

## Alley Company Quarterly Letter Oil and War

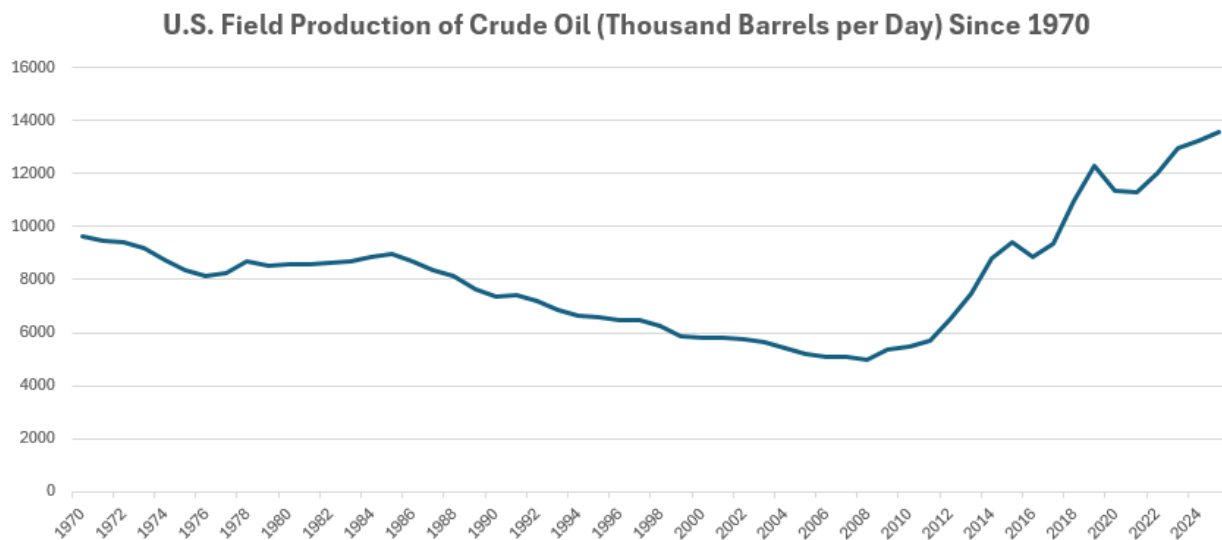
April 15, 2026

At the end of February, the United States and Israel initiated war with Iran through joint military strikes. Iran responded by effectively blockading the Strait of Hormuz and disrupted the transport of one-fifth of the world's oil and natural gas supply.

Generally, the impact of geopolitical crises on stock markets is short-lived, though, crises that interfere with energy markets can have a more lasting impact. Two factors brace our economy for the current conflict: the United States' lower energy dependence relative to its history, and the country's sound economic footing.

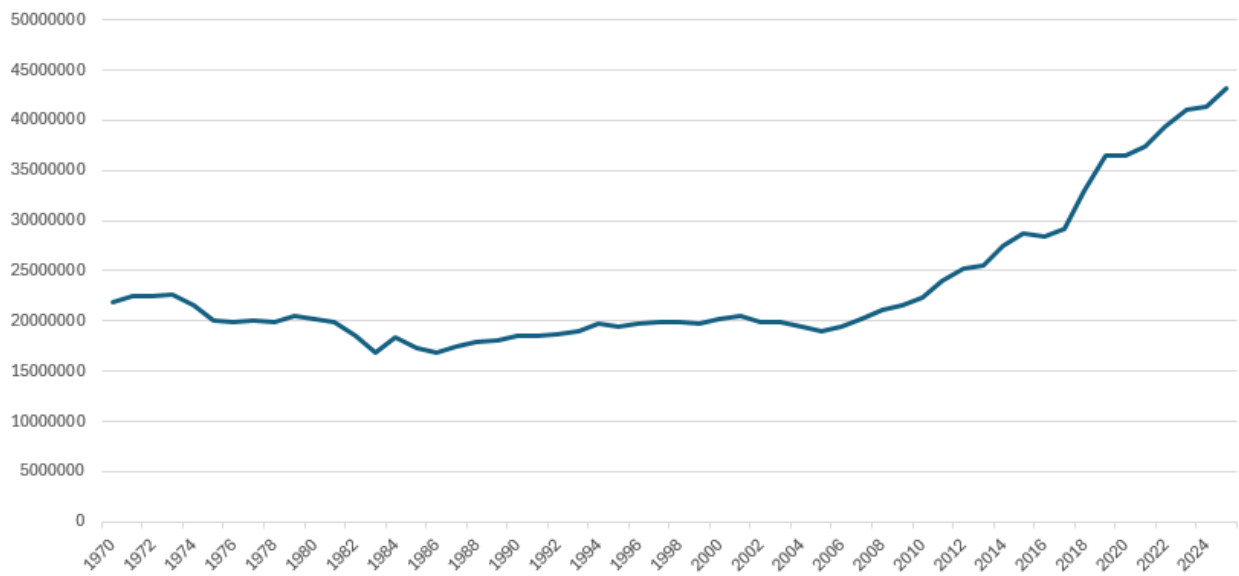
### American Ingenuity and The Shale Revolution

In the 1970s, U.S. oil production faced a steady decline and the specter of "Peak Oil" (i.e., the point at which global oil production hits its maximum level and begins an irreversible decline) permeated energy markets. However, innovation within the oil industry beat back this threat as decades of experimentation led to breakthroughs around the turn of the century. In the early 2000s, energy companies began in earnest to combine hydraulic fracturing with horizontal drilling into shale rock formations. This advancement laid the groundwork for reversing the decline in U.S. oil production and simultaneously driving a tremendous spike in U.S. production of natural gas, as the two charts below depict.



