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Monthly Insights: June Outlook

# Energy Sector

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## Sector Price Action & Performance Review: Energy



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The Energy Sector continued to underperform in May, making fresh 52-wk relative lows vs. the Index

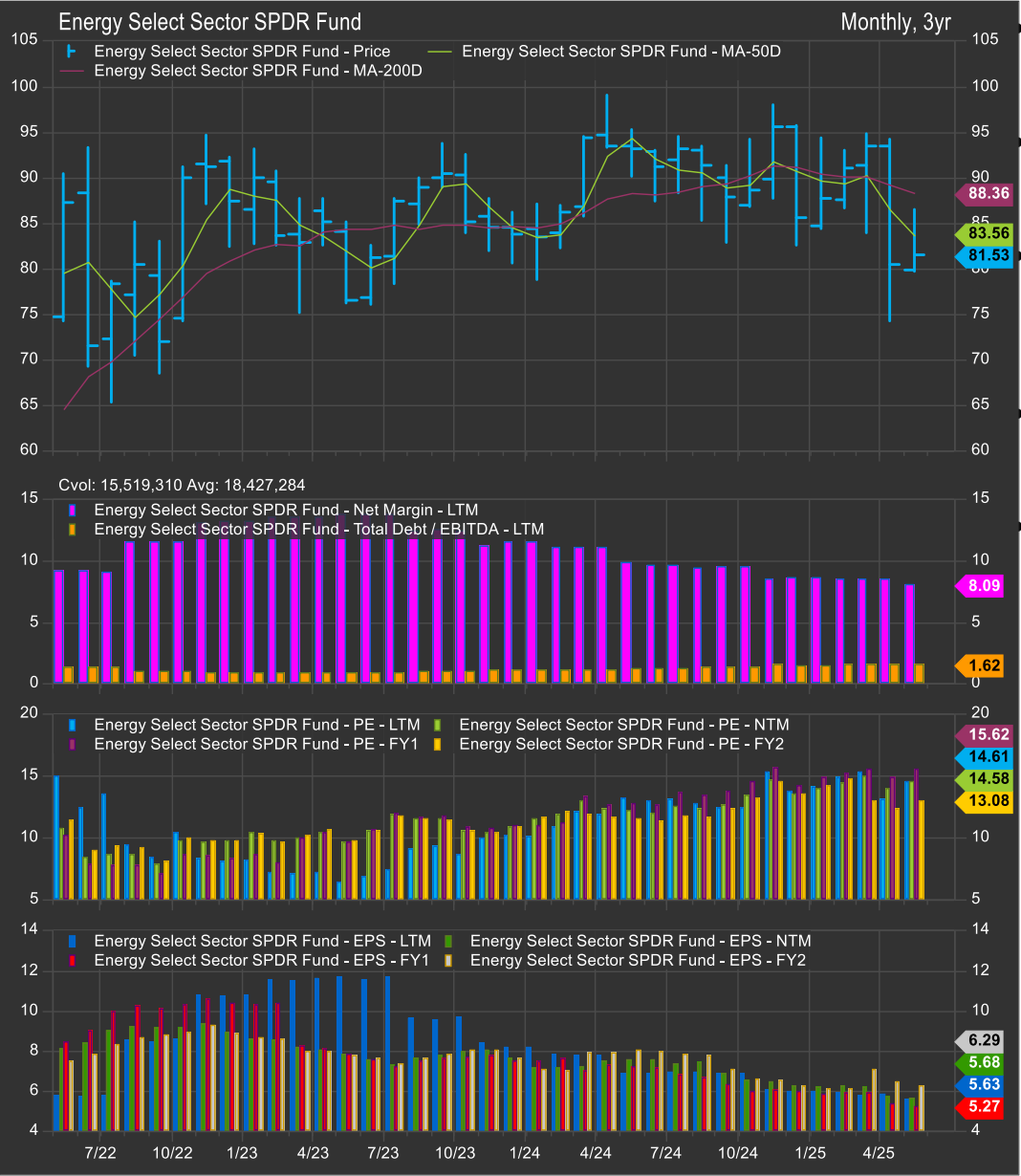
The only dynamic in the sector's favor at present is that forward expectations couldn't be much lower despite continued tension in the Middle East and between the US, China and Russia. OPEC production increases and the modal shift to EV also remain as secular headwinds to the sector.

