

# Beyond the Numbers

## *Energy Equities: Perspectives for the Current Cycle*

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### Executive Summary

Energy cycles have a way of rewarding investors who show up early, while punishing those who assume the next upturn will look exactly like the last one. Supply disruptions caused by the war in Iran that began just under a month ago have upended markets globally, with oil markets taking center stage. My colleagues Kristian Kerr and Adam Turnquist have each written pieces this month digging into the physical oil market, "[Assessing the Impact of Developments in Iran: Watch Energy](#)" and "[Oil in the Driver's Seat as Geopolitical Tensions Rise](#)", respectively. Our focus is on the equities that are in the oil and gas business (energy stocks), focusing on the individual sub-sectors within the broader energy sector.

Energy was the best-performing sector in the S&P 500 before the war broke out, and investor interest has increased as they attempt to underwrite the new geopolitical environment. Given prior experience covering oilfield services equities, it felt appropriate in this month's edition of *Beyond the Numbers* to provide both our perspective on the space and tips on finding fundamental strength through the noise. From here, we are, of course, hopeful a resolution will materialize soon. Whether or not that happens, we believe the toothpaste is out of the tube and the environment will not simply revert to its prior state. We believe we're in the early innings of a developing energy investment cycle, one that is likely to be shaped by capital discipline, a higher cost of capital, and a supply response that is increasingly international and with a longer lead-time. This combination will shift energy equity leadership, favoring business models tied to activity, pricing power, and durable cash generation. Think large global players, not the prior cycle's highly leveraged Permian wildcatter with high "oil beta." Whether you agree or not, this note provides a practical overview for navigating energy sub-sectors during an upcycle without getting lost in the noise of daily oil moves.

### Key Takeaways

- **Energy is not one trade.** In an energy cycle, different subsectors respond to different drivers: commodity prices, activity levels, refining margins, contracts, and capital allocation.
- **Developing energy upcycle unlikely to look like prior U.S. shale driven upcycle.** This cycle may be defined by capital discipline, higher cost of capital, and a more global, longer lead-time supply response.
- **Downstream / refiners fundamentals worth a look.** Geopolitical driven constraints on supply of refined product may provide U.S. refiners with an edge meeting demand in a tight global market. Additionally, they would typically see higher margins than global peers given elevated Brent/West Texas Intermediate (WTI) spreads.
- **Oil services can be a leader again.** Increased exploration and production (E&P) spending and activity is a key revenue growth driver for the oilfield services (OFS) sub-sector. Earnings upside often comes when utilization tightens and pricing power appears.
- **International/offshore matters more.** If incremental barrels come from non-U.S., and long-cycle projects, scale and execution can be rewarded.
- **Cycles don't end politely.** Late-cycle risk often shows up before the commodity rolls over; maintain a quality bias as the cycle gets long in the tooth.

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## Energy Sector Investment Perspectives For 2026

Energy investing is rarely hard because the math is complicated, but hard because cycles mess with judgment. When oil is cheap and the sector is hated, it feels irresponsible to touch it. When oil is expensive and headlines are everywhere, it suddenly feels like the simplest trade in the world. That's typically when investors take the most risk for the least incremental reward.

As with most investing topics, we think the right way to evaluate energy equities is as a mosaic, with the mind and machine working together to weigh the evidence. You don't need one perfect indicator, but a set of clues that improve your odds of avoiding two classic mistakes in energy: showing up too late and owning the wrong subsector for the environment. What follows is a brief review of recent and long-term energy subsector performance; our thoughts on why the unfolding cycle may look different than the prior cycle; a framework for thinking about which sub-sectors tend to lead at the onset of an energy cycle; and a breakdown of two specific sub-sectors to watch over the coming months and years (depending on the length of the current cycle) with specific, data-driven indicators to watch. Additionally, in the appendix we provide a brief overview of each of the main energy sub-sectors.

### Energy Stocks Don't Act the Same in Every Cycle

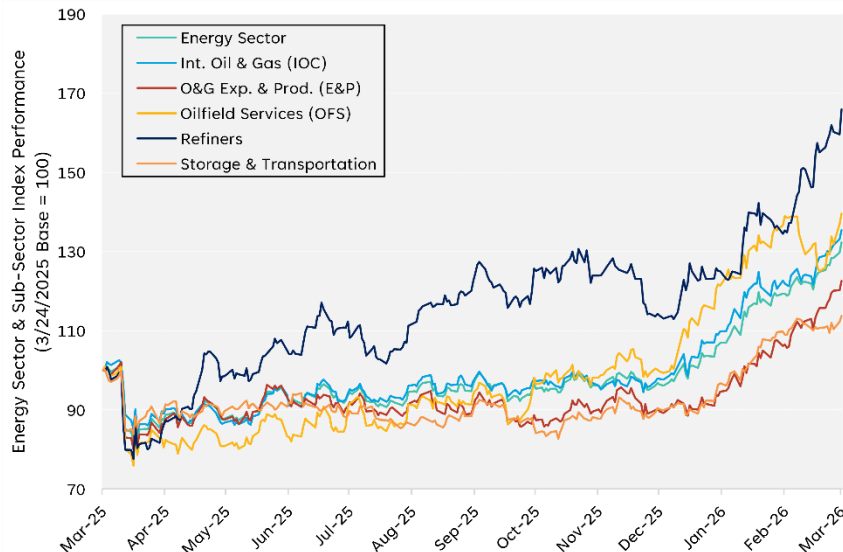
Many assume investing in energy (oil and gas, specifically) stocks is simply one trade based on oil and gas prices. In reality, the energy complex is a collection of very different businesses that respond to different triggers. Some are in fact tied tightly to commodity prices, while some are tied to activity levels like drilling and completions. Others behave more like long-duration cash flow machines, where contract structure and capital allocation matter more than the spot price of oil.

