Americas Energy & Transition

Americas Oil: GPR analysis suggests oil price is stickier than expected

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We use the well-regarded Geopolitical Risk Index (GPR) as a proxy for geopolitical tensions and compare it against Brent crude prices. Our analysis spans from 1988 through April 2026, allowing for a consistent comparison of the severity and market impact across different geopolitical episodes.

Key conclusions - (1) key macro factors drive oil price, (2) geopolitical risk as a variable improves understanding, and (3) under this approach, oil could perhaps be ~ $120/bbl today.

It is important to note that the GPR does not rely on direct, on-the-ground reporting. Instead, it is constructed based on the intensity of media coverage of geopolitical events. We view this as a feature rather than a limitation, as market participants often react quickly to headlines.

Linear regression of key macro variables (with and without GPR) points to a ~$120/bbl of Brent (Exhibit 1).

GPR can spike for non-oil reasons (9-11 for example) and oil price can spike without a GPR signal (the 2008 spike) but generally oil conflicts drive up both GPR and price, driving supply shocks (Exhibit 2). Further, GPR and VIX correlate during supply shocks (Exhibit 3).

Historical disruptions point to two categories of oil shocks (Exhibit 4). Supply shock events, such as the Kuwait invasion in August 1990 and the Russia /Ukraine war in early 2022 serve as proxies for today.

1). In past supply shock crisis, oil prices typically **took around 30–50 days to peak after the initial shock, and then generally required a further 2–3 months to decline** back toward pre-war levels (Exhibit 5 - Exhibit 9).

2). **GPR is less sticky:** The full “roller coaster” in GPR index play out over **one month,** even when the underlying conflict lasted for years.

While the market apparently insists in a return to normal, we continue to believe in a return to “not normal” (Americas Integrated: Updating target prices in a world back to not normal) i.e., higher than normal. The analysis here implies the return may be slower than consensus expects. While we don’t expect oil equities to significantly re-rate upwards significantly as price normalizes, we highlight that a slow return to normal generates real and strong cash flows for covered names allowing them eventually to be more valuable, ceteris paribus, versus where they were pre-crisis.

BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	18 May 2026 Closing Price	Price Target	TTM Rel. Perf.	Cur	Adjusted EPS 2025A	Adjusted EPS 2026E	Adjusted EPS 2027E	Adjusted P/E (x) 2025A	Adjusted P/E (x) 2026E	Adjusted P/E (x) 2027E
APA (APA)	M	USD	40.15	40.00	110.9%	USD	2.83	7.20	6.42	14.2	5.6	6.3
CVX (Chevron)	M	USD	196.12	204.00	18.7%	USD	8.43	16.58	13.26	23.3	11.8	14.8
COP (ConocoPhillips)	O	USD	124.54	121.00	14.9%	USD	6.18	13.89	10.88	20.2	9.0	11.4
DVN (Devon Energy)	O	USD	49.68	59.00	28.4%	USD	4.17	10.06	8.43	11.9	4.9	5.9
FANG (Diamondback)	O	USD	205.62	241.00	25.1%	USD	4.57	32.21	27.22	45.0	6.4	7.6
EOG (EOG)	M	USD	142.99	155.00	2.8%	USD	9.88	18.93	16.25	14.5	7.6	8.8
EQT (EQT)	O	USD	57.45	69.00	(16.6)%	USD	3.31	8.15	8.58	8.9	5.5	5.3
XOM (ExxonMobil)	O	USD	160.49	182.00	29.0%	USD	7.37	16.37	14.49	21.8	9.8	11.1
KOS (Kosmos Energy)	M	USD	3.21	2.40	59.4%	USD	(1.58)	1.13	0.75	(2.0)	2.8	4.3
KOS.LN (Kosmos Energy)	M	GBp	240.00	177.00	71.5%	GBP	(1.17)	0.83	0.56	(2.1)	2.9	4.3
SPX			7,353.61									
EDME			1,514.18									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

EQT estimate is Reported EPS; EQT valuation is EV/EBITDA (x);

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

We introduce a framework incorporating the geopolitical index. Under this approach, oil could be ~$120/bbl today. We like oily E&Ps and integrated: FANG, DVN and XOM.

