



Gulf Conflict Rewrites Energy Outlook

March 11, 2026

Key Takeaways

- ▶ A widening war in the Middle East has struck energy infrastructure across multiple Persian Gulf producers, escalating systemic supply risk.
- ▶ Crude oil initially surged above \$100 per barrel; Strait of Hormuz shipping disruptions and refinery/LNG outages have tightened markets.
- ▶ We believe high-quality upstream oil and LNG-linked equities offer disciplined exposure in a market where geopolitical risk now drives oil pricing.

A Market Repriced by Geopolitics

Entering 2026, oil markets were anchored to an oversupply narrative. OECD inventories had rebuilt to roughly 2.85 billion barrels, slightly above five-year averages, supporting crude in the low \$70s with downside risk into the \$50s if projected surpluses materialized.

That framework has shifted abruptly.

The military escalation between the U.S., Israel and Iran has introduced tangible supply disruption risk not only to Iranian exports, but to the broader Persian Gulf energy system. Over the past week, crude oil prices have surged above \$100 per barrel, reflecting a sharp repricing of geopolitical risk.

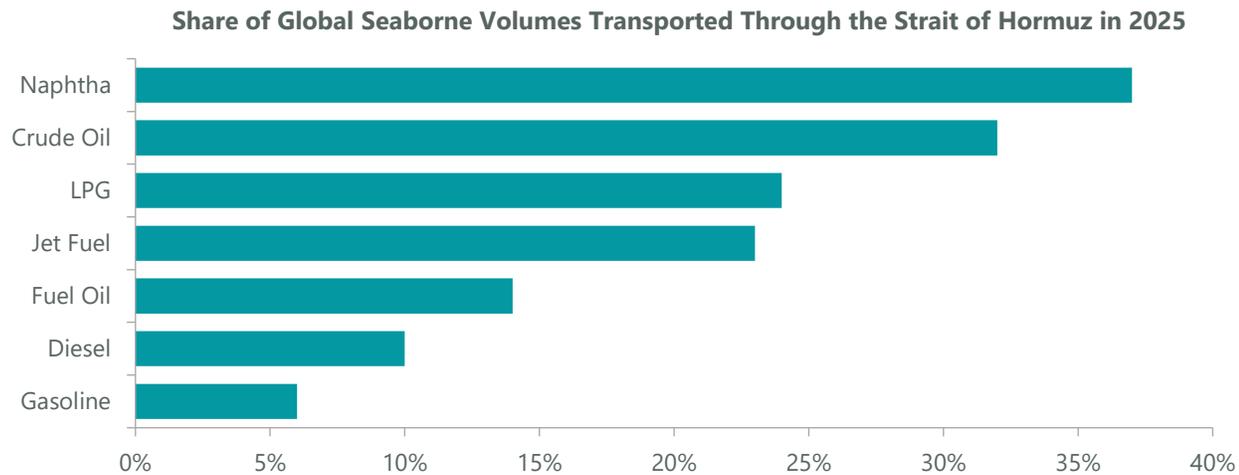
Kharg Island, Strait of Hormuz — and Now Regional Refining and LNG

Following failed negotiations, the U.S. and Israel launched coordinated attacks on Iran aimed at removing its nuclear weapons capability and ballistic missile capabilities and inciting regime change. Iran has retaliated across the Gulf, targeting civilian, military and energy targets in Israel, Bahrain, Kuwait, Qatar, the UAE, Saudi Arabia and Jordan. In less than a week, refineries in Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE have reportedly been hit. A major refinery in Bahrain was struck by drone and missile attacks, while Qatar's Ras Laffan — the world's largest LNG export facility — was also hit, prompting QatarEnergy to halt production and declare force majeure.

From the outset, investors have carefully watched two critical locations:

- Kharg Island, which accounts for more than 90% of Iran's 1.5 million to 2.0 million barrels per day of crude exports. Structural damage there would effectively remove Iranian exports from the market for an extended period, tightening balances relative to prior 2026 surplus expectations.
- The Strait of Hormuz, the primary export route for Gulf producers, accounts for roughly 30% of global oil and LNG trade each day. The effective halt in shipping through the strait has translated into immediate downstream effects: Iraq, Kuwait and others have reduced production, storage tanks have filled, and broader export flows have become constrained as the risk premium has risen, driving up energy prices as a result.

Exhibit 1: War Threatens a Substantial Amount of Global Energy Transport



As of March 11, 2026. Source: BloombergNEF, Vortexa. Note: Crude oil includes condensates. LPG is Liquefied petroleum gas. Naphtha is a highly flammable, volatile liquid hydrocarbon mixture derived from petroleum distillation primarily used as a feedstock for producing plastics, gasoline blending components and industrial solvents.

