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Monthly Insights: August Outlook

Energy Sector

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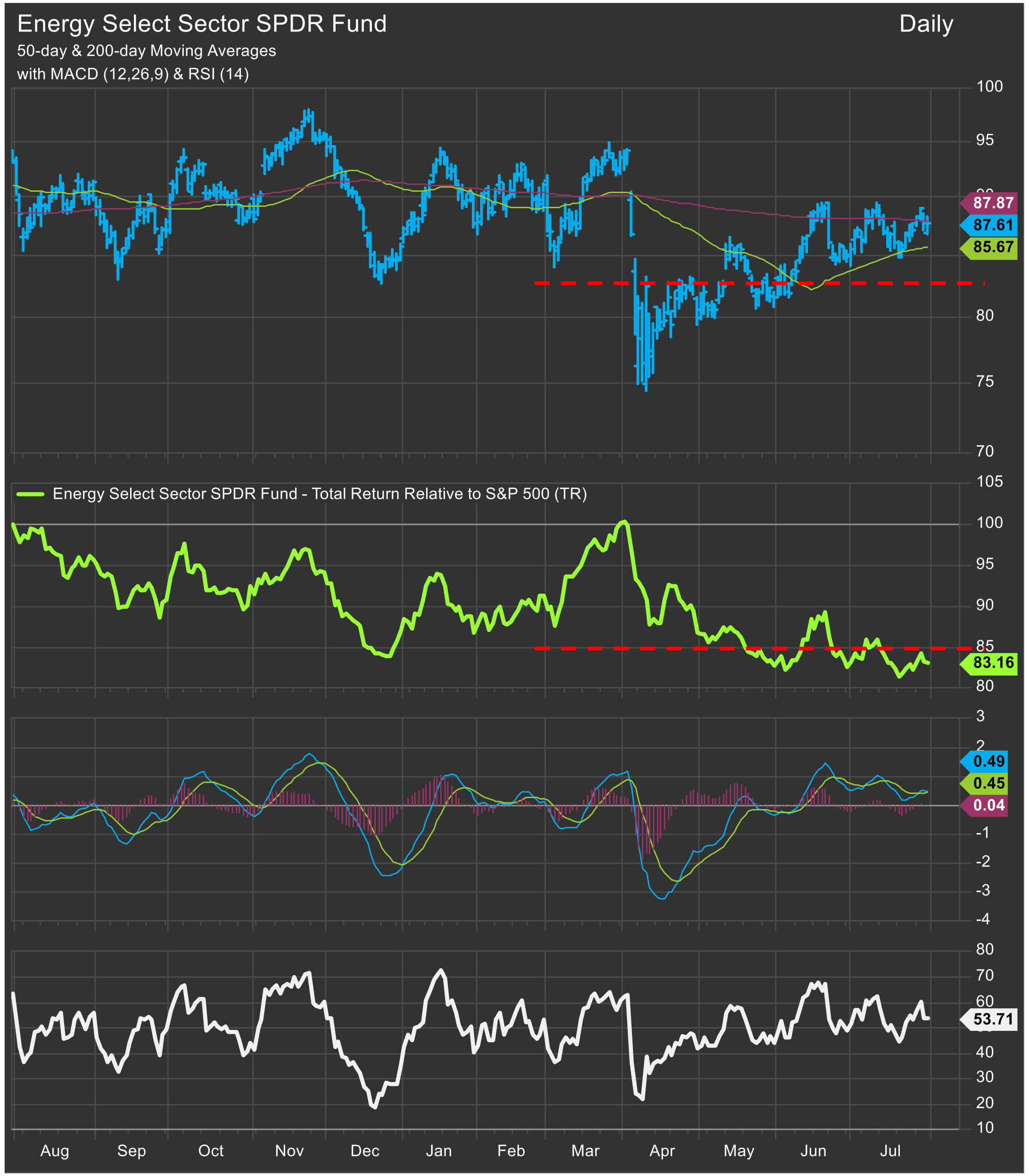
Sector Price Action & Performance Review: Energy



Energy stocks grinded higher on price, but performance vs. the S&P 500 continued to deteriorate after some hopeful signs in June. Crude couldn't maintain its bid from June and the Energy sector remains in a downtrend in both absolute and relative terms.