Source: U.S. Energy Information Administration

### U.S. Natural Gas Marketed Production (Million Cubic Feet) Since 1970

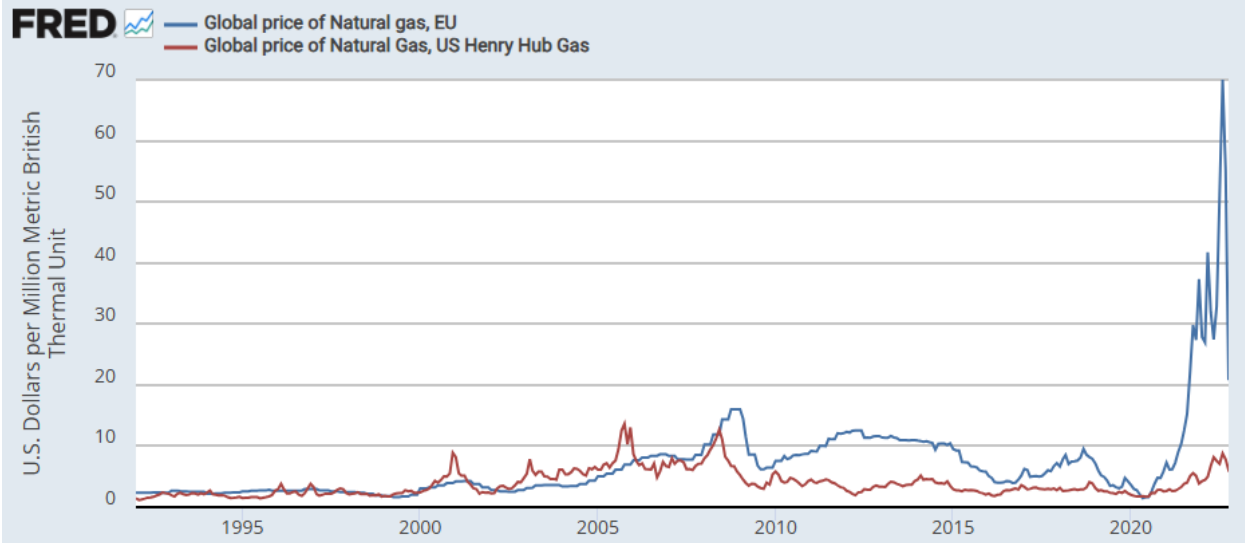


Source: U.S. Energy Information Administration

The shale revolution catapulted the U.S. to the position of the world’s top producer of oil and natural gas. This status brought about many benefits, including domestic job creation and consumer cost savings. Most salient today is the reduced dependence on foreign oil and, to a greater extent, natural gas.

To be clear, reduced dependence on foreign oil does not equate to U.S. immunity from global oil supply disruptions. The oil produced domestically is a commodity that trades on a global stage. So, if prices around the world surge, prices in the U.S. surge as well. This results in higher prices at the pump and elevated input prices for those manufacturing and production processes that rely on oil.

Conversely, increased U.S. production of natural gas has translated to relatively lower domestic natural gas prices and more insulation on this front. Dating back to the early 1990s, the below chart shows the price of natural gas in the European Union (blue line) and the United States (red line). Prices between the two regions were fairly tight through 2008, after which, ramping U.S. supply drove the price down compared to the EU. The 2022 Russian invasion of Ukraine unleashed an even starker contrast, when the EU price of natural gas touched \$70 per million metric British thermal units (MMBtu) while U.S. natural gas remained below \$10 per MMBtu. Though, the latter’s exposure to global natural gas markets still led to a rise in price.



Source: Federal Reserve Economic Data St. Louis Fed

As the above analysis suggests, increased production of U.S. oil and natural gas supply has led to greater independence for the U.S. relative to historical periods. In addition to this key distinction, several factors leading into the start of the Iran war pointed to the country's economic strength. Corporate earnings have been strong, consumer spending has exhibited resilience (and should be further boosted by higher expected tax refunds from the One Big Beautiful Bill Act), and artificial intelligence-related investment spending should continue to flow through the economy.

Predicting the path a war will take is a futile endeavor. But, American innovation has better positioned our country compared to prior energy-disruptive conflicts, and a solid starting point further girds the U.S. economy.

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