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Monthly Insights: December Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy



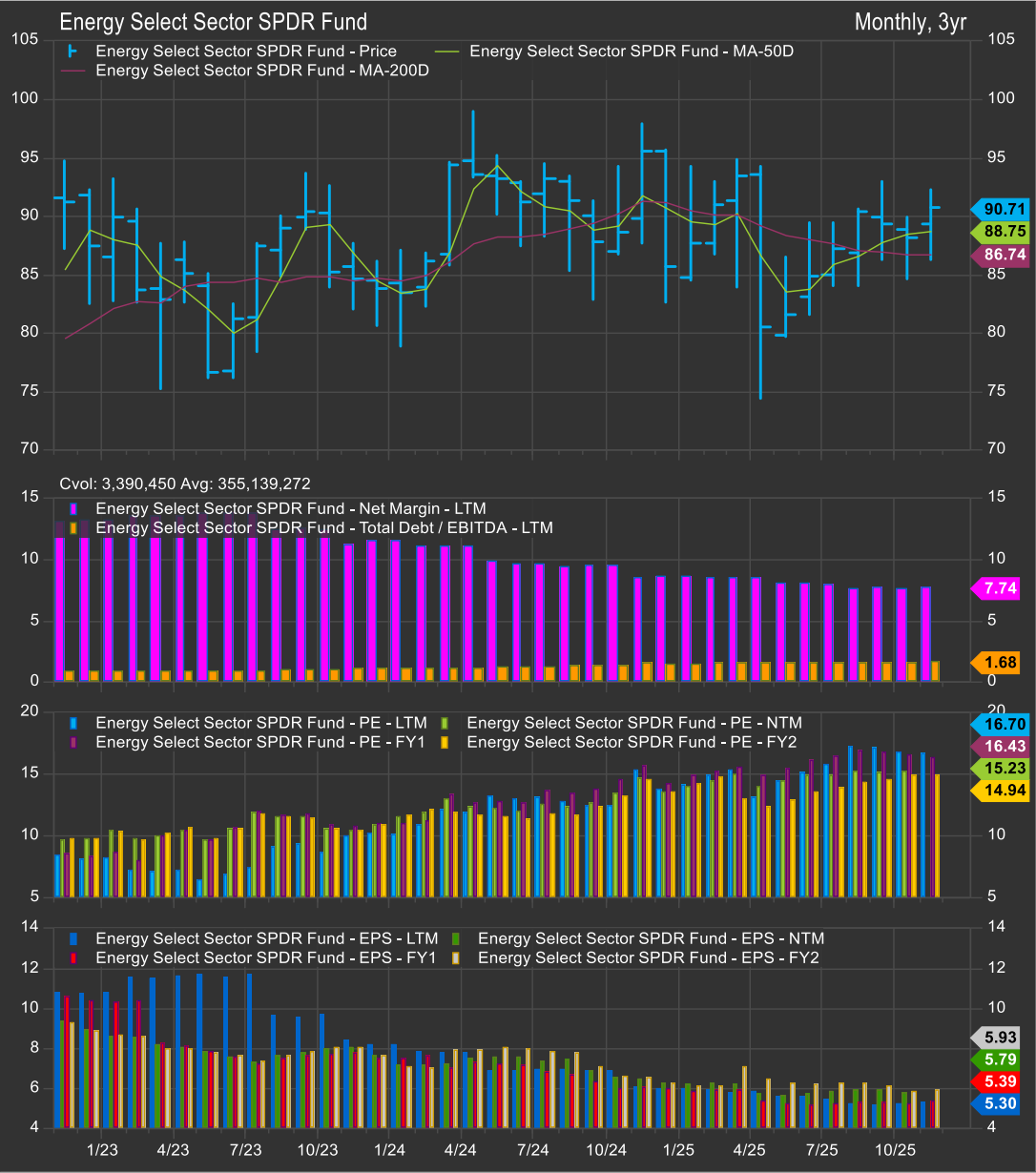
Energy stocks have seen performance vs. the broad market firm. Rotation away from AI-centric themes has benefitted commodities themes and Low Vol. exposures in the near-term. The Crude price remains in consolidation near YTD lows though Commodities prices more broadly are rising. We think that is a good tactical setup for the sector to outperform in the near-term.

Despite ending the month on a pullback, the Energy Sector outperformed in November. Rotation out of Growth exposures and bets on Fed easing have been drivers of rotation into low vol. and Commodities exposure. Given that both baskets of stocks are structural laggards in this cycle, we expect some continued tailwinds into year end.