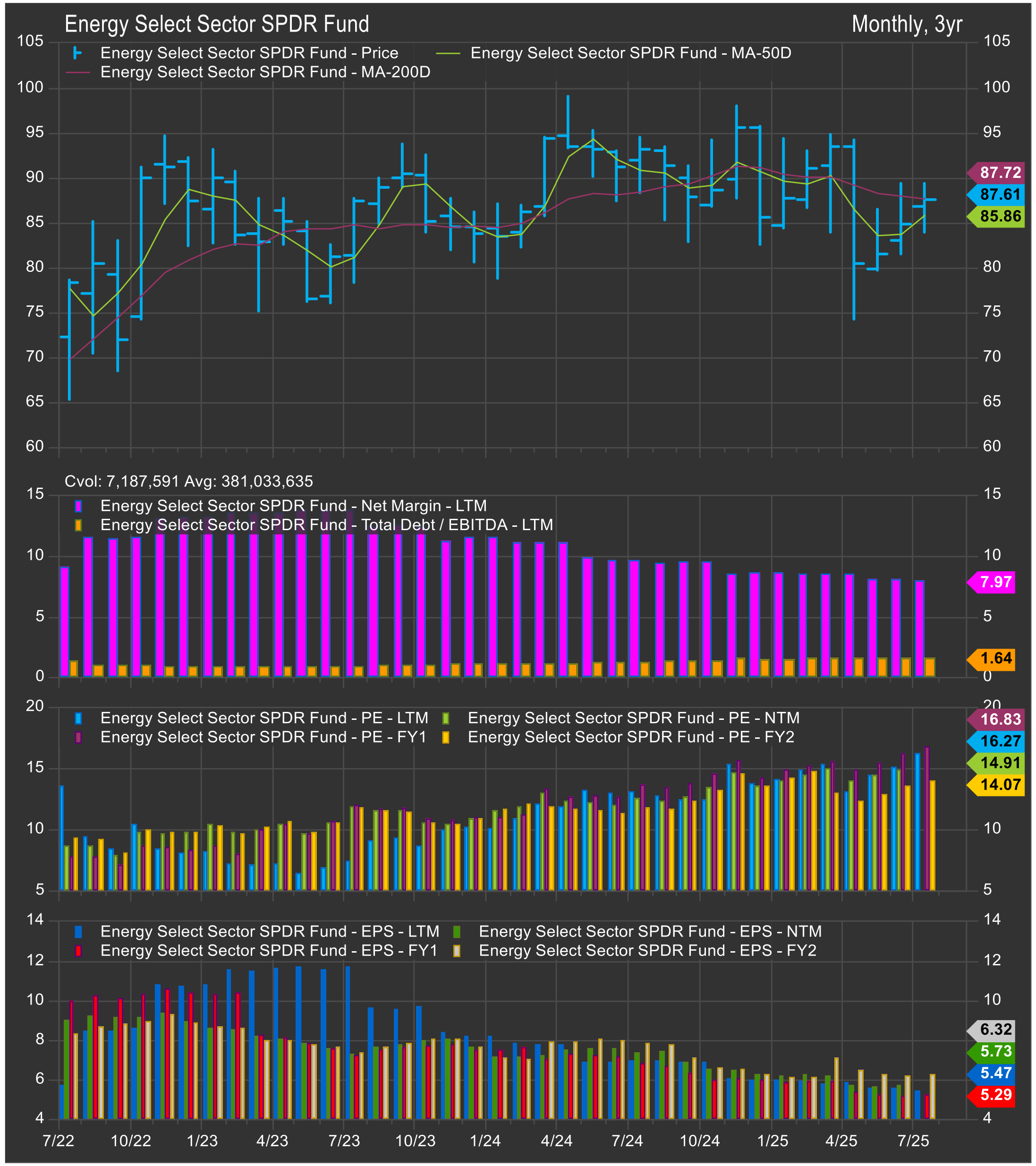
From a technical perspective we would need to see a strengthening barrel price and improving economic data before we got more bullish on the sector. As is, we think oversold conditions merit some hedging as commodities adjacent exposures have lagged materially which could setup a sharp rotation on bearish developments.

