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Monthly Insights: May Outlook
Energy Sector

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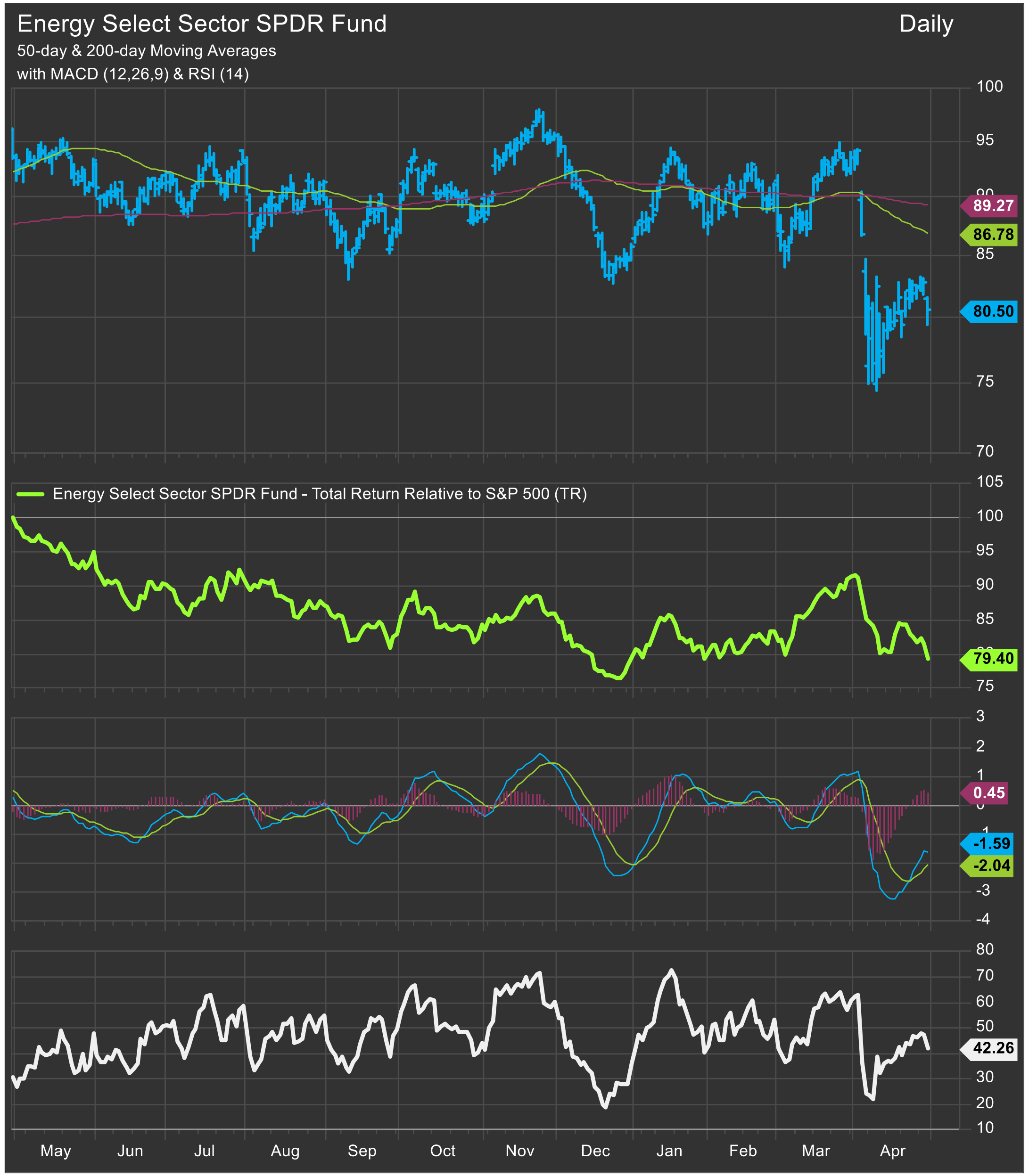
Sector Price Action & Performance Review: Energy



The Energy Sector ran into a buzz-saw in April as the Crude price crashed through long-term support in the mid $60's. This was accompanied by a >20% peak-to-trough decline in the XLE SPDR price with global trade tensions breaking against domestic energy producers in the near-term.