DETAILS

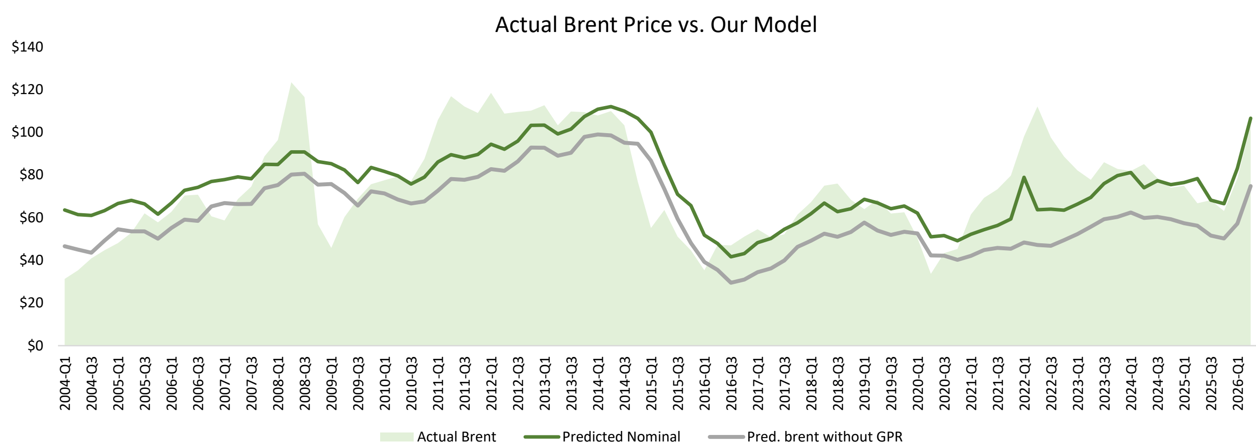
PUNCHLINE - OIL PRICE DRIVEN BY MARGINAL COST, INVENTORY, DOLLAR STRENGTH AND A SMATTERING OF GEOPOLITICAL RISK

Our equity models are driven by a more conventional oil price prediction, but if we perform linear regression of oil price against key variables and include/exclude geopolitical risk, we conclude:

1. key variables do in fact inform oil price
2. geopolitical risk improves the forecast
3. the simple model predicts prices today of ~$120/bbl Brent (above where forward curve sits).

Real Brent ($/bbl, in 2026 dollars) = 121 + 0.75·MC — 0.04·Inventory — 1.33·DXY + 0.13·GPR + 2.3·FedFunds + 0.003·SpareCap

EXHIBIT 1: **Across over 90 quarters of data, the model explains ~70% of the variation in real oil prices.**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, EIA, OPEC, Bernstein research

THE FOUR DRIVERS THAT ACTUALLY MATTER

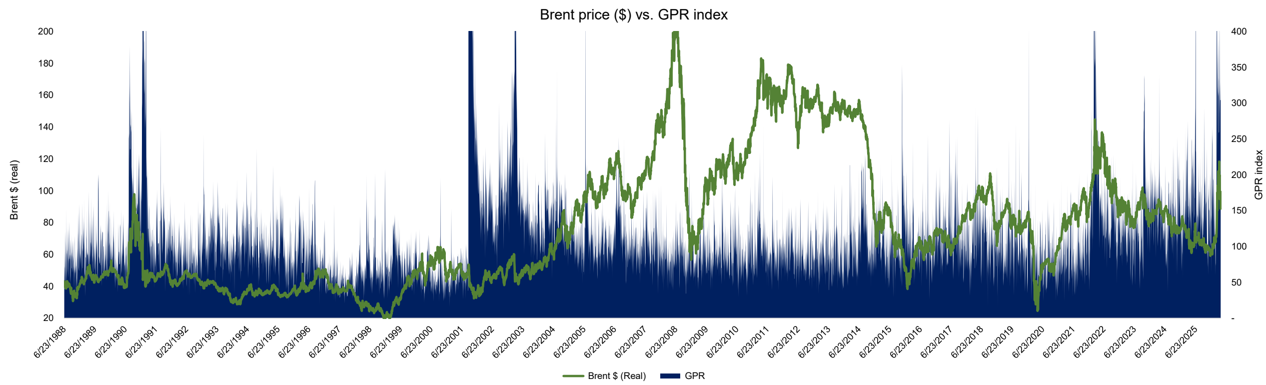
Ranking by *economic impact* — how much a one-standard-deviation move in each variable shifts the predicted Brent price:

1. **Marginal Cost of Production:** a $10 increase in marginal cost raises brent by ~$7.5
2. **Strength of US Dollar:** Every 1 pt. rise in the Dollar Index lowers real Brent by ~$1.3.
3. **OECD Inventory:** Every 100 mln bbl increase in OECD stocks lowers real Brent by ~$4.
4. **GPR (Geopolitical Risk Index):** Positive sign as expected (war and supply disruption fears lift prices). The market prices them in fast and then forgets within ~6 months.
5. **(less significant) Fed Funds Rate**
6. **(less significant) OPEC Spare Capacity:** more spare capacity = higher predicted price

HERE ARE TWO TYPES OF CRISIS IN THE PAST 40 YEARS

GPR can spike for non-oil reasons (9-11 for example) and oil price can spike without a GPR signal (the 2008 spike) but generally oil conflicts drive up both GPR and price, driving supply shocks.

EXHIBIT 2: **GPR can spike for non-oil reasons (9-11 for example) and oil price can spike without a GPR signal (the 2008 spike) but generally oil conflicts drive up both GPR and price, driving supply shocks**

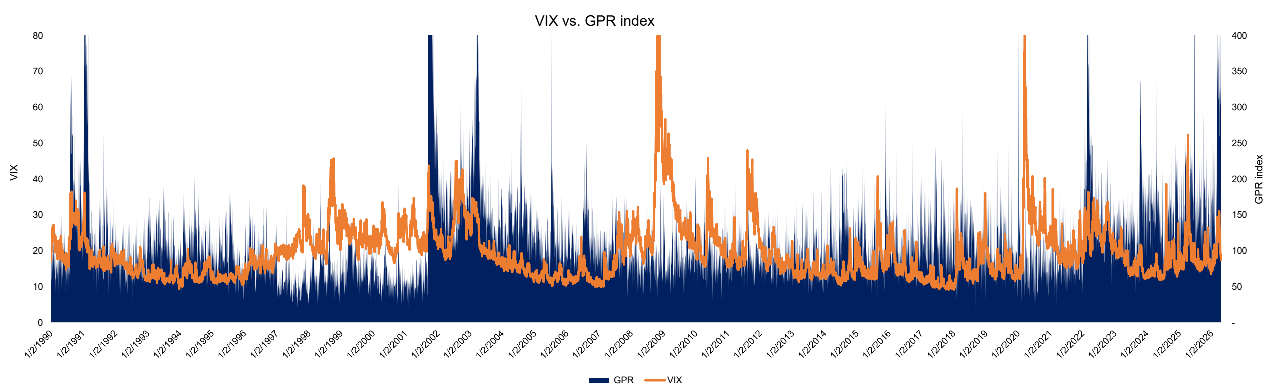


GPX index is over 1050 in Sep 2021

Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

Further, GPR and VIX correlate during supply shocks.

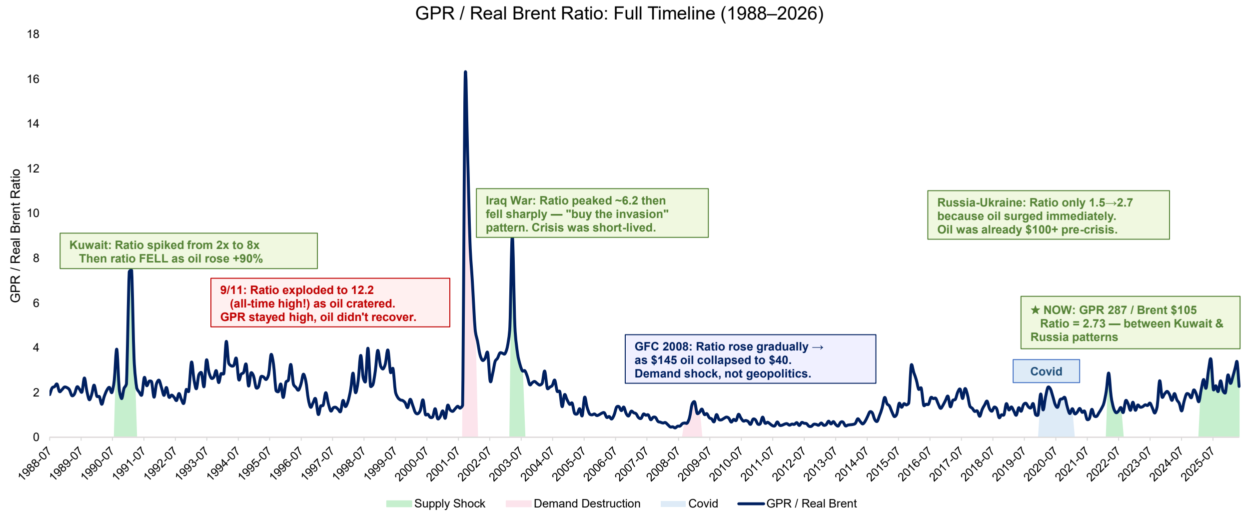
EXHIBIT 3: **GPR and VIX correlate during oil supply shocks**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