That distinction matters because the market does not reward oil exposure the same in every cycle. Oil prices are typically the catalyst but spending and activity are typically the factors that drive value-creation (and destruction) throughout the cycle, and therefore are key to uncovering equity leadership ahead of the crowds.

To provide a baseline on where we are today, in terms of leadership, we highlight energy sector and sub-sector stock index performance on a near-term and long-term basis in "**Refiners Have Outperformed Over the Last Year, While Midstream (Pipelines) and E&Ps Lagged**" (exhibit 1) and "**Long Term Energy Sector and Sub-Sector Price-based Index Returns**" (exhibit 2).

**Refiners Have Outperformed Over the Last Year, While Midstream (Pipelines) and E&Ps Lagged**

Exhibit 1: S&P 1500 Energy Sector / Sub-Sector Indexes: Cumulative Price Returns (Monthly, December 2001– March 24, 2026), Indexed at 100 as of (Daily, Trailing One Year), Indexed at 100 as of 3/24/2025

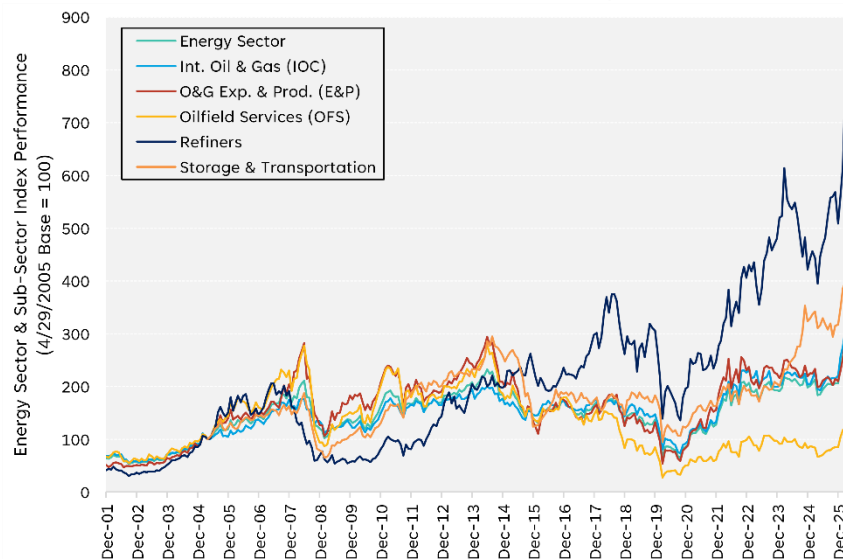


Source: LPL Research, Bloomberg 03/24/26

All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

**Long Term Energy Sector and Sub-Sector Price-based Index Returns**

Exhibit 2: S&P 1500 Energy Sector / Sub-Sector Indexes: Cumulative Price Returns (Monthly, December 2001– March 24, 2026), Indexed at 100 as of 04/29/2005 (Earliest point with data for all indexes)



Source: LPL Research, Bloomberg 03/24/26

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## Why This Cycle May Look Different Than the Shale Boom Years

**Capital discipline is now religion.** The mid-2010s downturn and COVID forced a painful reset. Many producers that survived have de-leveraged and made “returns over growth” a default posture. Dividends and buybacks aren’t a “nice to have” anymore. In many boardrooms, they are the core promise to shareholders. This matters because the classic chain reaction (oil rises → E&Ps flood the field → rig counts explode → services go vertical) may not be as automatic as it used to be. Management teams may choose to return cash rather than reinvest aggressively, especially if they don’t trust the duration of the price move. Oil and gas exploration and production company EOG Resources (ticker: EOG) is a capital discipline evangelist of sorts and provides several anecdotes of this behavior. On their most recent earnings call on February 25, 2026, management characterized their flat Permian basin production outlook as an exercise in capital restraint: *“Given the macro environment, we are keeping oil production flat with fourth quarter 2025 levels, which results in annual oil production growth of 5% and total production growth of 13%. We can deliver this disciplined plan for a capital budget of \$6.5 billion.”* Additionally, EOG based their production forecast on oil prices — at the time — well below current levels based on the futures curve: *“Our breakeven price to cover the 2026 capital program and regular dividend is \$50 WTI (West Texas Intermediate).”*

**The private capital behind the shale boom is not what it used to be.** The shale era had a giant tailwind from the private equity industry, which was at the time flush with cheap money to deploy, filling in for a banking industry still reeling from the financial crisis. Today, with higher rates and a notably different risk environment, the availability of capital for marginal drilling is more constrained.