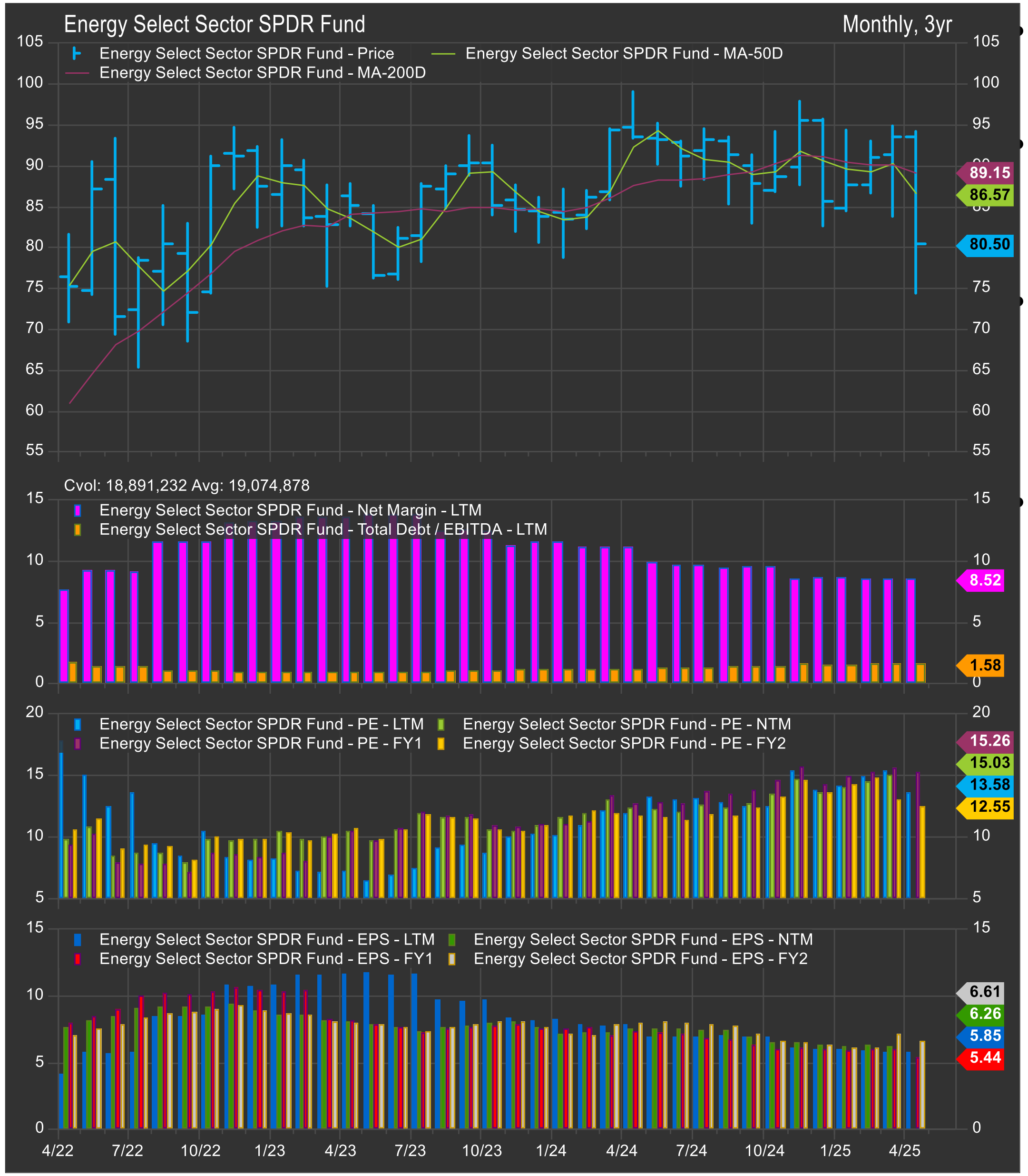
The only dynamic in the sector's favor at present is deeply oversold conditions and washed out breadth set up the potential for bullish rotation on any marginal improvement in outlook.

