drivers paid US\$4.48 per gallon in May 2026 (the second-highest price since the peak of US\$5.016/gallon in June 2022), while Canadian drivers paid the most ever for gasoline (C\$1.98 per liter) in April 2026.

Exhibit 5: The Same Percentage Move in Crude Prices Matters Less Than 50 Years Ago

Oil needed per unit of US GDP

Index, 1973 = 100 · decline of roughly 70%
(World Bank)



Source: World Bank, Granite Point Research

Duration of the Closure Is the Key Variable

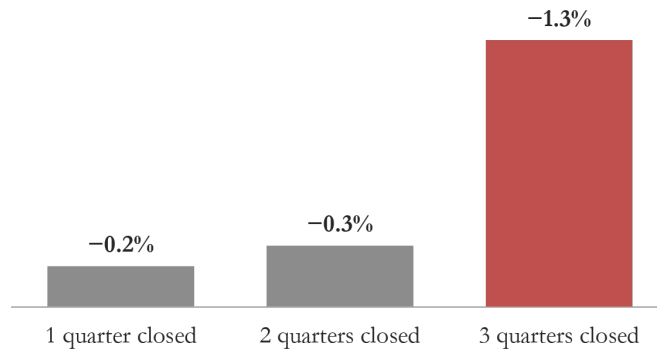
The duration that the Strait of Hormuz remains closed is a more significant factor driving economic impact than the absolute price level of crude.

The economic cost of the closure of the Strait of Hormuz rises with the duration of the closure, and not linearly. Research from the Dallas Fed shows that if the strait were to stay closed for three quarters or more, high oil prices would shave 1.3% off global real GDP. A third quarter of closure costs more than four times as much as the first. Considering we are now in the eighth month with the Strait of Hormuz effectively closed, the impact on the world economy could be substantial in the months ahead.

Exhibit 6: Cost of Closure Rises with Duration, Not Linearly

Cost of closure rises with duration, not linearly

Reduction in global real GDP growth, Q4/Q4, % · Dallas Fed, March 2026



Source: Dallas Fed, World Bank, Granite Point Research

Airlines hedge crude oil not jet fuel making them susceptible to a dramatic increase in the jet fuel crack margin.

The Airline Industry Was Particularly Hard Hit

Jet fuel prices rose sharply from US\$2.43/gal on February 27 to a peak of US\$4.45 — up 83%. Rising jet fuel prices pushed airlines' global fuel bill up ~40% to US\$350 billion, while global industry profits were halved to US\$23 billion. Airlines responded by suspending service and cutting routes to conserve cash. Air Canada, for example, suspended both its Toronto to JFK and Montreal to JFK service for five months, citing a doubling of fuel prices.

There is no strategic reserve for kerosene (jet fuel). Airlines typically hedge crude oil, not jet fuel, with only about a third of the anticipated 2026 fuel usage being hedged via crude oil hedges. This left the airlines vulnerable to an expansion in the crack spread, which saw jet fuel prices rise much faster and more significantly than oil prices.

Exhibit 7: Airlines Were Particularly Hard Hit

Jet Fuel - Spot Price - US Gulf Coast Kerosene Type (US\$ / Gal)



