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Monthly Insights: September Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy



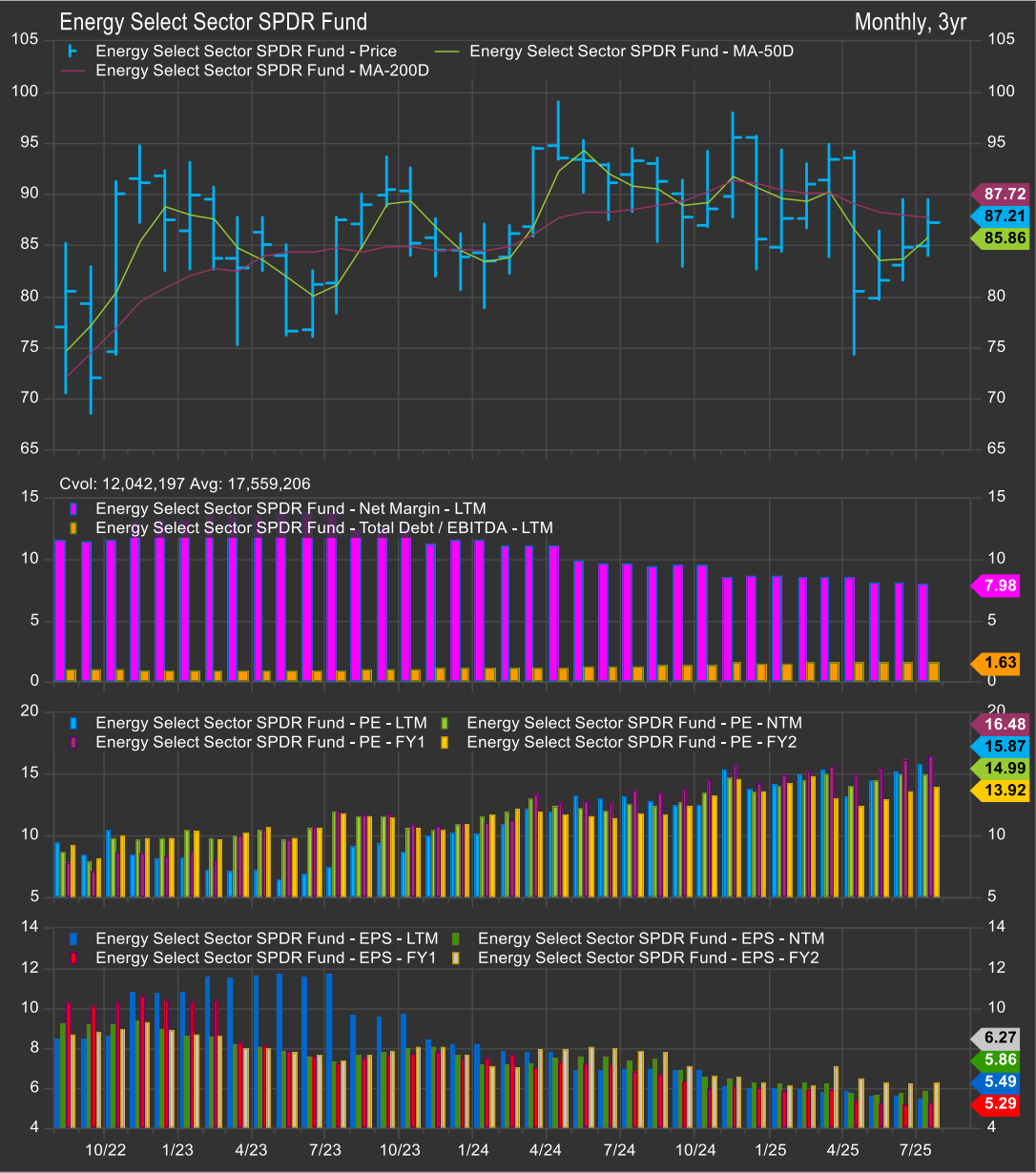
Energy stocks flopped to start August but appear to be closing the month on a strong note. The sector made marginal new highs on price since equities put in their April 7th low. Near-term demand for Energy stocks can be traced to the Fed revealing dovish intentions for the 2nd half of the year as Chairman Powell highlighted ongoing concerns over employment.

As the summer travel season will, the Energy sector's prospects will swing on global trade outcomes and whether the sector's structural discount on valuation is deep enough to encourage buyer interest. With the geopolitical backdrop supportive of Crude prices, a key pivot will be tariff implementation. If we get economically friendly outcomes on copper and steel, that will potentially restrain cost pressures on the sector. Likewise stable to lower rates will be important for the cap-ex cycle. Finally with some M&A activity starting to grow with a wide dispersion between richly valued and modestly valued stocks, the Energy sector could be ripe for some consolidation as valuations are among the cheapest in aggregate of any Large Cap. US sector.

We continue to play Energy for a bounce, and we think it is a useful hedge if we do get more sustained rotation away from growth themes than we have seen recently.