At the industry level, Equipment & Services names have broken to new 6-month lows vs. the S&P 500. Midstream operating companies are a bullish standout in the sector offering high dividend payouts.

We've kept a toe-hold in the sector after being long and wrong in April due to prevailing oversold conditions on the crude chart and among Energy sector constituents.

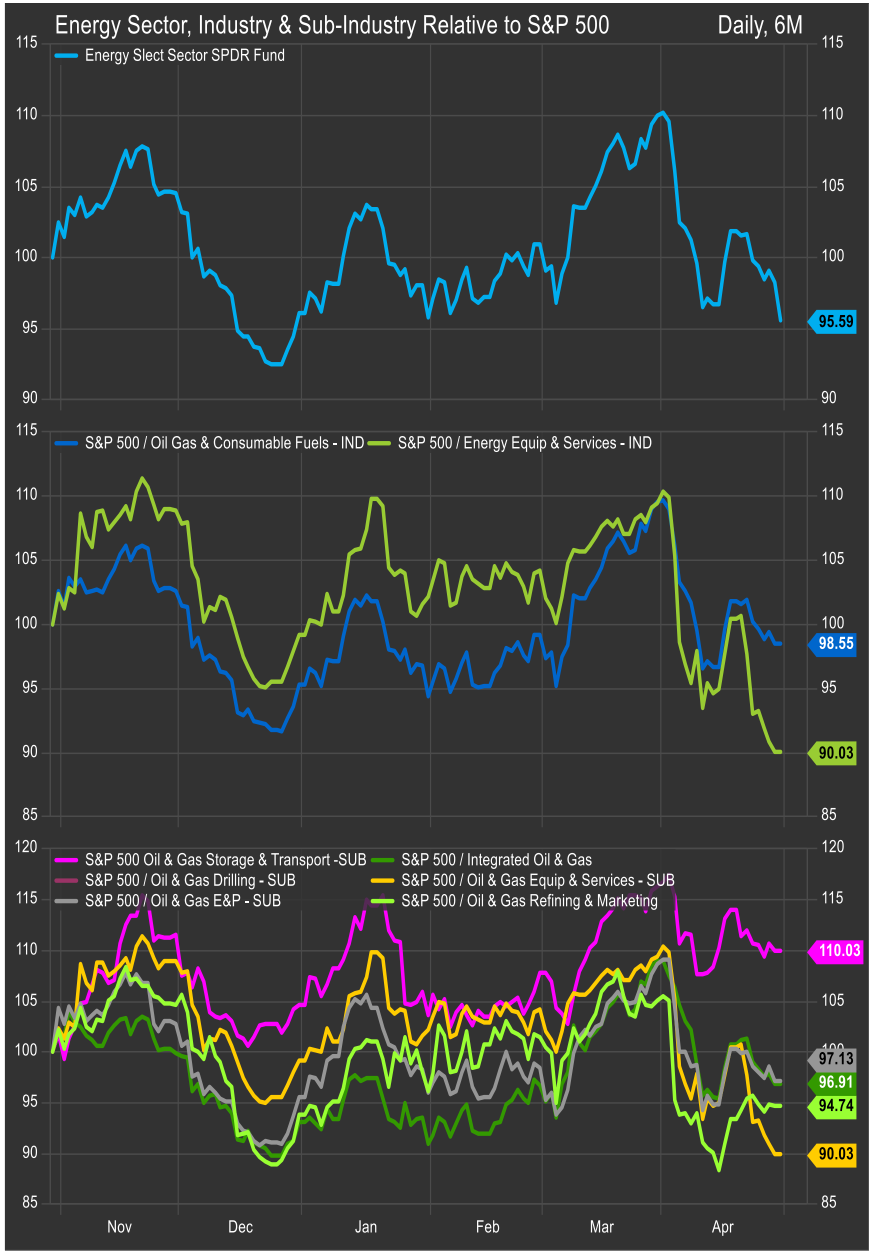
We start May with an OVERWEIGHT allocation to the Energy Sector of +0.84% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