Demand shifts to alternative sources of energy and vehicle electrification remain well understood headwinds to the sector. AI build outs are a new and growing source of demand, but despite that, earnings season has shown the sector falling short of 2022 and 2023 levels.

We continue to like the sector as a hedge in the event that tariff or other developments challenge the bullish Growth narrative. However, the longer-term fundamental picture remains challenged and we wouldn't advise accumulating the sector to buy and hold.

We start August with an OVERWEIGHT allocation to the Energy Sector of +0.98% 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

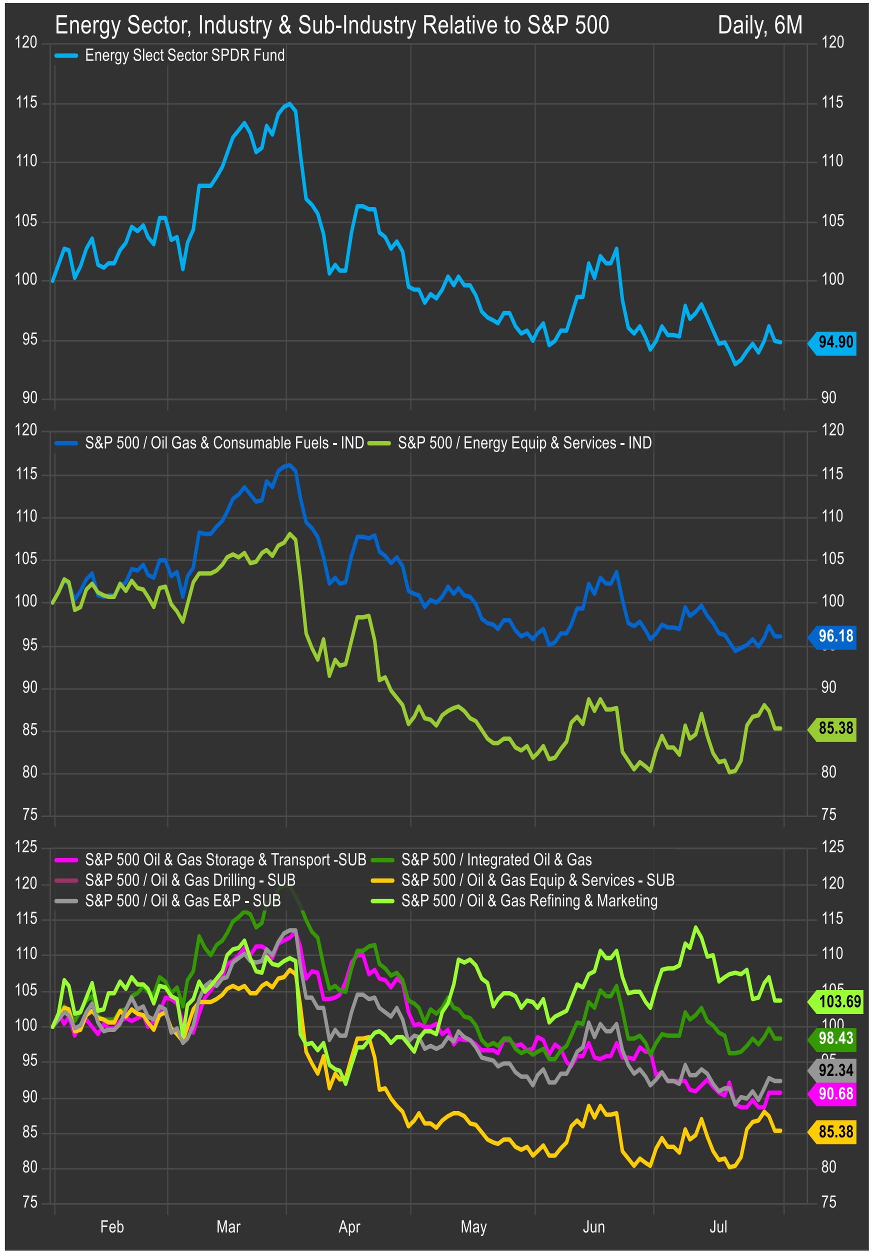
Margins continue to contract for the sector while debt burden relative to EBITDA ticked higher (chart, panel 2).