At the industry level, Equipment & Services names have broken to new 6-month lows vs. the S&P 500. Midstream operating companies have begun to disaggregate as a performance bloc with some higher dividend names correcting significantly

We continue to keep a toehold in the sector because it is deeply oversold and unloved on a structural level. In our stock level work the Materials sector is just as weak reflecting uncertainty over global growth, profitability and access to credit. With this context we view adding exposure here as a contrarian play and a hedge to our overall portfolio positioning which has a Growth tilt for June.

We start June with an **OVERWEIGHT** allocation to the Energy Sector of **+0.5%** 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

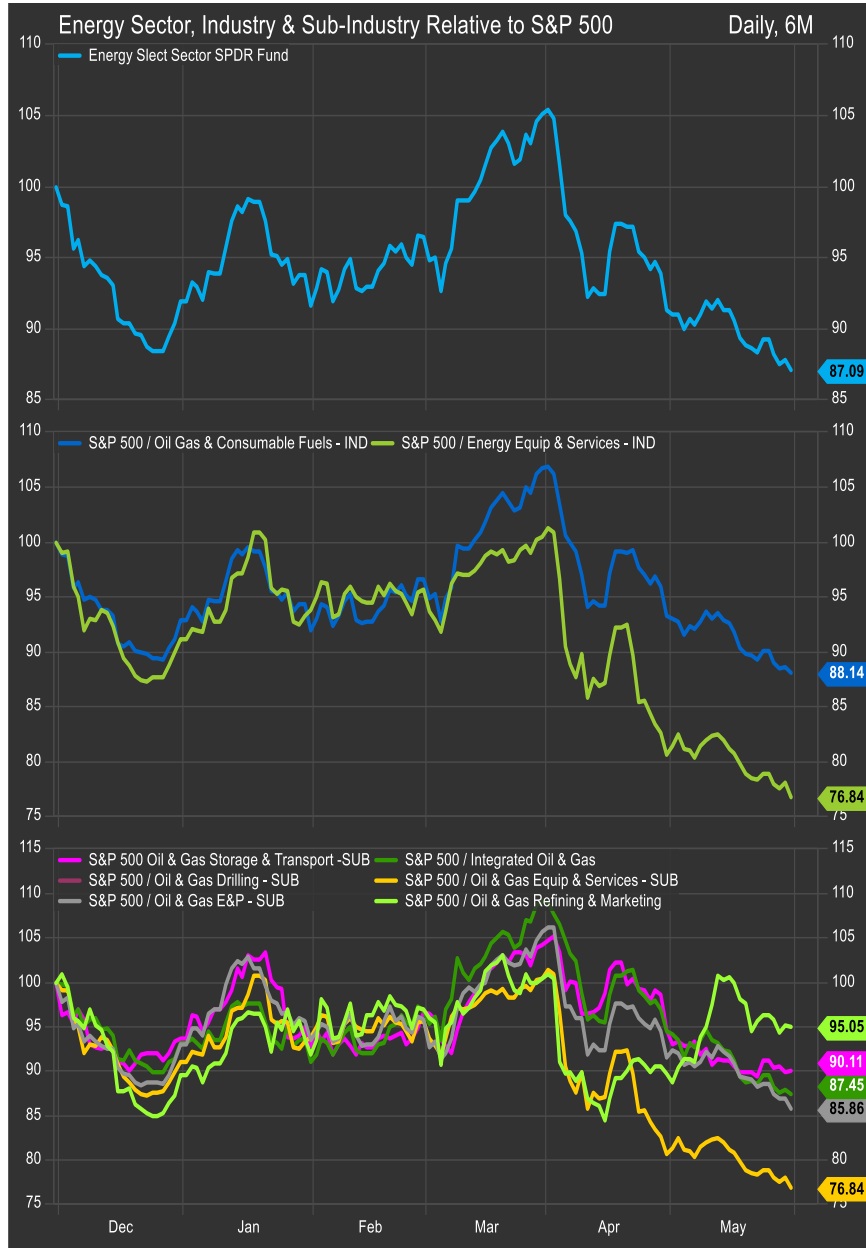
Margins continue to contract for the sector while debt burden relative to EBITDA ticked higher (chart, panel 2).