This GPR event with a supply shock resembles previous ones (Kuwait invasion, Iraq War, Russia-Ukraine).

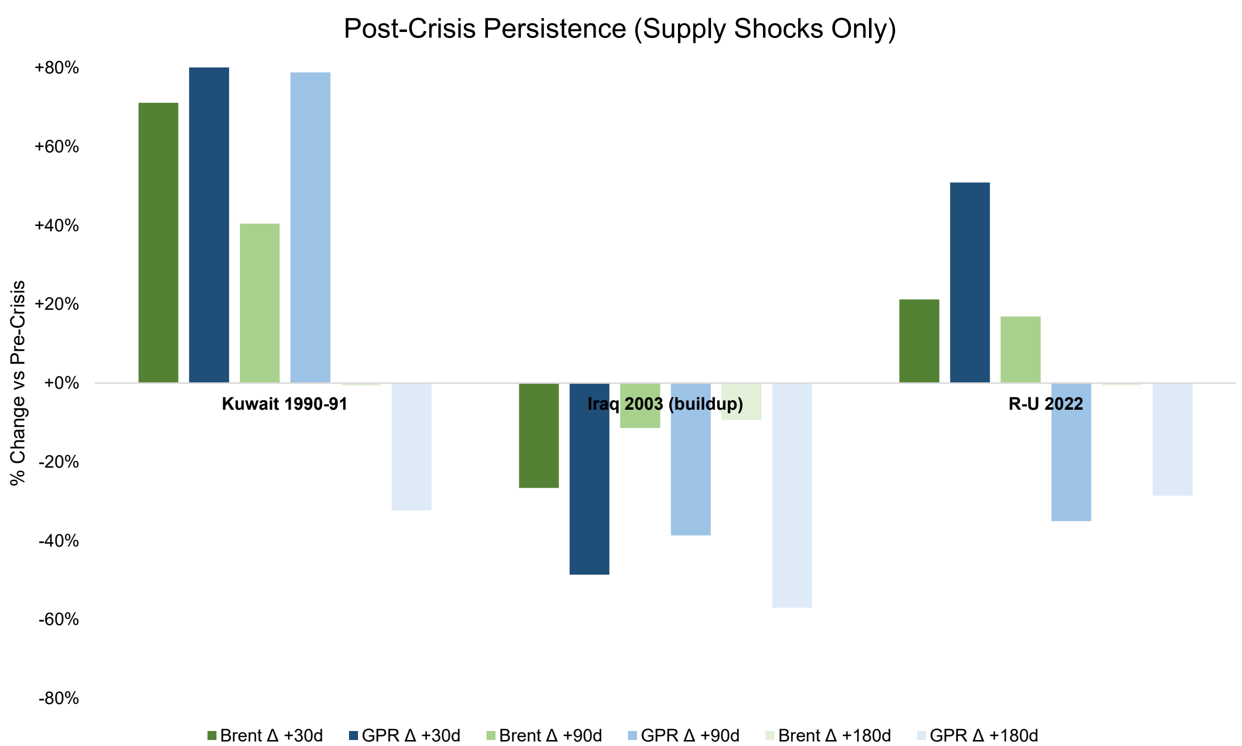
EXHIBIT 4: **This GPR event with a supply shock resembles previous ones (Kuwait invasion, Iraq War, Russia-Ukraine)**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

Interestingly, from the chart below, we find that Brent prices typically flatten about 180 days before the onset of hostilities, which is often roughly two weeks prior to a formal announcement of the conflict.