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 Have improved modestly over the next two year period.

The best that can be said for the sector is that it is unloved and very under-owned with a valuation multiple among the lowest at the sector level

Industry/Sub-Industry Performance and Breadth: Energy



- **Energy Industries** (chart, left): The sector has traded to YTD relative lows vs. the S&P 500 in June with Crude price remaining in consolidation after their move to the upside in June fizzled.
- Oil & Gas Refining couldn't sustain bullish momentum, but is still considered an area of strength against a weak sector backdrop
- **Energy Sector Internals** (chart, right): Internals strength diminished in July as the Crude price retreated. Secular overhangs from electrification are a persistent headwind

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
BKR	Baker Hughes Company Class A	Bullish Reversal	45,104.0	0.72	11.9	1.3	1.01	16.9
HAL	Halliburton Company	Consolidation	19,678.1	0.43	-1.5	2.0	1.03	8.9
CVX	Chevron Corporation	Consolidation	321,502.3	0.71	0.8	2.9	0.79	5.9
FANG	Diamondback Energy, Inc.	Consolidation	44,555.6	0.46	-2.7	1.7	0.73	5.8
COP	ConocoPhillips	Consolidation	123,703.6	0.59	-3.7	2.2	0.47	5.4
PSX	Phillips 66	Consolidation	51,893.6	0.64	5.2	2.5	1.13	4.4
VLO	Valero Energy Corporation	Bullish Reversal	44,960.6	0.64	6.8	2.1	0.90	4.2
APA	APA Corporation	Consolidation	7,101.4	0.29	1.4	3.4	0.79	4.2
OXY	Occidental Petroleum Corporation	Consolidation	44,738.7	0.68	-2.2	1.4	0.67	3.4
DVN	Devon Energy Corporation	Consolidation	21,972.7	0.33	-3.0	1.9	0.89	2.8
MPC	Marathon Petroleum Corporation	Bullish Reversal	53,894.5	0.69	9.0	1.4	0.83	1.5
SLB	Schlumberger Limited	Support	53,475.9	0.48	-7.9	2.2	0.96	1.5
XOM	Exxon Mobil Corporation	Consolidation	486,472.1	0.62	-5.0	2.4	0.61	-0.1
EOG	EOG Resources, Inc.	Consolidation	67,213.7	0.47	-4.6	2.2	0.71	-0.5
OKE	ONEOK, Inc.	Support	52,138.1	0.57	-13.7	3.3	1.05	-0.6
TRGP	Targa Resources Corp.	Retracement	36,783.0	0.83	-15.8	1.6	1.08	-6.0
KMI	Kinder Morgan Inc Class P	Consolidation	61,951.5	0.85	-8.2	2.8	0.80	-7.1
CTRA	Coterra Energy Inc.	Support	18,486.2	0.33	-16.0	2.4	0.87	-8.7
TPL	Texas Pacific Land Corporation	Retracement	22,840.7		-28.4	0.4	0.90	-9.1
WMB	Williams Companies, Inc.	Consolidation	71,905.1	1.01	-10.1	2.2	0.91	-9.3
EQT	EQT Corporation	Consolidation	33,137.4	0.47	-9.3	0.8	0.87	-12.2
EXE	Expand Energy Corporation	Support	23,648.0	0.40	-18.6	1.6	0.47	-19.8

