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Monthly Insights: November Outlook

Energy Sector

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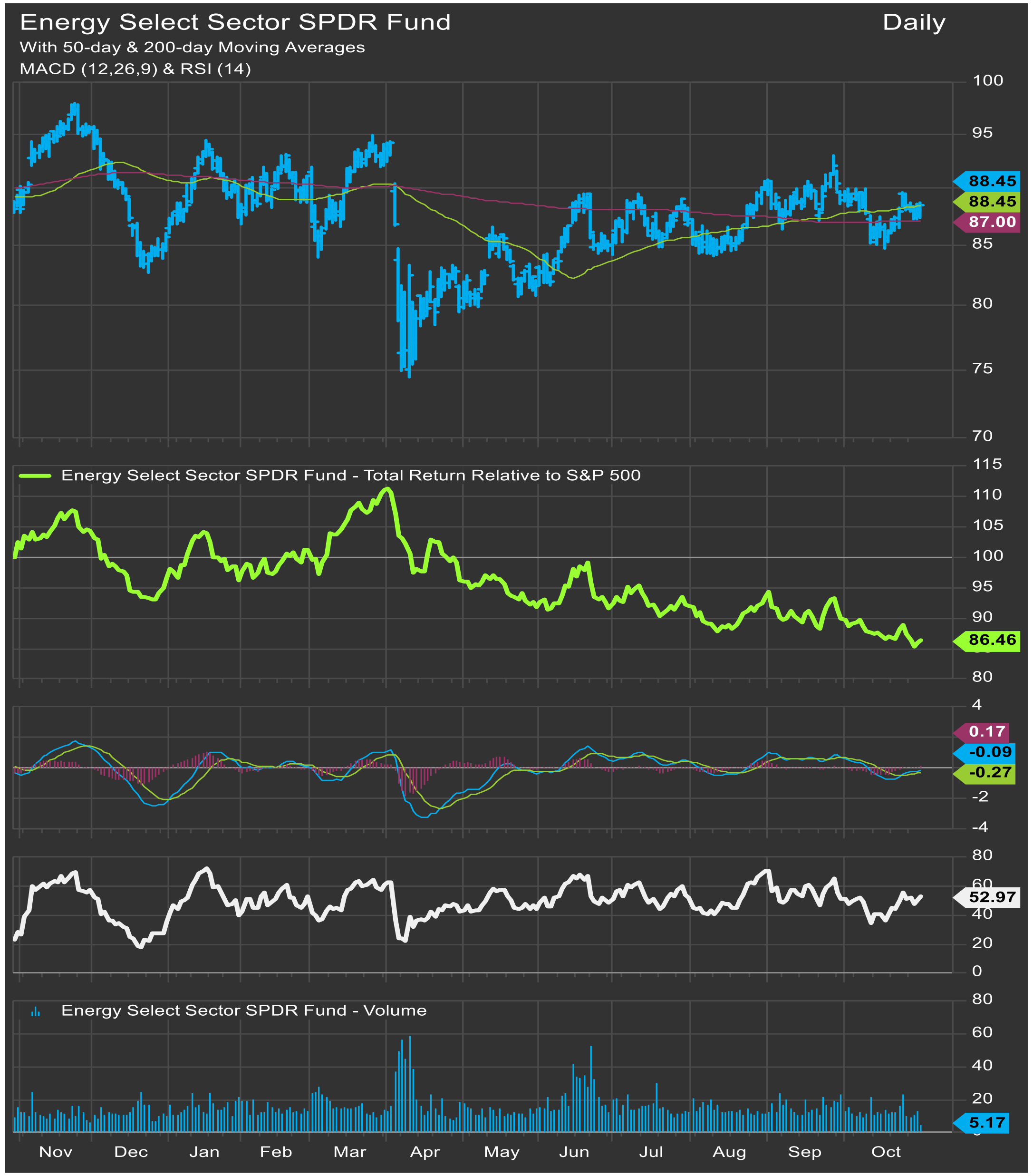
Sector Price Action & Performance Review: Energy