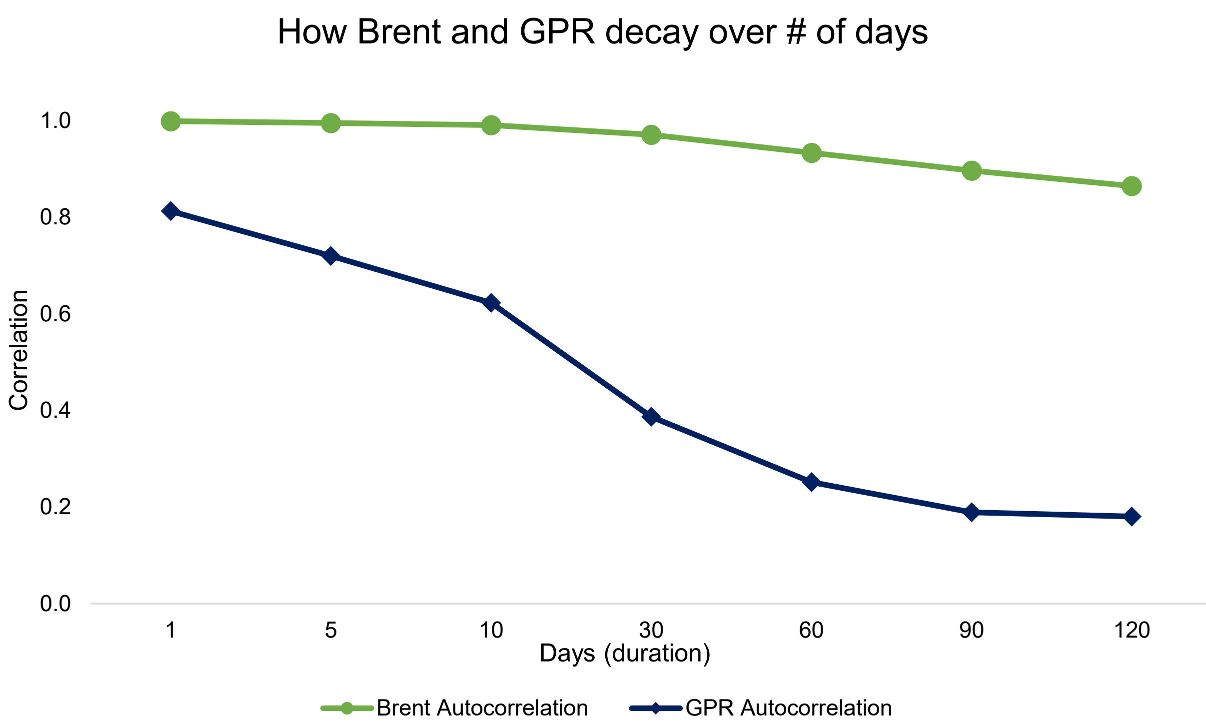
EXHIBIT 5: **Brent prices exhibit greater persistence than the GPR index during past supply shock episodes**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

After one week, GPR declines ~28% while Brent declines 1%. Four months later, Brent still shows 89% of persistent while GPR is almost fully reverted (shown from the blue line below).

EXHIBIT 6: **Brent prices exhibit greater persistence than GPR during each of the time frame (10-day, 30-day, 30-day 60-day, 90-day, 120-day duration)**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