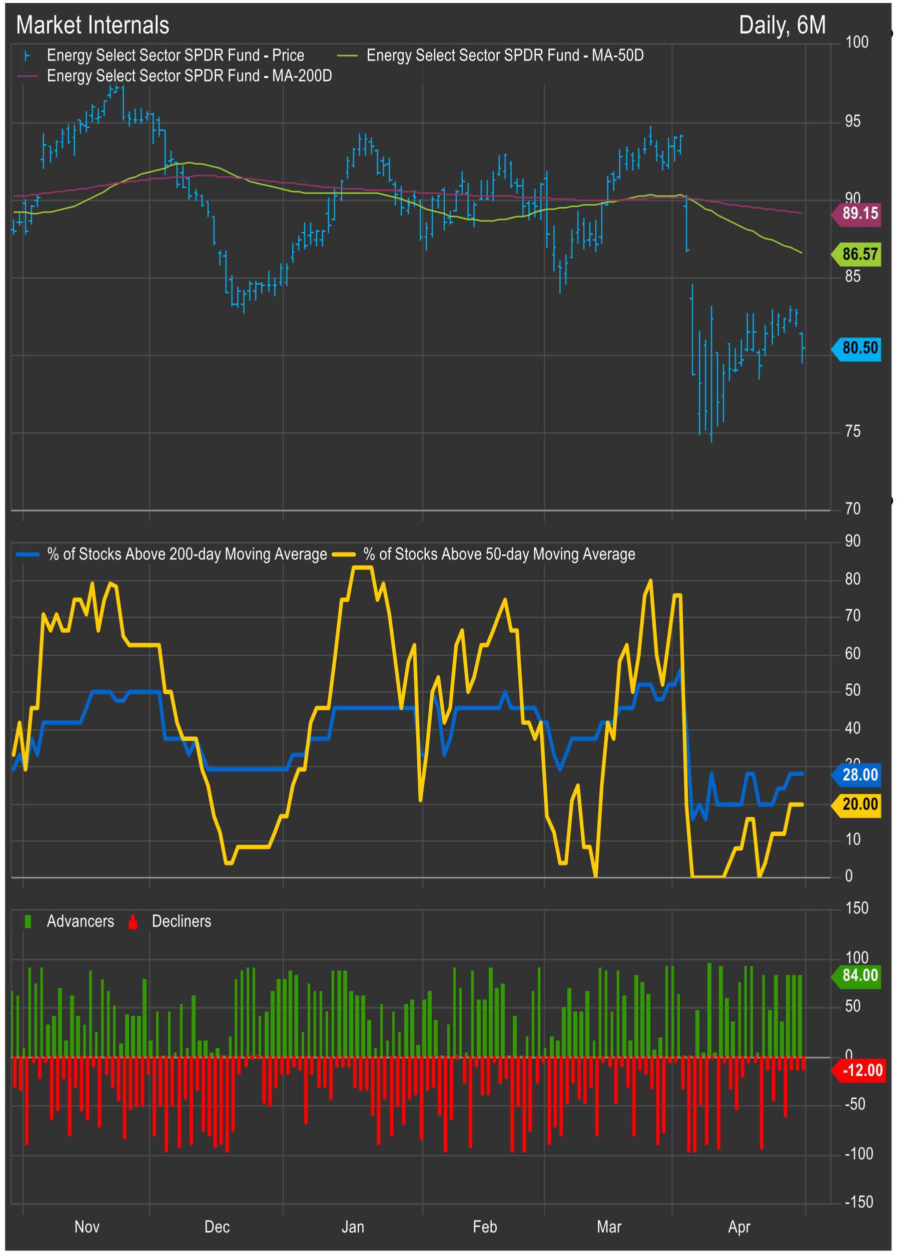
Fundamentals: Energy Sector



- The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings
- The second half of 2024 saw net margins contract for the sector while debt burden relative to EBITDA ticked higher (chart, panel 2).
- Valuation (chart, panel 3) troughed in the middle of 2023 while earnings peaked around the same time. With equities correcting, the sector's low relative valuation vs. the S&P 500 is likely an asset.
- Consensus EPS estimates for the next two unreported years show a recent uptick from recent guidance which relieves valuation concerns for the time being.