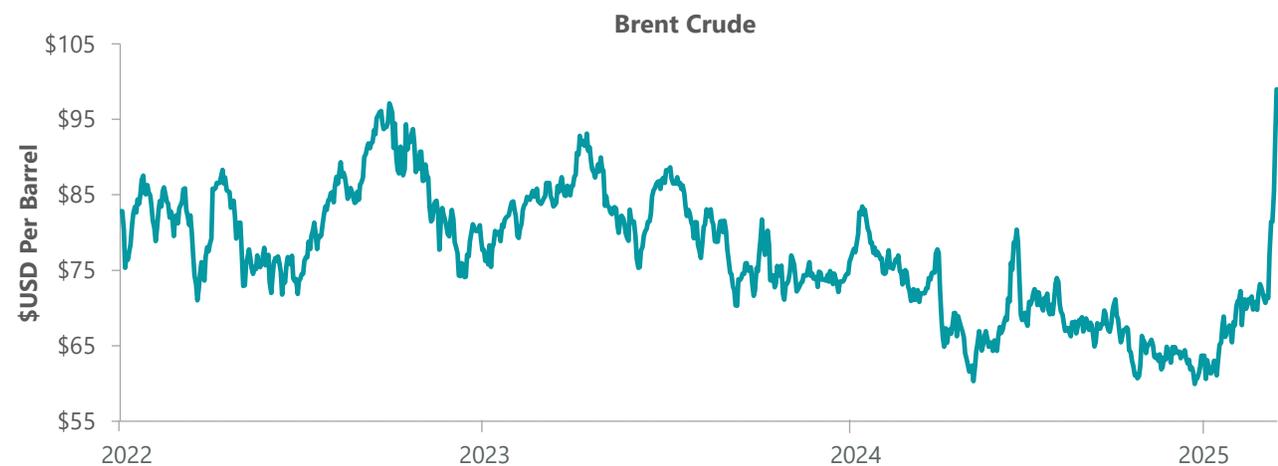
Even temporary tanker interference can force rapid repricing. Crude is a physical commodity that must clear daily; bottlenecks translate directly into higher prices.

From Surplus to Supply Risk

Before the conflict, oil prices were largely being driven by inventory levels, with an abundance that supported crude in the low \$70s per barrel with the possibility of additional price pressure if surpluses materialized and expanded in 2026.

However, as hostilities have escalated, crude oil prices have moved sharply. Brent and U.S. crude benchmarks recently traded above \$100 per barrel, levels not seen in over three years.

Exhibit 2: Oil Prices Surge as War Forces Production Cuts



As of March 10, 2026. Source: FactSet.

Natural gas markets have reacted even more forcefully. Qatar supplies roughly one-fifth of global liquified natural gas (LNG), and markets were not oversupplied heading into this conflict. With Ras Laffan offline and Gulf cargoes in limbo, European gas prices have surged more than 60% and Asian prices more than 40%. Unlike oil, LNG

markets lack meaningful spare capacity. Liquefaction plants typically operate near full utilization, limiting producers' ability to rapidly offset lost Gulf supply. The result is a tightening gas market layered on top of a repricing crude market.

Equally important is the structural backdrop. Spare capacity is finite, and U.S. exploration and production (E&P) capital discipline remains intact. Producers are not signaling aggressive volume growth in response to higher prices like they have in prior cycles. That restraint amplifies macro price sensitivity to supply shocks and increases the likelihood that any disruption would translate into tighter inventories rather than rapid supply response.

Quality Wins in Volatile Markets

In a market where geopolitical risk has repriced energy commodities, we believe quality matters.

Among upstream operators, ConocoPhillips, ExxonMobil, Chevron, Diamondback Energy and Permian Resources stand out for their ability to produce free cash flow at lower crude prices, their conservative balance sheets, and their having the most attractive production acreage — positioning them to generate durable cash flow both at lower prices and in sustained higher-price regimes. Many entered the conflict pricing in a mid-cycle oil environment; the recent sharp moves in crude should lead to meaningfully higher cash flows if supply disruptions persist.

For ExxonMobil, Chevron and ConocoPhillips, diversified portfolios and advantaged growth projects — including Guyana, LNG expansions, the Permian Basin and Alaska — offer low-cost opportunities to not only sustain cash returns to shareholders but also grow them. U.S. LNG exporters such as Cheniere have already seen meaningful equity gains as markets have priced tighter global LNG balances. These companies may further benefit from rerouted cargo demand should Middle East volumes remain constrained.

Independents such as Diamondback and Permian Resources provide concentrated exposure to low-cost U.S. shale inventory with more than a decade of drilling depth, positioning them to translate stronger oil prices into cash returns without compromising balance sheet strength.

Volatility Favors the Prepared

For energy stocks, the defining feature of this conflict is the direct targeting of energy infrastructure across multiple Gulf producers and across both oil and LNG value chains.

What began as concern over Iranian exports has evolved into a broader disruption of refining, LNG and maritime logistics. Oil above \$100 and sharply higher global gas prices signal that markets are now pricing in active supply strain.

For investors, the Iran conflict has temporarily rendered oversupply concerns moot. As energy market tailwinds emerge, we believe disciplined exposure to low-cost upstream operators and LNG-levered franchises offers a pragmatic way to navigate heightened geopolitical volatility.

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