PREVIOUS CASE STUDIES

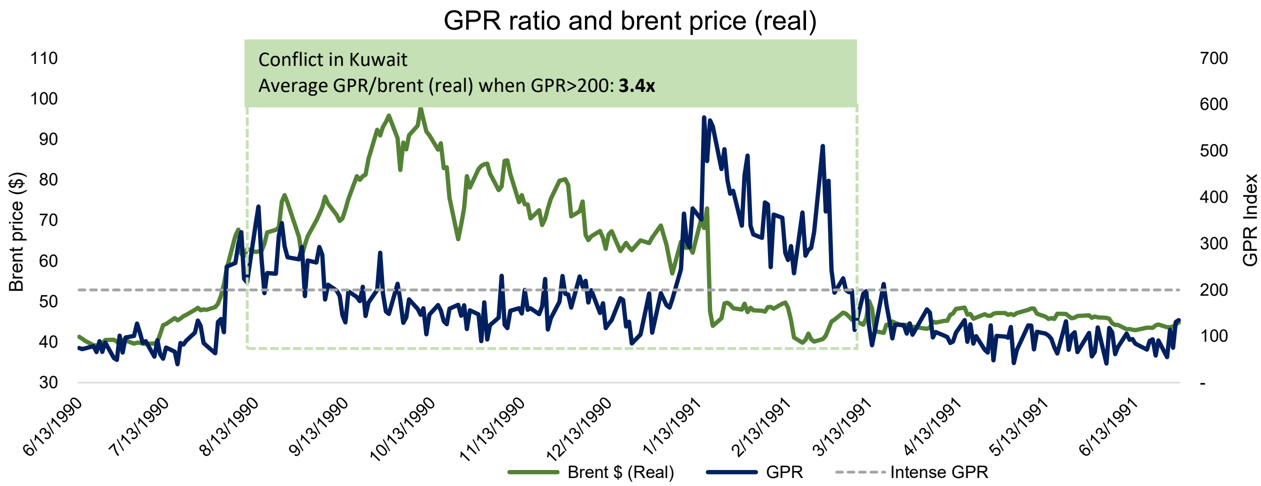
GPR captured headline, so does oil price.

Even in severe supply shocks, the oil price premium quickly catches up to GPR in 5-8 weeks while wars last years.

It took ~50 days for oil to peak in Kuwait war in 1990, and took ~20 days for oil to peak during Russia/Ukraine in 2022.

SUPPLY-SHOCK CASE STUDY #1: KUWAIT CONFLICT IN 1990S

EXHIBIT 7: **Oil peaked roughly 50 days after the Kuwait war began, and then took about 60 days to decline back to pre-war levels.**



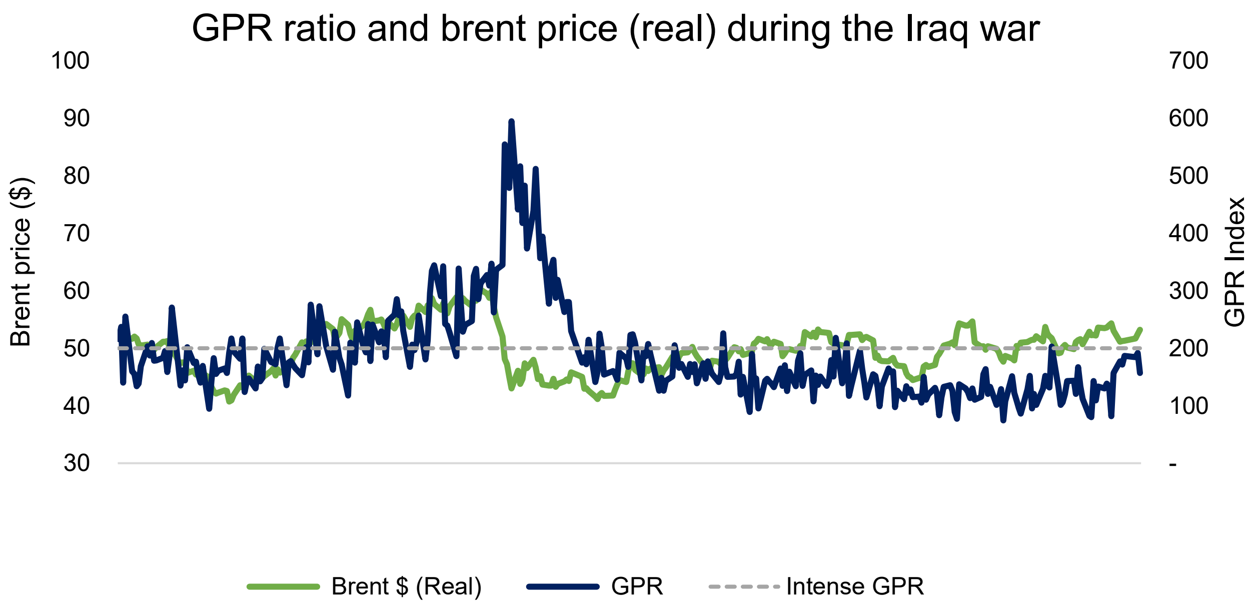
Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

