

EARNINGS IN PERSPECTIVE



Energy industry earnings can rise during periods of higher global prices—but those results reflect how energy markets function, not a fixed or one-directional trend. Oil and natural gas are traded in a global market, where prices respond to supply and demand, geopolitical events, and economic conditions.

In periods of geopolitical disruption, earnings are not just a reflection of market conditions—they help companies maintain operations, invest through uncertainty, and support the supply needed to stabilize markets over time.

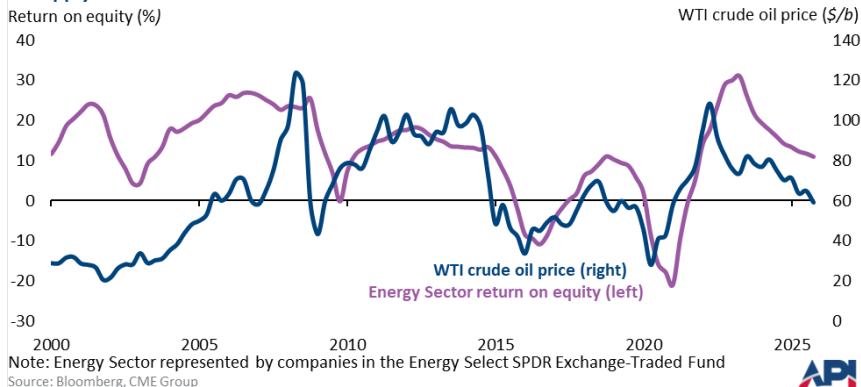
At the same time, the industry operates on long investment cycles. Developing new energy supplies requires significant capital and years of planning, meaning today's earnings play a key role in supporting future production. These long timelines mean earnings today are not just a snapshot—they can also impact tomorrow's supply.

Earnings also support broader economic activity—funding investment in infrastructure, facilities, new technologies, and production that supports millions of American jobs. Because the industry is inherently cyclical, earnings tend to experience higher highs and lower lows than the broader market. While quarterly results often draw attention, they provide only a narrow snapshot of a business shaped by long-term investment cycles and global market forces.

Understanding how earnings behave—and who they ultimately benefit—provides important context for evaluating the industry's role in the broader economy. It also highlights why strong, sustained investment has positioned the United States more favorably than many regions that rely more heavily on energy imports than domestic supply.

WHY DO OIL AND NATURAL GAS COMPANIES EARN MORE WHEN OIL AND NATURAL GAS PRICES RISE?

Energy sector profits are highly correlated with globally traded commodity prices, subject to supply and demand shocks



Earnings in the oil and natural gas industry are primarily determined by global commodity prices.

Oil and natural gas prices are set by supply and demand in global markets. When supply has been disrupted or demand is strong, prices have risen—and earnings have typically followed. When markets have weakened, earnings have declined. The same market that leads to higher earnings also generally indicates a need for additional supply—helping drive future investment decisions.



HOW ARE ENERGY COMPANY EARNINGS USED AND HOW DO THEY SUPPORT INVESTMENT?

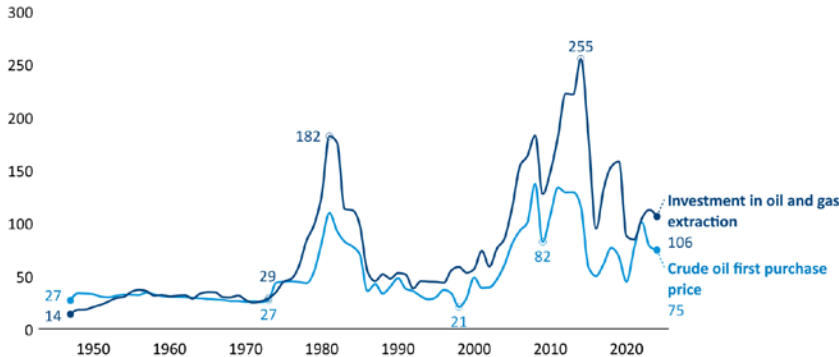
Energy company earnings help fund reinvestment, operations, and future energy supply.

A significant portion of earnings are reinvested into developing new oil and natural gas supplies, maintaining infrastructure, and improving efficiency. These investments often take years to plan and complete and depend on confidence that market conditions will remain supportive.

Companies also use earnings to strengthen balance sheets after downturns and provide returns to investors who help finance long-term projects.

Investment in the oil and gas sector increases when oil prices increase

Real fixed investment and crude oil price (investment in billion 2024 dollars, oil in 2024 \$/b)



Note: adjusted for inflation using the Consumer Price Index
Source: U.S. EIA, U.S. BEA, U.S. Census Bureau



WHY DOESN'T ENERGY PRODUCTION INCREASE IMMEDIATELY WHEN PRICES RISE?