Valuation (chart, panel 3) troughed in the middle of 2023 while earnings peaked around the same time. The sector's low relative valuation vs. the S&P 500 is likely an asset.

Consensus forward EPS estimates project negatively over the next twelve months

The best that can be said for the sector is that it is unloved and very under-owned

# Industry/Sub-Industry Performance and Breadth: Energy



## Energy Industries (chart, left):

The sector has traded to YTD relative lows vs. the S&P 500 coincident with Crude trading to fresh cycle lows in May

Oil & Gas Refining was the lone relative gainer at the sub-industry level within the sector

**Energy Sector Internals** (chart, right): Energy sector internals aren't showing us anything better than the price action as we're seeing what looks like a "dead cat" bounce and less than a 3<sup>rd</sup> of the sector's stocks above their 50-day moving average despite a reflating S&P 500

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	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
MPC	Marathon Petroleum Corporation	Consolidation	49,129.6	0.68	1.4	1.5	0.91	9.8
VLO	Valero Energy Corporation	Consolidation	40,453.7	0.65	-6.6	2.3	0.96	6.3
PSX	Phillips 66	Consolidation	46,724.9	0.67	-12.9	2.8	1.20	2.8
EQT	EQT Corporation	Bullish Reversal	33,145.9	0.55	19.3	0.8	1.06	2.0
EXE	Expand Energy Corporation	Bullish Reversal	27,529.5	0.48	17.4	1.3	0.56	1.7
APA	APA Corporation	Downtrend	6,257.1	0.24	-22.7	3.9	0.89	0.3
BKR	Baker Hughes Company Class A	Support	37,014.4	0.60	-8.7	1.6	1.14	-1.8
KMI	Kinder Morgan Inc Class P	Uptrend	62,040.2	0.86	10.2	2.8	0.89	-2.7
OXY	Occidental Petroleum Corporation	Downtrend	40,802.1	0.60	-20.0	1.5	0.71	-3.7
FANG	Diamondback Energy, Inc.	Support	40,263.7	0.41	-20.2	1.9	0.89	-4.9
WMB	Williams Companies, Inc.	Uptrend	73,590.1	1.07	11.9	2.2	1.04	-5.5
HES	Hess Corporation	Support	41,324.8	0.78	-10.9	1.0	0.81	-5.6
CVX	Chevron Corporation	Support	240,845.2	0.65	-13.1	3.3	0.90	-6.2
DVN	Devon Energy Corporation	Consolidation	19,975.7	0.31	-20.0	2.2	1.06	-7.1
SLB	Schlumberger Limited	Downtrend	45,810.2	0.42	-22.4	2.3	1.14	-7.7
HAL	Halliburton Company	Downtrend	17,263.1	0.32	-32.9	2.3	1.18	-8.6
CTRA	Coterra Energy Inc.	Support	18,875.4	0.34	-8.7	2.4	1.08	-8.7
EOG	EOG Resources, Inc.	Support	59,971.1	0.45	-14.7	2.4	0.84	-9.2
XOM	Exxon Mobil Corporation	Support	442,556.9	0.59	-11.1	2.6	0.70	-10.8
COP	ConocoPhillips	Downtrend	108,062.3	0.52	-19.8	2.5	0.67	-12.5
OKE	ONEOK, Inc.	Support	50,395.4	0.57	-18.7	3.4	1.20	-13.5
TPL	Texas Pacific Land Corporation	Consolidation	27,546.4		1.3	0.4	1.08	-16.4
TRGP	Targa Resources Corp.	Retracement	34,381.5	0.77	-10.6	1.7	1.29	-17.0

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

Refiners (MPC, VLO, PSX) were notable leaders in May and typically lead the group during periods of economic expansion...we would need to see more to upgrade the stocks, but their outperformance supports the “risk on” message.