We start September with an **OVERWEIGHT allocation to the Energy Sector of **+1.80%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Energy Sector



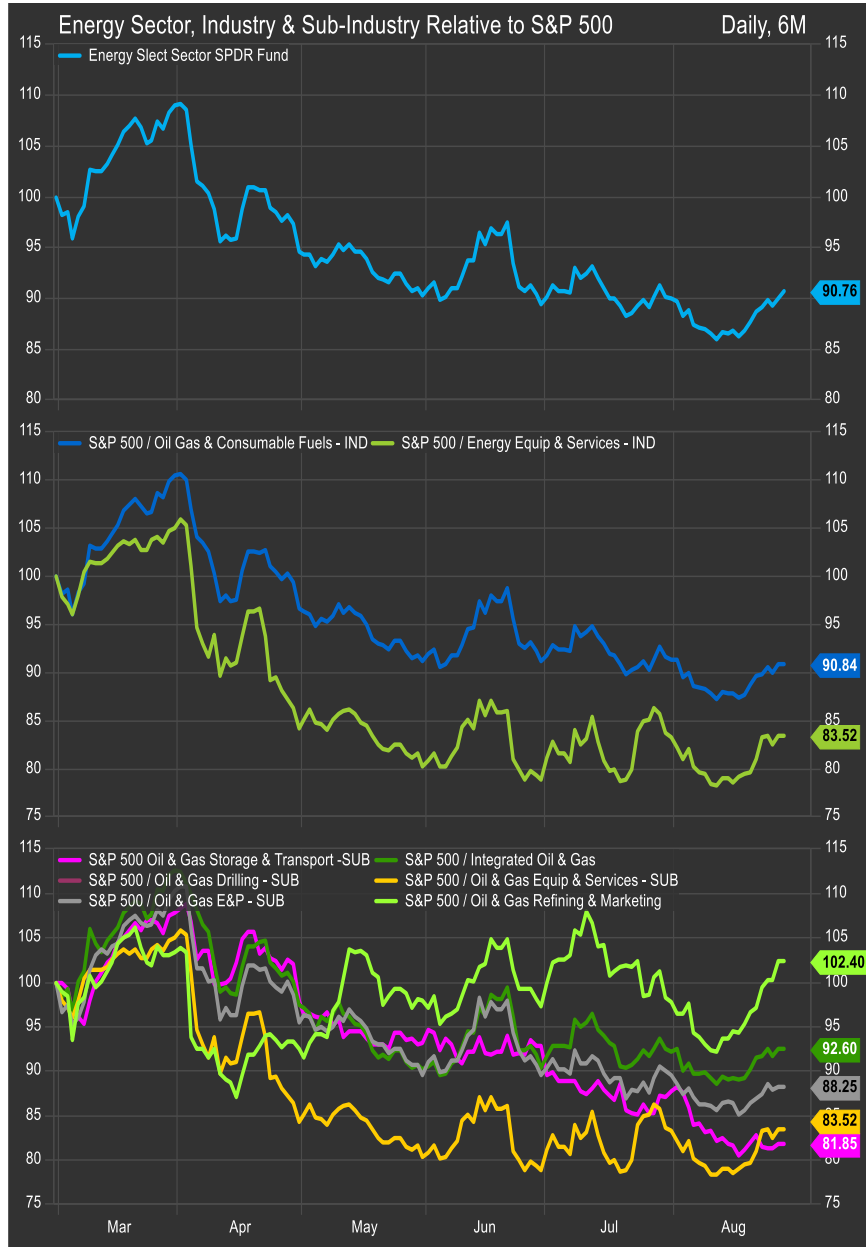
The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings

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, but a marginal earnings catalyst for the space remains elusive

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 in aggregate at the sector level

Industry/Sub-Industry Performance and Breadth: Energy



Energy Industries (chart, left): The sector is showing some strength into month end, but August largely continued the weak absolute and relative performance we've become accustomed to from the Energy sector

Hopes for a change of fortune likely rest with a dovish Fed and the sectors laggard status over the intermediate-term

Refiners remain the strongest sub-industry over the intermediate-term while E&S names have firmed as well in the near-term

Energy Sector Internals (chart, right): Internals strength was boosted coincident with the Fed's dovish rate announcement on August 20th