In August 1990, Iraq's invasion and occupation of Kuwait abruptly removed roughly 4.3 mln bod of Iraqi and Kuwaiti exports (~7% of global oil supply at the time) under UN sanctions, triggering a textbook supply shock. Spot prices jumped from about $21/bbl at the end of July to a peak near $46/bbl in two months. Brent prices remained elevated for about six months, while the GPR index fell back below 200 just two months after the initial spike (the charts are showing past brent prices are expressed in today's dollars).

SUPPLY-SHOCK CASE STUDY #2: IRAQ WAR SINCE MARCH 2003

Oil prices began to strengthen once the U.S. signaled its intention to invade Iraq in late 2002, and they remained elevated around the +$50/bbl level even after geopolitical risk indicators declined in mid 2003.

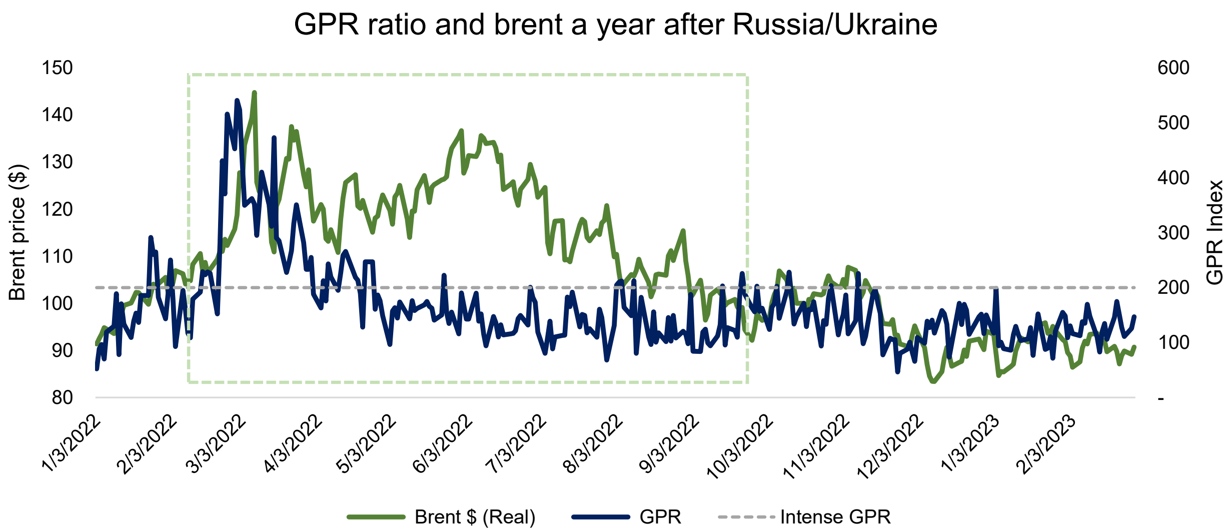
EXHIBIT 8: **While the GPR index has gradually normalized to the 200 level, Brent prices have shown greater stickiness**



SUPPLY-SHOCK CASE STUDY #3: RUSSIA / UKRAINE CONFLICT IN 2022

While the GPR index has gradually normalized to below the 200 level, Brent prices again have shown **greater stickiness** over the first half year of the Russia/Ukraine war.