TRGP and TPL are two names in longer-term bull trends that have retraced with the former downgraded in our work this month

Metrics:

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

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

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. OPEC+ Policy and Crude Oil Prices

OPEC+ production signals were a major driver of price action.

Early in May, oil prices were under pressure after OPEC+ was reported to be considering a third consecutive production increase starting in July.

However, geopolitical risks—including wildfires in Alberta’s oil sands region threatening ~4% of Canada’s output—added temporary support.

Crude inventories in the U.S. declined by 2.8 million barrels in the week ending May 23, but this failed to meaningfully support WTI prices due to weak demand signals globally.

Price action:

WTI crude fluctuated in the \$57-\$63 per barrel range, ultimately finishing the month slightly lower.

Refiners in China boosted exports due to tepid domestic demand, compounding oversupply concerns.

## 2. Geopolitical Developments

Middle East tensions and China trade negotiations remained key wildcards:

Israeli strikes in Gaza escalated geopolitical risk in the region. However, there was no significant disruption to oil production in the Middle East, so market impact was limited.

Trump’s warning to Israeli Prime Minister Netanyahu against striking Iran hinted at high-stakes diplomacy, which has historically been a volatility catalyst for energy markets.

On the U.S.-China front, trade talks were described as “a bit stalled,” and the lack of progress poses risks to energy exports and broader global energy demand.

US–EU trade talks gained attention, but also included contentious issues like tariffs and digital services taxes. These tensions create uncertainty for multinational energy companies with operations or demand exposure abroad.

## 3. Trade and Regulatory Policy

Tariff developments added another layer of volatility for the energy sector:

The U.S. Court of International Trade struck down Trump-era tariffs under the International Emergency Economic Powers Act (IEEPA), including tariffs that could affect energy equipment imports.

However, a federal appeals court stayed the ruling, meaning the tariffs remain in place for now.

The White House has reportedly begun exploring alternative legal authorizations (Section 301

and Section 122), creating a cloud of uncertainty around input costs for infrastructure-heavy energy companies.

Non-tariff barriers also came into focus:

Section 899 of the U.S. reconciliation bill proposes raising taxes on individuals and corporations from countries with “discriminatory” tax systems, including those with digital services taxes. While this isn’t energy-specific, it could affect trade negotiations and foreign investment in energy infrastructure.

## 4. Economic Data and U.S. Energy Demand

Demand signals were mixed:

Q1 GDP was revised higher, but consumer spending slowed, and April pending home sales declined 6.3%, a sign of housing weakness and potentially softer electricity and fuel demand from construction and residential sectors.

April’s core PCE inflation came in at just 0.1% m/m, giving the Fed cover to keep rates steady, but still above the target on a y/y basis.

Initial jobless claims rose, and continuing claims hit their highest level since November 2021, suggesting potential near-term weakness in labor-driven demand.

U.S. monetary policy remained in focus:

FOMC minutes reiterated a cautious stance, emphasizing the tradeoff between controlling inflation and avoiding excessive weakness in the labor market.

Treasury yields initially surged (10-year back above 4.5%, 30-year above 5%) before easing later in the month. Volatility in rates influenced energy stock valuations, which are often sensitive to discount rate changes.

## 5. Alternative & Renewable Energy Themes

Investor and regulatory focus on clean energy remained high:

Utilities and energy sub-industries tied to renewables and grid infrastructure showed resilience amid the broader energy sector’s volatility.

Several firms highlighted growing structural demand for AI-powered energy efficiency and smart grid development, as noted in tech and enterprise earnings commentary.

However, adoption headwinds in EV markets continued, as companies like Hyundai signaled potential U.S. vehicle price hikes to absorb tariff impacts, and Alfa Romeo considered delaying EV launches.

# 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.