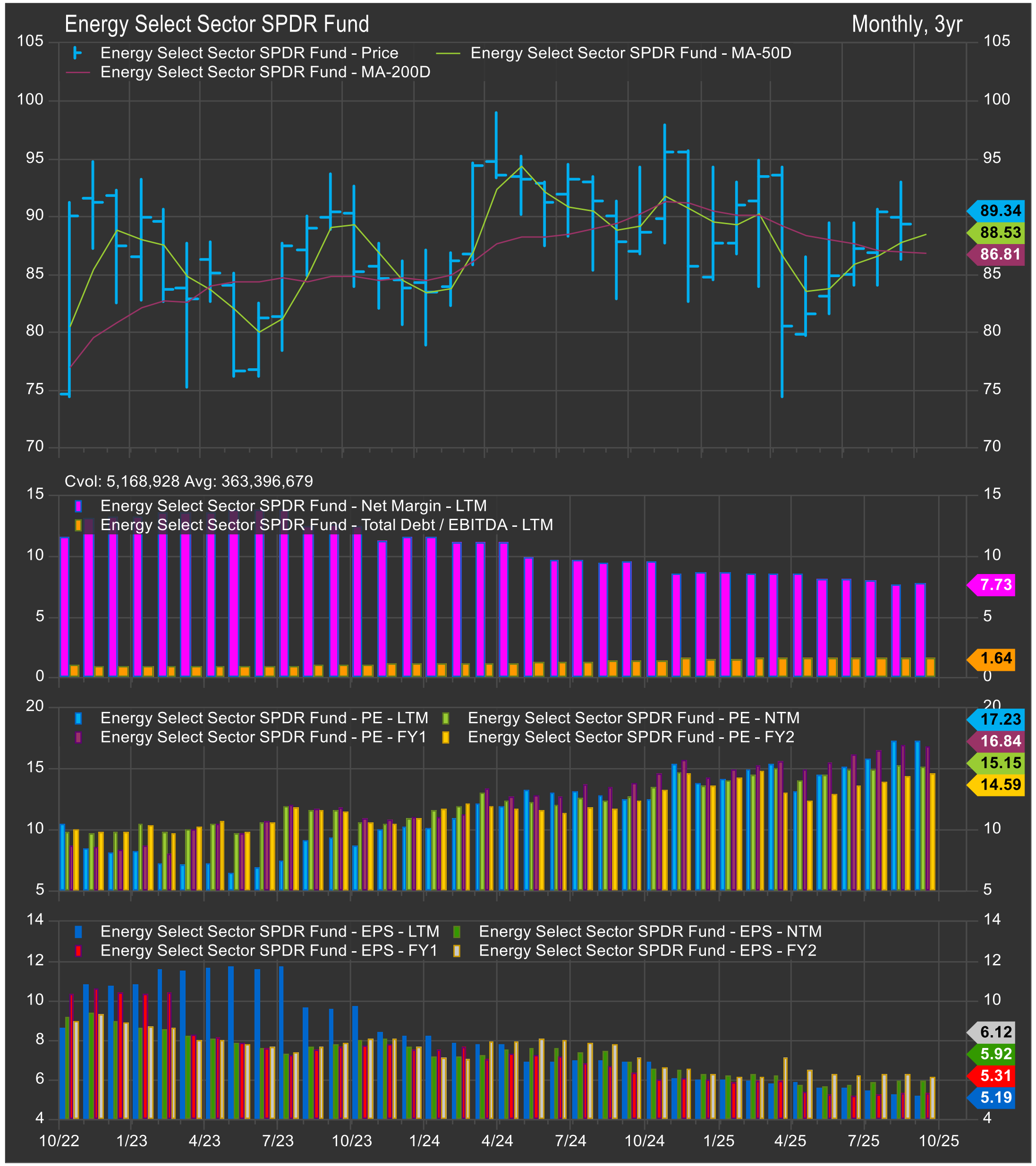
Energy stocks have seen performance vs. the broad market continue to trend lower over the intermediate-term.