That doesn’t mean shale disappears. It means the industry’s ability to respond quickly and aggressively to rising prices may be more restrained. For investors, that has two implications that can coexist: (1) Less oversupply response can extend the cycle’s duration, but (2) it can also shift opportunity away from higher-risk growth and toward high-quality execution.

**The marginal barrel may be more international with a longer lead-time.** The Permian Basin remains a world-class resource, but multiple independent data providers, sell-side analysts, and Permian-exposed executives now agree that Tier 1 inventory is largely depleted. While absolute production may continue to grow near-term, future gains will require higher capital intensity as geology and higher water-to-oil and gas-to-oil ratios limit repeatability of historical productivity gains. Meanwhile, global energy demand doesn’t pause while U.S. shale debates the reinvestment rate (see above point on capital discipline).

If incremental supply increasingly comes from international capacity expansions and offshore developments, that changes who benefits most. Long-cycle markets tend to reward companies with scale, integration, and project execution. This is one reason we believe large, well-capitalized service firms and offshore/subsea supply chains could be more central players in this upcycle.

However, we must note, given the conflict in Iran and the Middle East broadly, international exposure comes with geopolitical risk. In a [March 11, 2026 Form 8-K filing](#), SLB N.V., formerly Schlumberger, (ticker: SLB) disclosed that Middle East disruptions were expected to reduce first quarter revenue and create additional costs, with an estimated earnings impact of roughly \$0.06 to \$0.09 per diluted share. This is a good reminder that international cycles can be attractive, but not smooth, and that like mining operations, jurisdiction and location should always be front and center in underwriting equity risk.

## A Practical Road Map of What Tends to Lead Based on Cycle

People often say that oilfield services are the “tip of the spear” and generally lead out of the gates in an upcycle, followed by the E&Ps. While there is certainly truth in that, we prefer a more conditional way of describing leadership. It depends on what the market believes about the duration of the move in the commodities. When investors get whipsawed in energy, it’s often because they think they’re buying one thing, but they’re actually buying another. A helpful way to structure this is based on how the sector reacts to three different views on the duration of the oil move, and how we characterize the returns generated by those views.

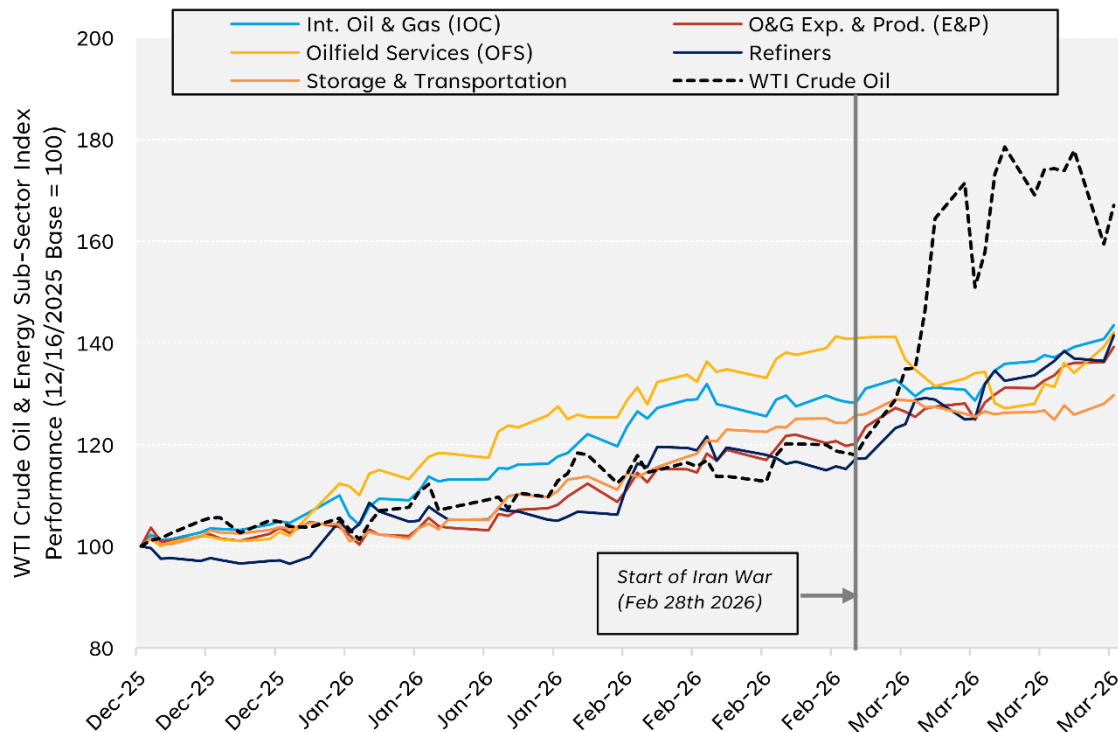
1. **If oil rises but investors don’t trust it**, the market often prefers short-cycle commodity exposure like certain exploration and production companies (E&Ps) and treats the move as a trade. These businesses move most with oil and gas prices and the forward curve. We characterize the returns here simply as “oil beta.”
2. **If oil rises and the market starts believing it**, leadership often shifts toward activity and pricing power. This is where oilfield services (OFS) will typically lead and outperform. These businesses benefit when industry spending rises and the service supply chain tightens. The equity upside historically has come not just when revenue climbs, but when utilization tightens and pricing power shows up in incremental margins.
3. **If the cycle broadens into international/offshore**, the market starts to focus on visibility and leadership can shift again toward backlog, project awards, and execution. In other words, the parts of the ecosystem that benefit from long lead-time investment. Large service platforms, offshore/subsea participants with backlog, many integrated majors, and midstream “toll-road” models often show up here.