EXHIBIT 9: **Brent took ~20 days of a GPR spike, then remains elevated for around ~70 days before gradually normalizing back toward pre-war levels, which took another ~90 days**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

Oil price remained elevated for over half a year because

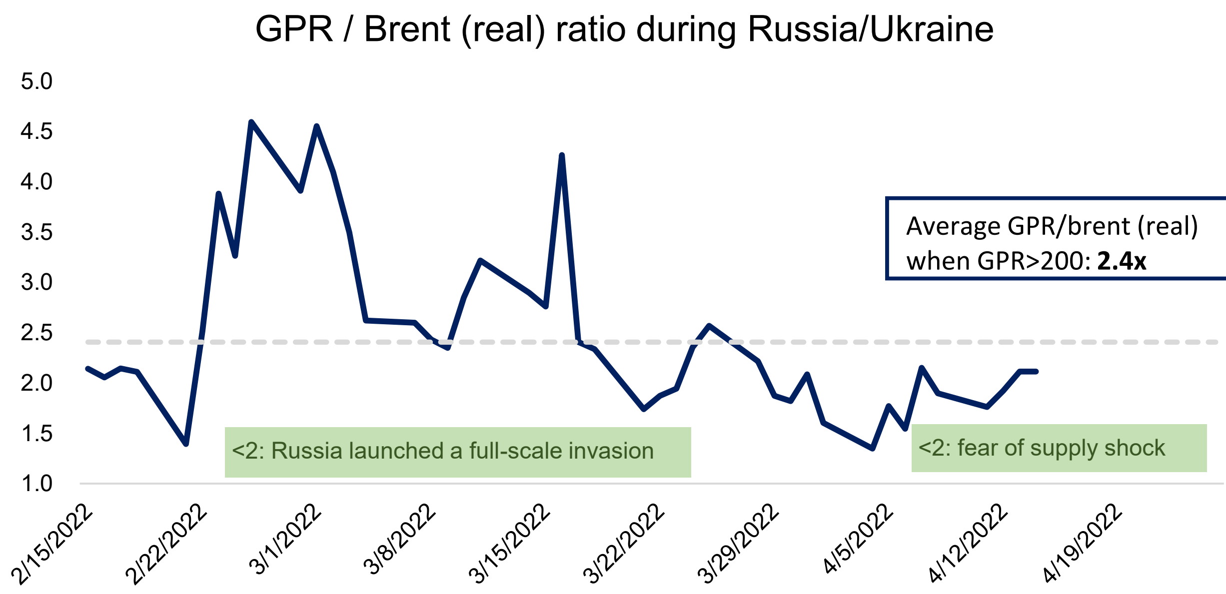
1). Post COVID demand recovery: Global oil demand rebounded from 2020 collapse, catching up with pre-pandemic levels;

2). Sanctions and self sanctioning of Russian crude

3). OPEC+ supply discipline: OPEC+ maintained production cuts even as demand recovered, keeping supply tight

If the market were to price today's crisis (average of GPR intensity of 300) at the same GPR ratio (2.4x) as Russia/Ukraine, **Brent would be ~$122/bbl (~14% more room to grow)** vs. today's $107/bbl.

EXHIBIT 10: **GPR to Brent (real) could compress below 2.0x in an escalation scenario. During the Russia - Ukraine war, the ratio averaged ~2.4x.**



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225., Bloomberg, Bernstein research

We argue if the market were to price today's crisis at the same GPR ratio (3.7x) as Kuwait war in the 1990s, it implies a $90/bbl vs. today's $107/bbl. However, we don't think this $17/bbl gap as the potential downside for following reasons:

1). Kuwait involved a 4.5 mln bod disruption vs. the current Hormuz threat is ~20 mln bod.

2). The market is fundamentally different in scale and depth: Global oil demand was ~66 mln bod in 1990 vs. ~103 mln bod today.

3). Marginal production costs were about 3-4x lower in the 1990s, which created strong incentives for producers to ramp up supply relatively quickly.

4). OPEC+ was fragmented with limited supply discipline.

We believe the current Iran crisis is more significant than the most recent conflict.

COUNTRY-SPECIFIC GPR

We also investigated into country specific GPR index and allocate countries to two groups: energy importers (EU, China etc) and exporters (Saudi, Russia etc). Supply-shock event is shown by the spike of energy exporters GPR index while the demand-shock event is shown by those of energy importers. **If both importers and exporters register large moves in the GPR index, it signals a more material shock and usually implies a longer-lasting impact.**

During the Russia/Ukraine conflict: The world's largest economies and energy importers (US, India, South Korea, Japan) were relatively calm. OPEC's GPR actually fell during Russia/Ukraine, because Saudi benefited from high oil prices and geopolitical leverage (and perhaps less media attention).

Overall, we found relatively little deep signal by investigating country-specific GPR.

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