Source: Granite Point Research

Diesel, Not Gasoline, Was Most Impacted

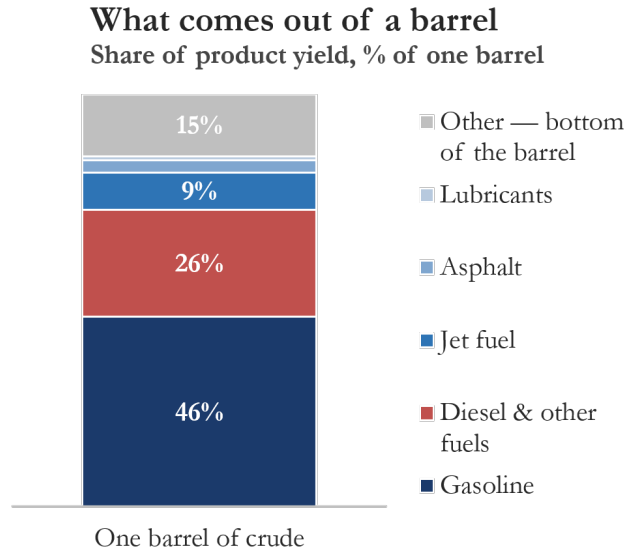
Diesel was the most impacted oil product with prices rising ~63% above a year ago and crossing the US\$6/gal level recently. Because diesel is used extensively in trucking and agriculture, rising prices are felt across the economy and have a direct inflationary impact on a wide range of goods. Diesel is a pass-through fuel for freight, rail, farming, and heating — a silent killer of the U.S. economy if elevated prices hold.

California, the largest agricultural state, has seen diesel prices rise above US\$8.00 per gallon, helping to raise food prices nationally. Trucking forms the backbone of commerce since virtually every good in stores arrives by truck. Rising diesel prices have created a stealth inflationary effect that consumers feel and that is more damaging, even if diesel inflation is less visible to consumers than prices at the pump.

Diesel prices have risen because of decades of refinery consolidation and damage from the wars in Iran and Ukraine. Global refining capacity was already tight before drone and missile strikes on refineries in Russia and the Gulf countries. In response to drone attacks on Russian refineries, Russia has banned diesel exports, while attacks on tankers in the Strait of Hormuz have curtailed diesel supply. U.S. refineries have utilization rates of 98% — effectively no spare capacity. Nowhere in the world is there any appreciable spare capacity to help satisfy diesel demand.

Soaring diesel prices have increased inflationary pressure across a wide array of goods in the U.S. economy.

Exhibit 8: What Comes Out of a Barrel¹



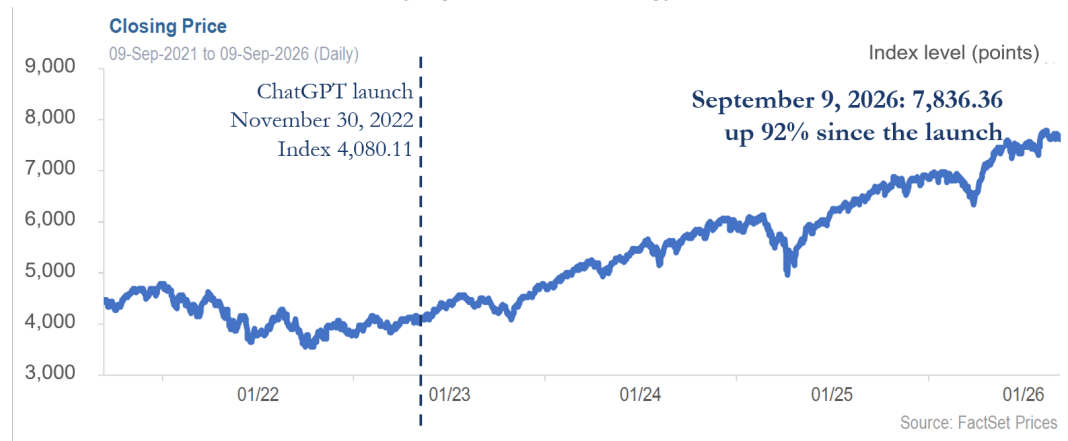
Source: EIA, Granite Point Research

Despite the Oil Shock U.S. Stock Markets Have Been Roaring

U.S. markets have continued moving higher despite the onset of war.

The stock market has remained strong throughout this crisis. The market over the past four years has been driven in large part by the AI trade. The S&P 500 is up 14.5% (from 6,845 to 7,836) through September 9, with all the gains coming after the war began (rising 20% since March 31). Since ChatGPT was launched on November 30, 2022, AI-linked equities have represented about 75% of the index's total gains. Just seven stocks, the so-called Magnificent Seven² have been the biggest drivers of the S&P 500 and now represent 33.9% of the index and US\$23.7 trillion of market cap.