In the shale boom era, a lot of investors built their energy toolkit around scenario #1 (beta and leverage). In this cycle, we believe the better risk-adjusted approach may lean more heavily toward scenario #2 and #3 earlier than investors are used to. Why? Because capital discipline dampens the “growth impulse” that once made pure commodity beta the easiest trade.

Since the recent pre-war lows in oil prices on December 16, 2025, energy equities have largely moved with oil (exhibit 3, “**WTI Crude Oil Prices Have Outpaced Energy Equities Since War Broke Out**”). The notable standout was Oilfield Services, which tends to move with oil as a cycle develops, but moved well ahead of the commodity leading up to the war. The OFS group has underperformed since the war broke out (for reasons we discussed in regards to risks of international exposure, vis a vis SLB’s press release about Middle Eastern activity levels). The outperformance of the commodity relative to the stocks since the war broke out is not surprising given the physical nature of the supply disruption. However, we also believe this may point to the market not trusting the commodity move (scenario #1), and thus there is room for catch-up potential should oil prices sustain higher levels. In other words, we don’t think it’s too early to consider certain energy sub-sectors.

### WTI Crude Oil Prices Have Outpaced Energy Equities Since War Broke Out

Exhibit 3: WTI Crude Oil and S&P 1500 Energy Sub-Sector Indexes: Cumulative Price Returns (Daily, 12/16/2025—3/24/2026), Indexed at 100 as of 12/16/2025 (Recent low in WTI Crude Oil)



Source: LPL Research, Bloomberg 03/24/26, WTI Crude Oil - Generic Rolling Front Month Futures Contract  
 All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Estimates may not materialize as predicted and are subject to change.

### Two Energy Subsectors to Watch

The preceding sections, notwithstanding, were not suggesting that commodity prices won't have a large impact on sentiment and performance across each energy sub-sector. They will. And the broad sector will certainly provide exposure to commodity prices and the sub-sector specific return drivers detailed. For those willing and able to be more tactical and look for areas of the sector to potentially add differentiated returns from the broad sector, we highlight two specific areas we believe are well-positioned for the current environment and beyond.

### Refiners: Capacity Constraints Can Keep Utilization Rates High, With or Without Conflict

We highlight the refining sub-industry because we believe the world is entering a period where gasoline, diesel, and jet fuel may stay relatively scarce and valuable compared with crude oil. In simple terms, refiners make money on the spread between what they pay for raw inputs (i.e., crude oil) and what they can sell finished products (i.e., gasoline, diesel, jet fuel) for; in the industry, that spread is known as the crack spread. While every conflict is unique, the war in Iran re-surfaces the familiar issues these periods of conflict and geopolitical instability typically bring, namely disrupted shipping routes, changes in trade flows due to sanctions, and a general feeling of fragility in the global economy. In these scenarios, fuel markets often tighten because supply becomes harder to move and replace. At the same time, no significant greenfield refinery has been built in the U.S. since the Ford administration, the refinery count has been cut nearly in half since 1982, and existing refineries are expensive and slow to replace, all

limiting supply even further. If this environment continues, crack spreads can remain high for longer than normal, which should support earnings and cash flow for well-run refiners.

If a prolonged Iran war keeps European Brent benchmark prices higher relative to the U.S. benchmark West Texas Intermediate (WTI), U.S. refiners should see margins expand, particularly through product exports to Europe. A widening Brent-WTI differential supports higher crack spreads for U.S. refiners against a backdrop of structurally tight global refining capacity. Gulf Coast refiners, operating highly complex facilities optimized for discounted heavy, sour crude, are well positioned to enhance margins vs. simpler global peers. Resilient demand for distillates (diesel and jet fuel) and seasonal strength in gasoline during summer driving season support utilization and profit.