From a technical perspective, Crude price weakness has been a significant headwind as the equity bull market has not boosted aggregate demand. Headwinds from alternative energy, vehicle electrification and OPEC supply increases have kept the Energy Sector on the back burner despite geo-political tensions that have historically boosted the Crude price.

On the policy front, Recent sanctions against Russian exporters are the latest attempt by the Trump administration to manage over-supply, but we continue with a “glass is half empty” approach to the sector. Policing illegal supply may raise the spot price for Crude, but tariff enforcement is seen as a potential cost driver for the sector. With the government shutdown constraining the flow of economic data, investors continue to extrapolate weakening trends previously in place for Crude demand and on employment. We think economic weakness combined with headwinds from vehicle electrification and the continued emergence of alternative energy sources are likely to remain headwinds for the Energy sector going forward.

We start November out of the Energy Sector with an UNDERWEIGHT allocation of -2.81% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Energy Sector



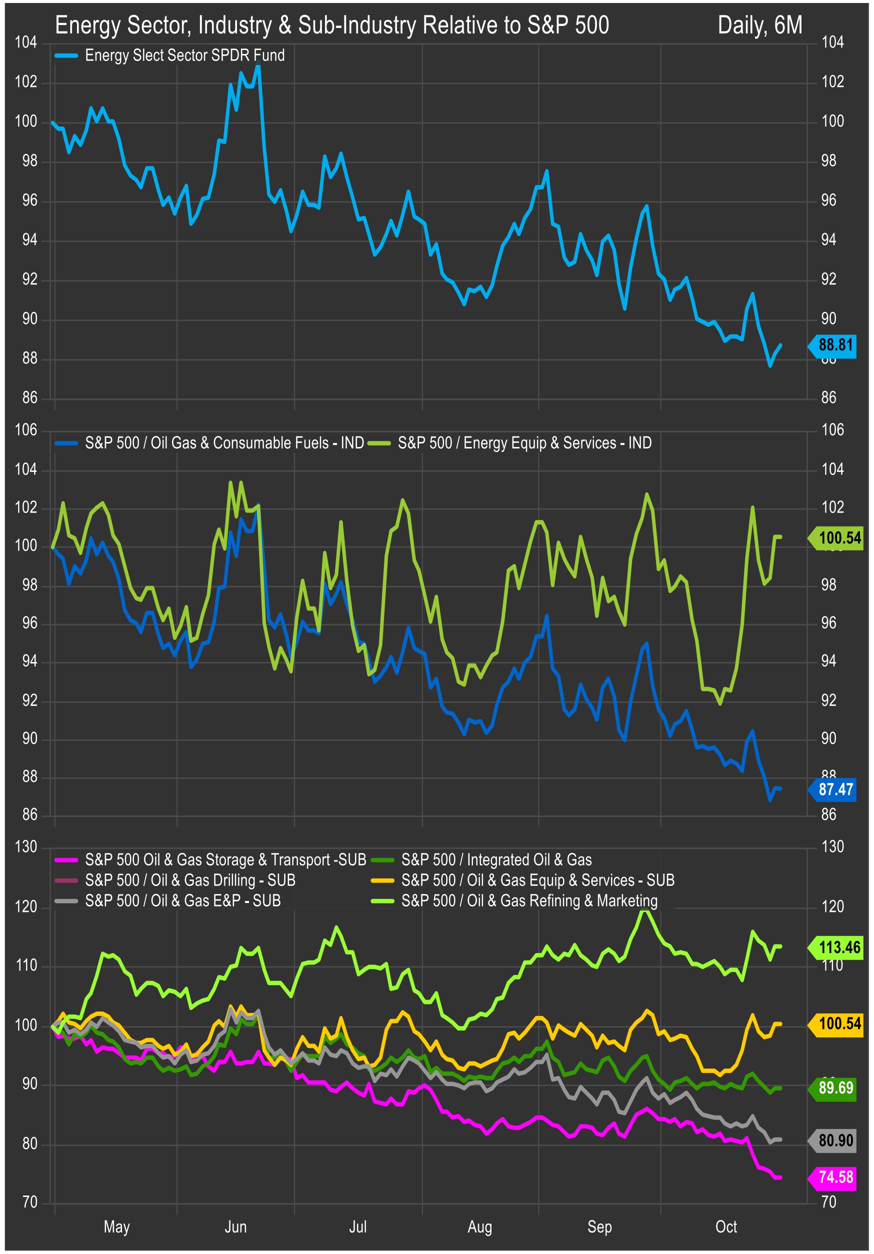
The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings

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

Valuation (chart, panel 3) continues to elevate in a negative way as a product of decreasing out year earnings growth projections.

The best that can be said for the sector is that it is unloved and very under-owned, but weak earnings have inflated valuations in a sector that needs to be cheap to attract interest

Industry/Sub-Industry Performance and Breadth: Energy



- **Energy Industries** (chart, left): While the sector is capable of short-term bouts of outperformance, the longer-term trend remains negative. E&S and Refining Industries have seen some buyer interest in the near-term while MLP's, Transport and Integrated names remain weak
- **Energy Sector Internals** (chart, right): Internal strength gages continue to deteriorate for the sector despite some positive developments on Russian sanctions that have potential to alleviate over-supply concerns

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
HAL	Halliburton Company	Bullish Reversal	23,127.9	0.51	10.0	1.7	1.22	6.4
SLB	SLB Limited	Consolidation	55,021.2	0.50	-4.7	2.1	1.17	1.4
XOM	Exxon Mobil Corporation	Consolidation	496,455.1	0.64	-5.7	2.3	0.45	-1.6
TPL	Texas Pacific Land Corporation	Support	21,242.2	1.54	-19.6	0.5	0.79	-3.1
PSX	Phillips 66	Consolidation	55,769.1	0.54	0.7	2.3	1.23	-3.2
FANG	Diamondback Energy, Inc.	Downtrend	41,578.9	0.48	-11.5	1.8	0.77	-3.5
MPC	Marathon Petroleum Corporation	Bullish Reversal	59,512.0	0.62	4.4	1.2	1.06	-3.9
CVX	Chevron Corporation	Downtrend	317,550.8	0.80	-7.7	2.9	0.67	-4.2
VLO	Valero Energy Corporation	Bullish Reversal	52,052.9	0.60	9.0	1.7	1.10	-4.4
CTRA	Coterra Energy Inc.	Downtrend	17,811.7	0.35	-13.4	2.5	0.62	-4.8
BKR	Baker Hughes Company Class A	Bullish Reversal	47,680.9	0.74	-1.3	1.3	1.19	-7.9
EQT	EQT Corporation	Consolidation	32,326.7	0.50	-12.4	0.8	0.57	-8.4
EOG	EOG Resources, Inc.	Downtrend	57,875.3	0.40	-19.4	2.5	0.87	-9.1
EXE	Expand Energy Corporation	Consolidation	23,914.6	0.45	-11.7	1.5	0.36	-9.5
APA	APA Corporation	Bullish Reversal	8,064.5	0.28	4.2	3.0	0.86	-9.9
OKE	ONEOK, Inc.	Downtrend	42,319.6	0.46	-26.2	4.1	0.99	-11.6
COP	ConocoPhillips	Downtrend	110,006.8	0.56	-17.9	2.4	0.53	-11.6
KMI	Kinder Morgan Inc Class P	Retracement	57,621.3	0.77	-16.5	3.0	0.82	-12.2
DVN	Devon Energy Corporation	Retracement	20,345.3	0.32	-15.2	2.0	0.90	-13.3
TRGP	Targa Resources Corp.	Retracement	32,575.7	0.65	-21.3	1.7	0.95	-14.0
WMB	Williams Companies, Inc.	Retracement	69,582.7	0.99	-15.3	2.3	0.78	-14.4
OXY	Occidental Petroleum Corporation	Retracement	39,948.6	0.84	-19.7	1.5	0.59	-19.2