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
APA	APA Corporation	Bullish Reversal	8,082.4	0.28	16.7	2.9	0.78	16.7
DVN	Devon Energy Corporation	Consolidation	22,573.5	0.33	2.0	1.8	0.80	6.4
PSX	Phillips 66	Consolidation	53,595.0	0.62	4.3	2.4	1.15	5.6
VLO	Valero Energy Corporation	Bullish Reversal	46,837.0	0.65	6.3	2.0	0.94	5.5
OXY	Occidental Petroleum Corporation	Consolidation	46,140.7	0.72	-0.1	1.3	0.59	3.3
MPC	Marathon Petroleum Corporation	Bullish Reversal	54,082.2	0.69	3.1	1.4	0.80	2.7
CVX	Chevron Corporation	Consolidation	326,027.0	0.72	2.8	2.8	0.71	2.4
COP	ConocoPhillips	Consolidation	122,271.4	0.59	1.7	2.1	0.43	2.4
EOG	EOG Resources, Inc.	Consolidation	67,091.7	0.46	-1.7	2.1	0.77	2.2
CTRA	Coterra Energy Inc.	Support	18,422.2	0.34	-8.9	2.4	0.73	1.5
XOM	Exxon Mobil Corporation	Consolidation	480,681.1	0.62	-0.9	2.3	0.53	1.5
FANG	Diamondback Energy, Inc.	Consolidation	42,571.8	0.47	-3.7	1.8	0.75	0.8
SLB	Schlumberger Limited	Consolidation	54,001.2	0.48	-6.0	2.1	1.00	-0.1
TRGP	Targa Resources Corp.	Retracement	35,543.2	0.72	-9.0	1.6	1.02	-1.2
WMB	Williams Companies, Inc.	Consolidation	70,205.5	1.00	-8.8	2.3	0.90	-2.1
HAL	Halliburton Company	Consolidation	19,013.0	0.43	-4.2	2.0	1.20	-2.2
KMI	Kinder Morgan Inc Class P	Consolidation	59,618.3	0.82	-8.9	2.9	0.80	-2.6
EQT	EQT Corporation	Support	32,045.6	0.47	-10.3	0.8	0.62	-2.9
EXE	Expand Energy Corporation	Support	22,695.3	0.39	-16.8	1.6	0.32	-3.0
BKR	Baker Hughes Company Class A	Bullish Reversal	44,147.7	0.71	2.9	1.4	1.26	-3.8
OKE	ONEOK, Inc.	Support	47,282.1	0.51	-17.2	3.6	1.07	-8.3
TPL	Texas Pacific Land Corporation	Retracement	20,888.6		-29.8	0.5	0.73	-8.8

Midstream and MLP names continue to retrace long-term gains while E&S names pulled back in the near-term

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

Our long is a hedge against rotation risk as we continue to carry a significant Tech Sector overweight in the Elev8 portfolio

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

August recap: macro & policy drivers

Rates & risk sentiment: Powell's Jackson Hole remarks leaned **dovish**, pushing September cut odds back above ~80–90% late month; cyclicals (incl. Energy) outperformed on the shift.

Dollar/liquidity: DXY volatility and rising long-dated yields (with **30Y JGB yields at record highs**) stoked global liquidity concerns but did not derail Energy's late-month strength.

Geopolitics & supply: Reports pointed to **Russia output steady** with exports near **4.8M bpd**; Ukraine/Gaza headlines maintained a residual geopolitical risk premium.

Tariffs & policy: Expansion of **steel/aluminum tariffs (407 categories)** and Trump's new **furniture tariff probe** raised broader cost and supply-chain risks for Energy infrastructure and equipment.

Company & deal flow (illustrative)

Upstream M&A: **CRGY** to acquire **VTLE** in an all-stock deal (~\$3.1B EV). Market reaction: **VTLE +14.5%**, **CRGY -4.0%** on leverage/returns concerns.

Shale/E&P sentiment: Gas-levered names under pressure — **AR -5.7%** on downgrade citing oversupply/price risks; **NOG -2.1%** on underweight call tied to Bakken mix.

IOC/majors: **XOM** reportedly in talks with **Rosneft** about possible Russia re-entry — highlighting policy/geopolitical complexities for global majors.

Demand & fundamental backdrop

Travel & refined products: Airlines and cruise lines fared well at points, consistent with resilient travel demand supporting jet fuel.

Industrial demand: Mixed — freight/trucking softness contrasted with steady grid/electrification-related projects.

Housing tie-ins: **July housing starts +5.2% m/m**, but permits fell for the **7th time in 8 months**, sending mixed signals for diesel/construction-related consumption.

Cost & capex considerations

Tariffs: Steel, aluminum, and copper-wire tariffs pose upside risk to equipment and maintenance costs across E&Ps, refiners, and OFS.

Services inflation: Flash PMIs and Philly Fed flagged input cost pressures, suggesting labor and parts tightness still a factor.

September outlook — key watch points

Fed & dollar: A **September cut** (broadly priced) plus softer dollar could be supportive for Energy beta; conversely, sticky inflation or dollar strength a risk.

Crude supply risks: Monitor Russia exports (~**4.8M bpd**), Middle East headlines, and OPEC+ guidance for potential disruption.

Tariff path: Any escalation (rare-earth magnets, steel inputs) would increase cost pressures for OFS and capex-heavy names.

Consolidation: More M&A likely; investors favor balance-sheet-friendly deals with clear FCF accretion.

Demand checks: Post-summer travel data, freight stabilization, and back-to-school retail demand as read-throughs for refined products demand.

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.