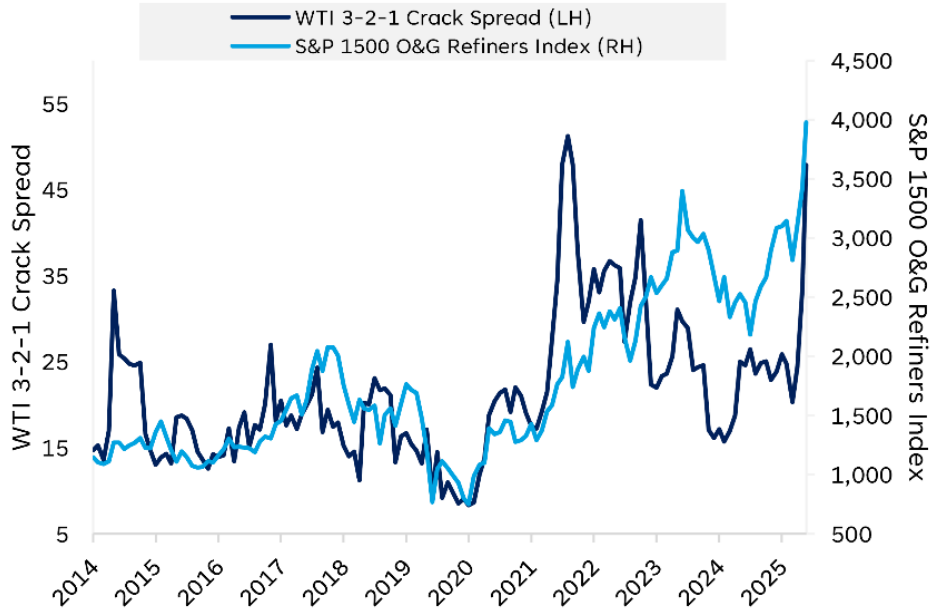
The indicators we are watching in the refining industry (specifically domestic refiners) are specific product-level crack spreads (diesel, jet fuel, gasoline, etc.), refinery utilization rates, inventories, and export-driven demand pull.

- **Crack spreads, specifically diesel and jet fuel cracks**, provide high-level signal on refining margins. Refined product supplies can remain constrained even when input (crude oil) supplies normalize or are abundant. Refining stocks move directionally with crack spreads, especially in periods of extreme spikes (exhibit 4, “**Refiner Equities Tend To Move With Crack Spreads...**”), and this dynamic *then* appears in gross margins due to the expected uplift in profitability (exhibit 5, “**...And Refiner Margins Follow Crack Spreads (On A Lag)**”). Currently, diesel and jet fuel margins are unusually high due to supply disruptions and sanctions-related tightness. Watching these products specifically, and whether these unusually high product cracks hold above seasonal norms and don’t mean-revert will provide a signal that these levels are due to refining capacity bottlenecks, not solely crude supply constraints.
- **U.S. product inventories and Gulf Coast utilization levels**. If inventories continue running below five-year averages, and utilization levels remain north of 92–93%, this could signal that capacity is running tight enough for refiners to maintain pricing power.
- **Refined U.S. product exports and European (Atlantic basin) inventory levels**. Many U.S. refiners serve as “swing” suppliers to foreign markets, therefore if domestic exports of diesel and gasoline remain strong as European inventories decline, this could signal that domestic refiners are capturing displaced global supply and that the market remains short products, not just crude oil inputs.

The important risk management caveat for investors to note is that all of the above can still be overwhelmed by a real demand shock to the economy. If recessionary conditions hit trucking, industrial activity, or air travel hard enough, cracks can compress even with closures and low inventories.

**Refiner Equities Tend To Move *With* Crack Spreads...**

Exhibit 4: WTI 3-2-1 Crack Spreads & S&P 1500 Oil & Gas Refiners Index

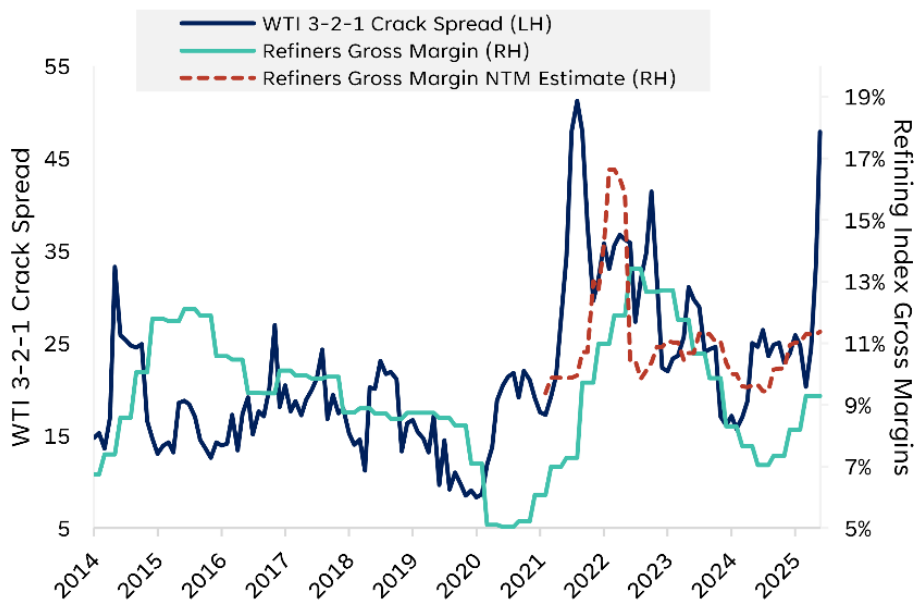


Source: LPL Research, Bloomberg 03/24/26

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**... And Refiner Margins *Follow* Crack Spreads (On A Lag)**