Industry/Sub-Industry Performance and Breadth: Energy





- **Energy Industries** (chart, left): March saw bullish recognition for the sector as all industries within outperformed the S&P 500. Outperformance from integrated Oil & Gas Majors XOM and CVX were a driver of outperformance as only one stock in the sector lagged during March
- **Energy Sector Internals** (chart, right): Instead of building on March's strength, Energy Sector internals collapsed all over again

Top 10/Bottom 10 Stock Level Performers: Energy

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	1-Month Excess Return vs. BMK	Near-term OB/OS
TPL	Texas Pacific Land Corporation	Uptrend	30,576.4		36.6	0.3	2.2	
WMB	Williams Companies, Inc.	Uptrend	72,838.3	1.09	23.1	2.2	1.1	
EXE	Expand Energy Corporation	Bullish Reversal	25,008.3	0.48	17.7	1.3	-2.9	
EQT	EQT Corporation	Bullish Reversal	30,661.6	0.55	22.6	0.8	-3.1	
MPC	Marathon Petroleum Corporation	Consolidation	43,087.9	0.66	-8.3	1.8	-3.7	
KMI	Kinder Morgan Inc Class P	Uptrend	60,462.5	0.84	17.2	2.9	-3.8	
XOM	Exxon Mobil Corporation	Bullish Reversal	468,688.8	0.61	-2.4	2.4	-7.7	
TRGP	Targa Resources Corp.	Consolidation	38,754.1	0.83	11.8	1.5	-9.7	
EOG	EOG Resources, Inc.	Support	62,285.9	0.45	-7.7	2.3	-9.7	
COP	ConocoPhillips	Consolidation	116,151.5	0.52	-10.8	2.3	-10.0	
OKE	ONEOK, Inc.	Support	54,879.3	0.62	-2.5	3.1	-10.5	
CTRA	Coterra Energy Inc.	Bullish Reversal	19,492.1	0.34	0.3	2.3	-10.6	
VLO	Valero Energy Corporation	Consolidation	36,181.6	0.59	-13.3	2.6	-11.9	
PSX	Phillips 66	Downtrend	43,188.3	0.67	-13.6	2.9	-12.7	NT OVERSOLD
FANG	Diamondback Energy, Inc.	Downtrend	40,186.4	0.40	-20.0	2.0	-13.0	
DVN	Devon Energy Corporation	Consolidation	20,136.2	0.30	-17.2	2.2	-14.6	
CVX	Chevron Corporation	Retracement	243,318.0	0.63	-6.8	3.3	-15.9	
HES	Hess Corporation	Consolidation	40,995.9	0.73	-6.1	1.0	-16.1	
BKR	Baker Hughes Company Class A	Retracement	35,587.7	0.58	-3.4	1.7	-16.3	NT OVERSOLD
OXY	Occidental Petroleum Corporation	Downtrend	37,920.2	0.59	-20.4	1.5	-17.1	
HAL	Halliburton Company	Downtrend	17,632.8	0.33	-25.4	2.2	-17.9	NT OVERSOLD
SLB	Schlumberger Limited	Downtrend	46,395.1	0.42	-16.4	2.2	-18.3	NT OVERSOLD
APA	APA Corporation	Downtrend	5,912.4	0.24	-29.9	4.1	-20.9	NT OVERSOLD

The S&P 500 has shrunk over the cycle to include only 23 companies…so we're looking at the entire group in our top 10/bottom 10

In a recurring theme, momentum names were back on top in April while negative MO names resumed their laggard ways

We downgraded Equipment & Services stocks this month and continue to like MLP's and other midstream exposures at the stock level

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Energy Sector

1. Oil Prices & Supply-Demand Imbalance: Macro Weakness Undercuts Geopolitical Premium

Crude prices fluctuated sharply in April. WTI crude closed the month near $60/barrel after peaking in the high $60s earlier. This drop occurred despite:

Persistent geopolitical tension (e.g., U.S.-Iran standoff, Russia-Ukraine conflict).