Equipment and Services names (HAL, BKR) led the sector in July while typically lower vol. exposures in the MLP space like KMI, TRGP and WMB continue to correct as high yielding equities have been shunned since April

Refiners are showing some strength and VLO and MPC are in bullish reversals as a result

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

Macro & Policy Trends Affecting Energy Sector Performance

Tariff Regime Reshaping Supply Chains:

- President Trump's **50% copper tariff (announced 30-Jul, effective 1-Aug)**, and new levies on India (25%) and Brazil (total 50%) are directly affecting the cost basis of energy infrastructure buildouts.
- U.S. refiners, midstream operators, and clean-tech names flagged **increased capex costs** due to restricted imports of specialty steel, copper wiring, and pressure-control valves.
- Companies with U.S.-based sourcing and Gulf Coast footprints are **benefiting from onshoring and "energy nationalism" policies** favoring domestic production.

Geopolitical Risk Premiums & Middle East Exposure:

- Markets are digesting a higher **geopolitical risk premium** tied to ongoing conflict in the Middle East and OPEC+ output discipline.
- However, **WTI crude largely range-bound between $68-$72** during July as supply remains ample despite global tensions.
- Natural gas prices softened due to weak weather-adjusted demand, but U.S. LNG exporters expect volumes to rebound by Q4 as European buyers restock.

Demand Shifts: AI Power, Electrification, and Grid Expansion

AI data center buildout a clear tailwind:

- Multiple oil & gas service firms and midstream players flagged **rising power generation demand** tied to AI-linked hyperscaler infrastructure, particularly in **Texas, Virginia, and the Midwest**.
- Utility-scale natural gas generation and backup diesel capacity is being deployed to meet **AI-driven 24/7 load requirements**, boosting demand for **pipeline gas and refined products**.

EV adoption remains a mixed signal:

- July sales data showed **flattening U.S. EV growth**, raising questions about short-term electrification pressure on oil demand.
- That said, energy firms continue to build **EV-charging station partnerships** and invest in **grid-resilient clean fuels** to hedge longer-term transition risks.

Earnings Trends and Operational Cost Signals

Earnings performance in Q2 was solid but below 2022/early-2023 peaks:

- Integrated majors reported **strong free cash flow and steady refining margins**, though some flagged **input cost pressures** from tariffs and global supply chain realignment.
- **Upstream players saw improved pricing realization**, but noted **softness in well productivity and cost inflation** in the Permian and Eagle Ford basins.
- **Oilfield services firms posted mixed results**, with offshore and AI-automated drilling systems outperforming, while legacy land drilling margins compressed.
- Renewable arms of integrated oil companies emphasized **stronger project backlogs** but **highlighted permitting and component cost headwinds** due to tariff changes.

Capex Trends & Regulatory Overhangs

Capital discipline remains a key theme:

- While energy companies are increasing capex moderately (low double-digits y/y), they remain focused on **returning cash to shareholders** via dividends and buybacks.
- Q2 saw **greater mention of "modular expansion" strategies**, especially for LNG terminals, CCS hubs, and hydrogen blending infrastructure.

EPA and FERC activity slower ahead of elections:

- Regulatory clarity is on hold as agencies await new legislative direction post-election.
- In July, **FERC issued two guidance bulletins** around renewable interconnection queues, but no material change to permitting timelines was finalized.

Outlook for August and Beyond

Resilient U.S. consumption and AI-linked electricity demand should continue to support volumes in downstream and midstream segments.

However, **tariff impacts on capex, component sourcing, and export economics** (particularly to Latin America and Asia) will likely **pressure margins** heading into Q3.

Market focus will be on:

- **Refiner crack spreads** amid seasonal demand.
- **Earnings commentary on tariff pass-through capabilities**.
- **Natural gas storage builds vs. weather-adjusted burn**.
- **AI-driven utility and data center procurement agreements**.

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.