Exhibit 5: WTI 3-2-1 Crack Spreads & S&P 1500 Oil & Gas Refiners Index Gross Margins (LTM & NTM Estimates)



Source: LPL Research, Bloomberg 03/24/26

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## Oilfield Services (OFS): Global Exposure to Supply Response *and* Reserve Diversification

Another energy sub-sector we are watching is Oilfield Services (OFS), given the global need to replace depleting oil & gas reserves, and the desire to diversify resource supply. The Iran war has once again exposed how fragile reliance on Middle East resources is, be it oil, natural gas, or refined products. That is not to say that a post-war Middle East won't continue to be a key energy producing region; its resource-rich geology assures that it will be. It is our view, however, that the impulse from regions dependent on those resources, such as Europe and Asia, will be to diversify their supply base, and thus increase spending (capex) on exploration and development in other parts of the world. This potential for increased capex flows first to OFS companies, primarily the "big three" U.S. headquartered companies SLB Ltd (Ticker: SLB), Halliburton Co. (Ticker: HAL), and Baker Hughes Co. (Ticker: BKR). In other words, the current geopolitical shock is not just an oil shock, but a potential catalyst for higher activity across more basins.

What makes the setup especially attractive is that this demand response is running into real capacity constraints, particularly offshore, where years of underinvestment have left the market tight. At the same time, a longer-cycle secular tailwind is developing as more countries try to export the Permian playbook to their own tight-rock (shale) resources. This favors the large, technologically capable OFS players that can bring drilling, pressure pumping, reservoir expertise, and completion know-how abroad.

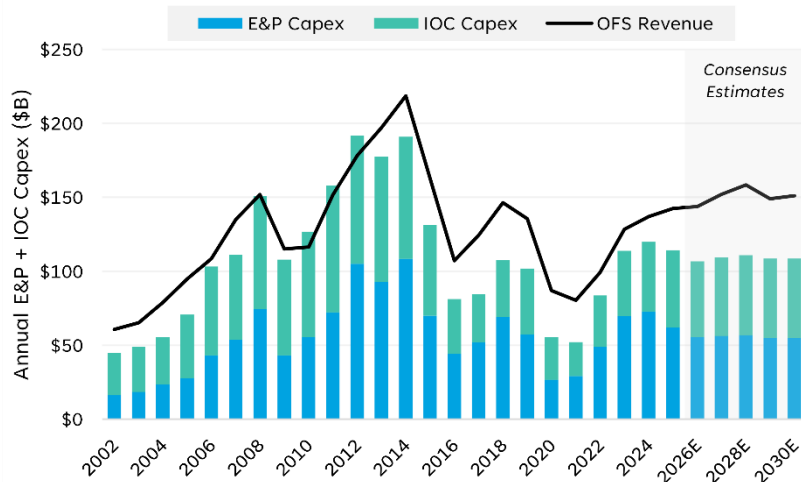
The indicators we are watching in terms of the OFS industry are capital spending plans from global E&Ps, international spending plans and project sanctioning, and pricing/utilization/backlog.

- **Much of energy producer capex translates to OFS revenue.** Oil and gas exploration, development, and production (often referred to as "upstream" activity) from E&Ps, integrated oil companies (IOCs), and national oil companies (NOCs) is largely executed by OFS companies. This dynamic is apparent in the time-series chart "**Oilfield Services Revenue Largely Tied to Oil & Gas Producer Capital Spending**" (exhibit 6). Therefore, an upward inflection in upstream activity (i.e., producer capex plans) provides a potential signal for increased OFS revenue; investors have already begun to expect this, as shown via consensus revenue estimates. The chart also shows the reduction in overall investment from the high levels seen at the peak of the shale boom (2011–14), pointing to broad-based underinvestment in resource development. While those figures certainly include elevated service pricing amid a tight market (not to mention a flood of available capital) and efficiency gains, we must also note these are nominal figures from 12–15 years ago.
- **International spending plans and project Final Investment Decisions (FIDs).** If a supply response does in fact show up across more diverse geographic locales, we would expect to see increased international spending plans from large global E&Ps and IOCs relative to domestic spending. This is showing up in outlooks from companies such as ExxonMobil (Ticker: XOM), Chevron (Ticker: CVX), and ConocoPhillips (Ticker: COP), who have all highlighted the growing importance of international and offshore projects to supply growth. Meanwhile, as efficiency gains appear to be offsetting maturing fields in the U.S. Permian in terms of production, spending plans in the region have largely been flat to down. Another indication of international spending comes from offshore FID announcements, which then flow to subsea infrastructure and service awards, which are supplied by OFS companies.
- **Increased activity should lead to an increase in OFS and rig contractor backlog and utilization,** which will lead to pricing power for OFS providers and rig owners. An indicator to watch that also provides a signal on the prior point of international spending is offshore rig day rates and utilization. Given the importance of ultra-deepwater (UDW = >7,500 ft ocean depth) resource plays, focus on new contracts, day rates, and utilization for the high specification UDW drillships that can access these far-flung oil fields. If day rates and utilization start to inflect higher and contracts start getting written for longer terms, that is usually the earliest sign that spare capacity is tightening and service pricing power is returning. In "**Marketed Utilization Suggests a Tightening Market for High-Spec UDW Drillships**" (exhibit 7), we show average day rates and marketed utilization for UDW drillships. This matters because offshore supply is structurally constrained after years of underinvestment, minimal new build rigs, and fleet attrition, so once utilization firms up the earnings leverage can be sharp.