Equipment & Services names (SLB and HAL) were the only stocks within the Large Cap. Energy sector to outperform the benchmark in November

Refiners held up relatively well and while income plays and integrated Oil & Gas majors remain in challenged trends

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

The U.S. Energy sector traded through a volatile but fundamentally constructive environment in October. Crude prices rose mid-month after **new U.S. sanctions on Rosneft and Lukoil**, with WTI briefly gaining more than 7% before stabilizing. The **Federal Reserve's 25 bp rate cut** and decision to **end quantitative tightening in December** supported risk sentiment and eased financial conditions, though Chair Powell's hawkish tone kept Treasury yields elevated and the dollar firm.

The **Trump–Xi meeting** produced the expected **trade-truce framework**, easing tariff tensions but offering few concrete structural changes. The **EU's planned 2027 ban on Russian LNG imports** and ongoing **OPEC+ production discipline** continue to bolster long-term U.S. export prospects. Overall, macro data confirmed a **moderate U.S. growth trajectory** with cooling inflation and stable labor markets—factors that support sustained domestic energy consumption heading into Q4.

Economic Trends and Their Impact on Crude Demand

Economic resilience remains a key support for global oil demand.

U.S. Consumption: Steady job creation, moderating inflation, and firm consumer spending continue to underpin gasoline and jet fuel demand, though vehicle electrification and higher fleet efficiency temper growth at the margin.

Industrial Activity: October PMIs showed U.S. manufacturing and services still expanding. Freight, construction, and industrial output indicators all pointed to solid diesel demand through year-end.

Global Growth: China's tentative stabilization, alongside easing U.S.–China trade friction, supports Asian import demand. Europe's energy intensity remains low but stable, and India's refinery throughput continues to rise.

Elasticity to Rates: Fed easing should gradually support global growth and commodity flows into 2026. Lower borrowing costs improve the outlook for logistics, travel, and manufacturing—all incremental tailwinds for refined-product consumption.

Net-net, the macro pulse implies **modest demand growth** into early 2026, keeping crude balances tight even as supply remains disciplined.

Policy & Geopolitical Drivers

Russia Sanctions: October sanctions on Russian oil majors reduced accessible supply and widened regional differentials, favoring U.S. exporters with Atlantic Basin exposure.

U.S.–China Trade Framework: The détente eased uncertainty over industrial supply chains and LNG-related capital projects.

EU Energy Policy: The 2027 LNG ban reinforces long-term U.S. export optionality.

OPEC+ Coordination: Expected modest production increases in early November should help stabilize pricing without eroding U.S. producer margins.

Crack Spreads & Refining Margins

Refining fundamentals remained firm despite crude volatility. Distillate demand was robust, while gasoline margins softened seasonally. The Gulf Coast's complex systems captured strong distillate spreads and renewable-fuel credits.

Valero reported Q3 results well above expectations, driven by **throughput strength and renewable diesel output**, indicating that cracks and capture rates held up even as crude rallied.

Refining margins should stay elevated through winter, supported by resilient demand for heating oil and jet fuel.

Earnings & Subsector Themes

Integrateds / E&Ps: Benefited from stronger realizations and disciplined capex. Upstream cash generation remained high, with capital returns prioritized over volume growth.

Refiners: Delivered robust earnings on product mix and efficiency gains; renewable fuels remain an incremental profit lever.

Oilfield Services: Halliburton and **Baker Hughes** beat estimates on international strength and cost control. **Bloom Energy** highlighted surging electricity demand linked to AI data-center expansion—a secondary tailwind for natural-gas-fired generation.

Regulatory Environment & Permitting

No new major federal emissions mandates were introduced, but large-caps emphasized continued progress on **carbon-capture and renewable-diesel initiatives** to preempt future regulation. Tariff and equipment cost uncertainty persists, particularly around steel and pressure-pumping components. Drilling permits and rig counts were stable, underscoring the industry's focus on **capital discipline and productivity**, not expansion.

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.