Energy production cannot increase quickly in response to short-term price changes.

Even in highly responsive regions, increasing supply requires time, capital, equipment, and workforce capacity. Companies also need confidence that market conditions can support making new investments.

There is no “flip the switch”—production growth depends on sustained market conditions. This is why consistent, long-term investment is essential to meeting future demand.

IS THERE “PRICE GOUGING” IN ENERGY MARKETS?

Energy prices—and company earnings—are largely influenced by global market conditions.

Oil and natural gas are traded in highly competitive global markets where prices respond to supply and demand. When supply has been disrupted or demand has increased, prices have risen across the market—not just for a single company.

Repeated investigations by the Federal Trade Commission have found that changes in gasoline prices are driven by market conditions rather than price manipulation.

WHAT IS THE IMPACT OF HIGHER TAXES AT A TIME OF HIGHER EARNINGS?

Policies that target earnings during high-price periods can discourage the investment needed to maintain supply.

The energy industry relies on sustained, long-term investment to develop new resources and maintain existing infrastructure.

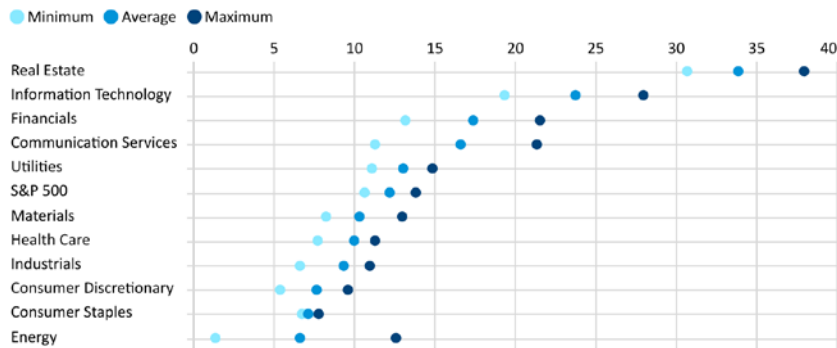
Reducing returns during periods of higher prices can limit the capital available for future production, which can negatively impact supply over time.



ARE OIL AND NATURAL GAS COMPANIES MORE PROFITABLE THAN OTHER INDUSTRIES?

Compared with other sectors, energy had the lowest annual average profit margin from 2016-2025 and the greatest variability

Annual profit margin by sector, 2016-2025 (%)



Source: Bloomberg



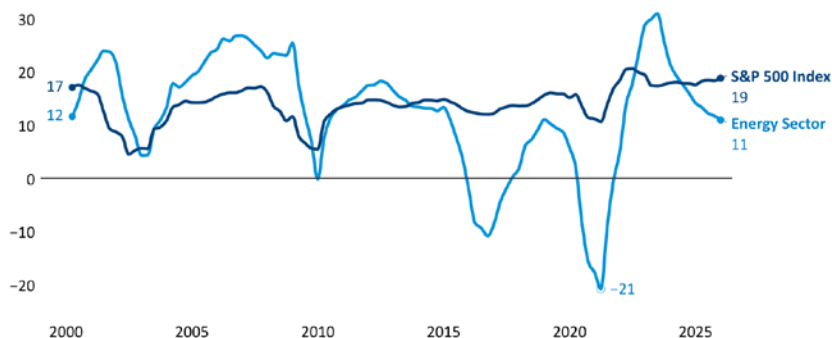
The energy sector has lower average profit margins and greater variability than many other industries.

Over time, energy companies have operated with thinner average margins than sectors like technology or financials, while also experiencing wider swings in performance.

WHY DO ENERGY COMPANY EARNINGS RISE AND FALL MORE THAN OTHER INDUSTRIES?

Energy is a cyclical industry and volatility is higher than the broader market

Return on equity (%)



Note: Energy Sector represented by companies in the Energy Select SPDR Exchange-Traded Fund
Source: Bloomberg



Energy earnings fluctuate more than other industries because they are tied to global commodity cycles.

Returns tend to rise and fall more sharply than the broader market, reflecting shifts in supply, demand, and global events. Over time, this has included both periods of strong performance and periods where returns lagged the broader market.

Taken together, this means the energy sector tends to experience higher highs and lower lows than many other industries.



WHO OWNS AMERICA'S OIL AND NATURAL GAS COMPANIES?

Millions of Americans have a direct stake in the industry's performance.

A large share of oil and natural gas company stock is held through retirement accounts such as 401(k)s and public and private pension funds—benefiting workers including teachers, firefighters, and other public employees.

Financial institutions and asset managers also hold significant stakes on behalf of investors, including pension funds, endowments, insurance companies, and investment funds.

This means industry performance affects not just companies but may also affect the retirement savings and financial security of millions of Americans.