The main caveat to consider is that timing will not be perfectly linear. Offshore can see near-term noise from project delays in specific regions, and international shale adoption (i.e., exporting the Permian playbook) may be slower than some assume. That said, the broader direction for activity and pricing power still looks favorable, in our view.

### Oilfield Services Revenue Largely Tied to Oil & Gas Producer Capital Spending

Exhibit 6: Annual Producer Capex (S&P 1500 O&G E&P Index & S&P 1500 Integrated Oil Company Index) and Oilfield Services Revenue (S&P 1500 Energy Equipment and Services Index)

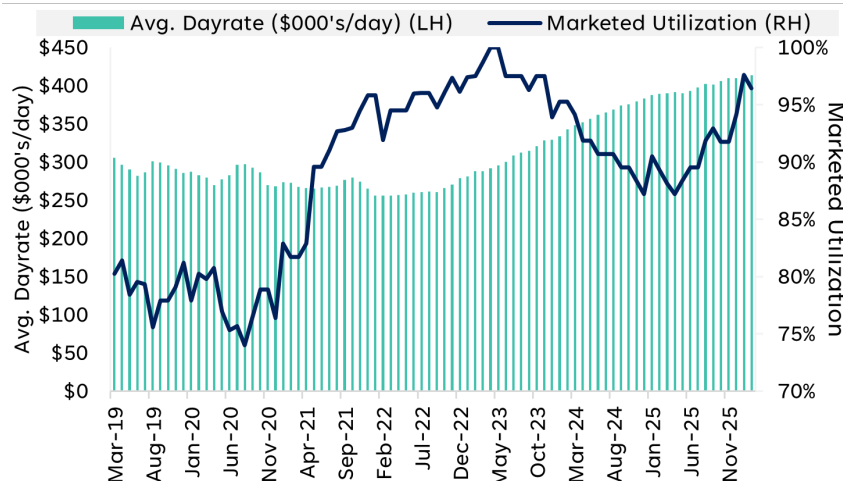


Source: LPL Research, Bloomberg 03/24/26

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### Marketed Utilization Suggests a Tightening Market for High-Spec UDW Drillships

Exhibit 7: High Specification, Ultra-Deepwater (UDW) Offshore Rig Day Rates and Marketed Utilization



Source: LPL Research, Bloomberg, Riglogix 03/24/26

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## Public Service Announcement: Don't Forget It's a Cycle

One final note about equity investing in cyclical, commodity-based industries such as energy. Don't forget it's a cycle, and that energy cycles usually don't end in an orderly fashion. As the old adage goes, "the cure for high oil prices is high oil prices." While years of reduced capital investment in the industry due to subdued oil prices (2022 notwithstanding) and environmental concerns may create the conditions for an investment cycle that lasts longer than many think, there is no doubt in our minds that eventually too much capital will flood into the space chasing too few opportunities, driving a supply response beyond what is required, and lowering oil prices and returns for the stocks. Many E&Ps may have found capital allocation religion, but that faith has yet to be tested in a full-blown upcycle. Said plainly, plan for late-cycle risk before it gets emotional. You don't need to correctly call the top of the cycle, but you do want to avoid the classic trap of loosening your standards because the cycle feels like it will go on indefinitely. Late-cycle risk often shows up as:

- Aggressive capital expenditure (capex) commitments.
- Easy-money behavior creeping back into management commentary and capital allocation plans.
- Peak(ish) margins and pricing power in the service chain.
- Valuations that imply there is no cycle.

## Conclusion

Energy cycles are seductive because they can make even mediocre businesses look brilliant for a while. The goal isn't to predict oil prices perfectly, good luck with that. The goal is to have the right exposure at the right time, with a process that keeps you from changing your standards when the cycle gets exciting.

If this cycle is truly defined by capital restraint (at least in the early years), a higher cost of capital, and more non-U.S. long-cycle activity, then equity leadership may come less from the most oil levered producers and more from exposure to the right bottlenecks: execution, refining capacity, offshore/subsea development, production optimization, and service categories where pricing power can emerge.