Exhibit 9: Markets Have Been Rallying Despite the Energy Shock



Source: FactSet, Granite Point Research

¹ "Bottom of the barrel products: lipstick, CDs, cellphones, laptops, aspirin – thousand of products in all.

² Apple, Microsoft, Alphabet, Amazon, NVIDIA, Meta and Tesla

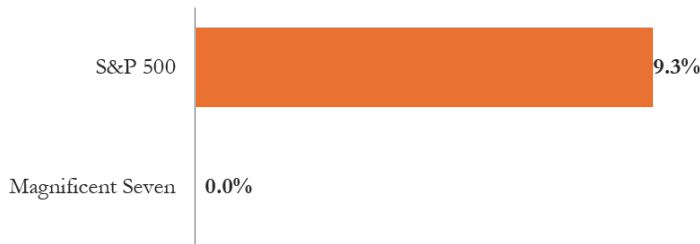
In 2026 the Market Moved Without the Magnificent Seven

The Magnificent Seven were flat in 1H 2026 while the S&P 500 returned 9.3% during that period as market breadth increased. Driving the gains in 2026 were energy, up 44.6% to mid-September, and refiners, up 128.2%, while the Russell 2000 hit a record high of 3,067 (+23% YTD).

Exhibit 10: In 2026 the Magnificent Seven Stopped Driving the Market Higher

In 2026 the Magnificent 7 Stopped Driving the Market

Total return · % · H1 2026 · December 31, 2025 to June 30, 2026



Breadth took over the leadership

Total return · % · three months to July 31, 2026 · S&P DJI



Source: FactSet, CNBC, Granite Point Research

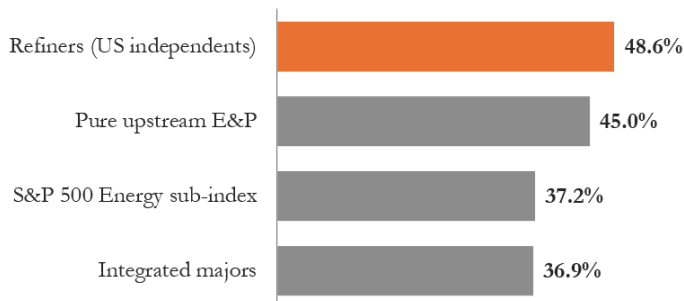
Refiners Have Driven the Energy Rally

Refiners have been the standout performers in the energy complex. Through September 9, refiners surged 128.2% in 2026 versus 44.6% for the S&P 500 Energy Index, with the gap widening after March 31 as refiners surged 54% while the broad Energy sub-index rose just 5.6%.

Exhibit 11: Refiners Have Been Driving the Energy Complex Particularly Since March 31

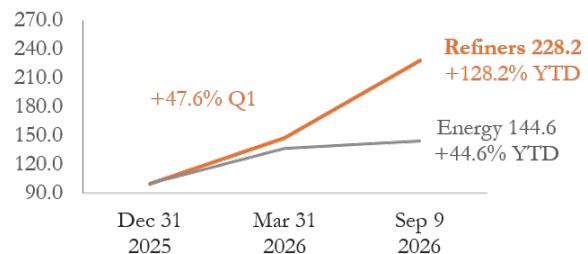
Refiners led the Q1 energy rally

Q1 2026 total return · % · December 31, 2025 to March 31, 2026
(S&P 500: -4.6%)



Refiners kept running after March; the rest of energy stalled

Sub-index level rebased to 100 at December 31, 2025, through September 9, 2026



Source: Forbes, FactSet, Granite Point Research. Note: Left chart shows Q1 2026 unweighted averages for each company group (Forbes citing FactSet); right chart shows FactSet sub-index levels to September 9, so the Q1 refiner figures (48.6% vs. +47.6%) differ by method.

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RATING	COVERED COMPANIES
BUY	4
HOLD	
SELL	

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