Talks of accelerated OPEC+ production cuts in early April.

However, the **market discounted geopolitical risks** due to:

Reports that **U.S. crude inventories unexpectedly built** due to rising imports (EIA, April 24).

Fears of **demand erosion in Asia** as trade war escalated.

Slower air travel recovery amid weak guidance from airlines like AAL and LUV.

Analysts began warning that **tariff-induced slowdowns in manufacturing and global trade** could weigh on oil demand into the second half of 2025, reversing the post-COVID demand normalization trend.

Implication: Despite a favorable supply backdrop, the **demand side is weakening**, with oil prices falling as investors shift focus from war-driven premium to deteriorating fundamentals.

2. Trade War & Tariff Impacts: Sector Faces Crossfire on Cost and Demand

April brought a wave of negative developments on the trade front for the Energy sector:

Baker Hughes estimated tariffs would cause a **$100–$200 million hit to 2025 earnings** (Axios, Apr 22).

China cancelled pork shipments from the U.S., highlighting broader agricultural and energy retaliatory risks.

Reports surfaced that **Chinese ports saw a sharp drop in ship traffic**, impacting LNG flows.

Moreover, **tariffs on steel, aluminum, and energy equipment** remained in force or were expanded, increasing input costs for U.S. producers and pipeline operators.

Implication: The Energy sector is caught in both ends of the trade war — facing **rising equipment and infrastructure costs** and a potential **slowdown in export demand** for U.S. LNG, refined products, and crude.

4. Regulatory & Policy Environment: Mixed Messages, Rising Uncertainty

The **White House signaled openness to targeted tariff relief**, but **tariffs on energy equipment remained untouched** as of late April.

Energy CEO commentary noted concern about **lack of regulatory clarity**, especially around clean energy tax credits and emissions compliance rules.

Whirlpool's CEO publicly supported tariffs, suggesting they level the playing field — but such protectionist policy **adds cost volatility** for energy firms tied to global materials markets.

Meanwhile, **Fed Governor Waller** and others noted **tariff impacts may begin appearing in employment and price data by Q3**, a concern for the labor- and capital-intensive energy sector.

Implication: Policy remains a wild card. While Republicans talk up energy independence, **protectionist measures are increasing cost risks**, and global retaliation threatens future export growth.

5. Capital Spending Trends & M&A: Discipline Reigns as Visibility Weakens

Across oil & gas and clean energy, April saw further reinforcement of:

Disciplined capex amid uncertain price signals.

A **shift toward optimization rather than expansion**, especially for U.S. shale producers.

Delayed or deferred capital investments in **refining, LNG terminals**, and **renewables** due to regulatory ambiguity and rising costs.

While a few infrastructure projects were greenlit earlier in the year, **April commentary focused more on capital preservation**, debt reduction, and select share buybacks (e.g., **LVS, URI** in other sectors, signaling broader capital allocation conservatism).

Implication: No meaningful reacceleration in energy capex likely without clearer macro or policy signals. Focus remains on **margin defense, FCF, and debt metrics**.

6. Broader Market & Macro Themes: Weak Credit Indicators & Lower Sentiment

The April **University of Michigan Consumer Sentiment** fell to **the lowest level since 2022**, with inflation expectations ticking up.

Credit card delinquencies rose modestly, and **auto loan stress** increased — both potential drags on gasoline demand.

Market sentiment flagged **weakening consumer fuel consumption**, especially among low-income households.

Fed policy entered a quiet period ahead of the May FOMC meeting, but **Trump continued to criticize Powell**, raising fears about **Fed independence**, which affects rates and investor confidence.

Implication: The Energy sector, especially downstream players, faces **a softer consumer**, **tighter financial conditions**, and a fragile macro backdrop — all weighing on near-term pricing power.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.1

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.3

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.4

Plus

12-month Excess Total Return (vs. S&P 500) * 0.2

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.