Note: This commentary is for general informational purposes only and does not constitute investment advice or a recommendation to buy, sell, or hold any security. Any company examples referenced are illustrative of business models and public disclosures, not individualized recommendations.

## Appendix: Energy Subsectors and Indicators to Watch

Generalist investors often hear “energy” and think it’s all about drilling rigs and oil prices. In reality, the sector is a collection of very different business models. In this brief appendix, we provide high-level explanations of the sub-industries that make up the broader energy sector, important performance indicators to watch in each sub-industry, and what typically drives returns in the stocks.

### 1) Oilfield Services (OFS)

**What they do:** Provide the tools, equipment, technology, and labor that help producers drill wells, complete wells, and maintain or enhance production. This category ranges from drilling services to production chemicals to subsea systems.

**What to watch:**

- Customer, i.e., oil and gas companies’ capex plans and commitments (FIDs, or “Final Investment Decisions” for large, long-cycle mega projects)
- Rig and completion activity (especially international/offshore if that’s the cycle’s center of gravity)
- Service pricing commentary
- Incremental / decremental margins (signs of pricing power, or lack thereof)
- Rig day rates, contract awards/fixtures/backlog, and order intake for longer-cycle businesses (contract drillers, subsea, surface equipment, project services)

**What drives returns:** Industry spending (capex), asset (rigs, equipment, etc.) and crew utilization, and pricing power. OFS companies have historically driven strong operating leverage when demand tightens.

### 2) E&P (exploration and production companies)

**What they do:** Simplistically, find and produce oil and gas. Their revenue is tied directly to commodity prices and production volumes, while cost structures are largely driven by service costs (revenue for OFS companies), labor, and land acquisition/leases and royalties to landowners/partners.

**What to watch:**

- Reinvestment rate, i.e., how much cash flow goes back into drilling
- Balance sheet leverage (debt)
- Breakevens (cash or accounting-based operating costs, capex, and sometimes dividends). Typically stated in dollars per barrel of oil or per million British Thermal Units of natural gas (MMBtu).
- Decline rates, or the percentage annual reduction in production from an oil or gas field from its peak
- Payout framework (dividends/buybacks) and whether it holds through volatility

**What drives returns:** Commodity prices, the hedge book (how much production is locked in), reinvestment discipline, and capital returns.

### 3) Integrated oil companies (IOCs/majors)

**What they do:** Operate across the value chain, including upstream production, midstream logistics, and downstream refining/marketing (and sometimes chemicals). The integrated model can smooth earnings across cycles.

**What to watch:**

- Project pipeline and cost discipline
- Dividend and stock buyback sustainability through the cycle

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- Downstream margin sensitivity (refining can help or hurt depending on conditions)
  - Geopolitical exposure and fiscal terms in key regions (jurisdiction matters in a global industry)

**What drives returns:** Upstream prices, downstream margins, project execution, and capital allocation.

#### 4) Midstream (pipelines, processing, storage)

**What they do:** Move, process, and store oil and gas. Many midstream businesses resemble toll roads: paid for volumes moved and contracted services, often with less direct commodity exposure.

**What to watch:**

- Contract structure and duration
- Customer concentration (who pays them)
- Leverage and refinancing risk
- Volume outlook by basin and product (oil vs gas vs natural gas liquids (NGLs))

**What drives returns:** Contract quality, volume stability, counterparty health, and balance sheet management.

#### 5) Refiners

**What they do:** Turn crude oil into products like gasoline, diesel, and jet fuel. Refiners are not a pure bet on oil prices, but typically a bet on product margins (i.e., crack spreads, or the difference between crude input costs and product selling prices).

**What to watch:**

- Product inventory levels (gasoline/diesel)
- Unplanned outages and maintenance cycles
- Demand seasonality
- Regulatory changes that affect blending or capacity

**What drives returns:** Crack spreads, inventories, outages, regulations, and global refining capacity utilization.

**Important Disclosures**

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Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The fast price swings in commodities will result in significant volatility in an investor’s holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

Beta Measures a portfolio’s volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggest the portfolio has historically been less volatile than its benchmark.

The Standard & Poor’s 1500 Supercomposite Index (S&P 1500) is a capitalization-weighted index of 1500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 1500 stocks representing all major industries across all market capitalizations.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company’s profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company’s profitability. Earnings per share is generally considered to be the single most important variable in determining a share’s price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Energy Sector: S&P 1500 Energy Sector Index

Int. Oil & Gas (IOC): S&P 1500 Integrated Oil & Gas Sub-Industry Index

O&G Exp. & Prod. (E&P): S&P 1500 Oil & Gas Exploration and Product Sub-Industry Index

Oilfield Services (OFS): S&P 1500 Energy Equipment & Services Industry Index

Refiners: S&P 1500 Oil & Gas Refining & Marketing Sub-Industry Index

Storage & Transportation: S&P 1500 Oil & Gas Storage & Transportation Sub-Industry Index

All index data from Bloomberg.

This Research material has been prepared by LPL Financial LLC.

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