While we remain constructive on the AI trade, we see pressures mounting on the US consumer as rates aren't falling fast enough to offset higher costs. We think demand for Energy shares will continue as investors manage risk and look for undervalued areas of the equity market as potential next opportunities. This sets up the sector as part of our bar-bell strategy entering December where we maintain a Tech. Sector long and hedge it out with uncorrelated exposures in Commodities and Low vol. sectors.

We start December long the Energy Sector with an **OVERWEIGHT Position of 2.64% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Energy Sector



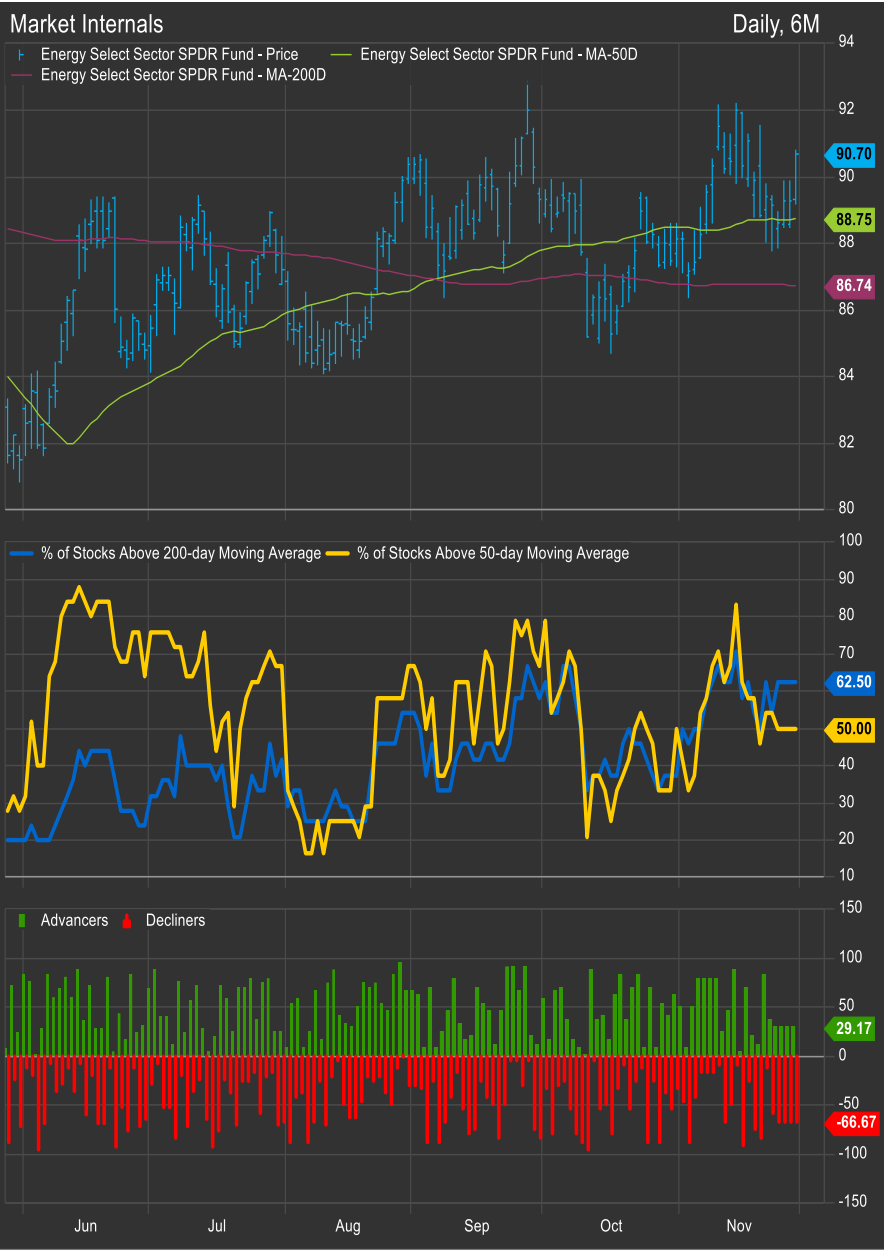
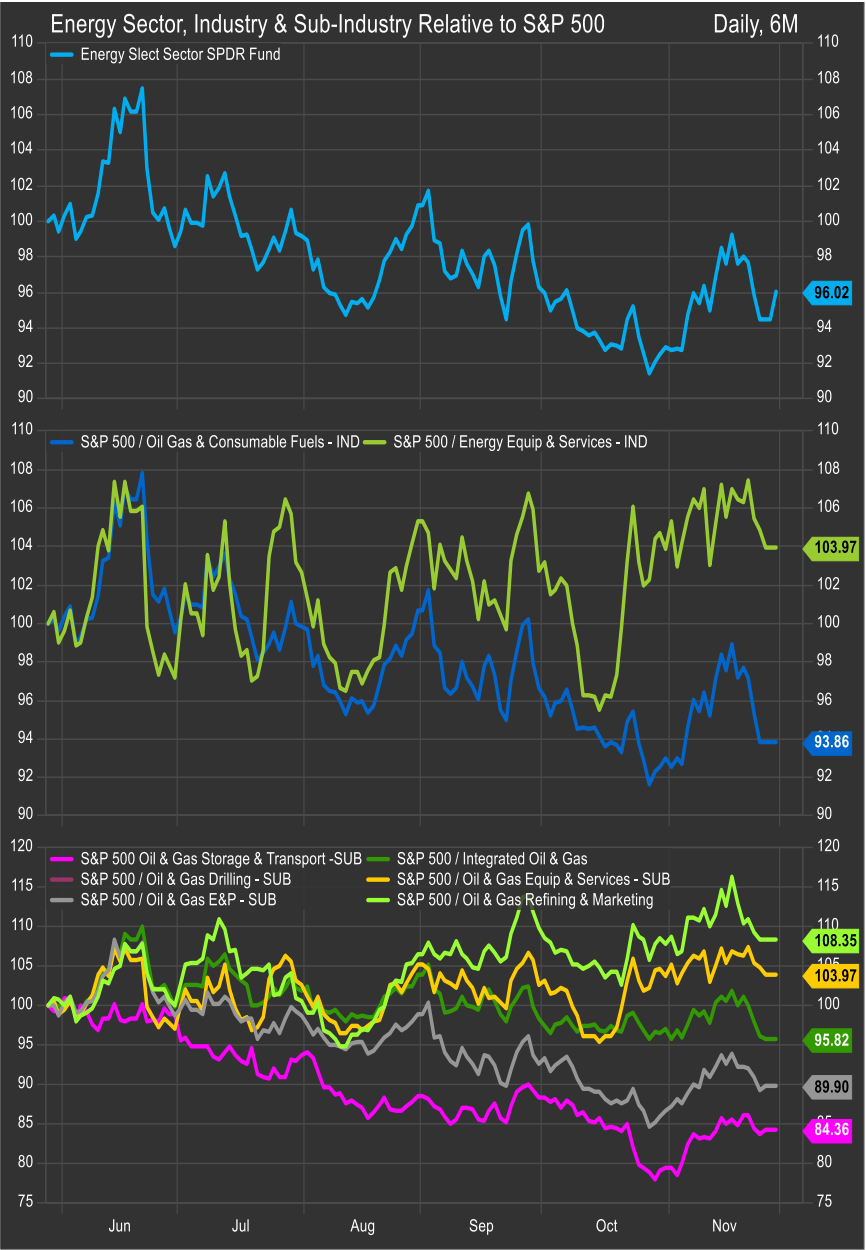
The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins have stabilized after several consecutive quarters of contractionary readings(chart, panel 2).

Valuation (chart, panel 3) has contracted in the near-term and remains at a material discount to the S&P 500's aggregate valuation level on a trailing and forward basis

The best that can be said for the sector is that it is unloved and very under-owned, and we think it could be a tactical rotation beneficiary as the US Consumer remains under pressure.

Industry/Sub-Industry Performance and Breadth: Energy



Energy Industries (chart, left): Late October saw a broad pivot higher for the sector with each of its 5 sub-industries outperforming in November.

Energy Sector Internals (chart, right): Internal strength gages surged to the upside in the first half of November before near-term profit taking kicked in. The **short-term breadth series** made multi-month highs in November as bottom-fishing, hedging and rotation away from Growth motivated investors to start buying the sector in the near-term

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
EXE	Expand Energy Corporation	Bullish Reversal	28,287.4	0.52	12.1	1.3	0.28	15.7
TRGP	Targa Resources Corp.	Consolidation	37,163.8	0.73	2.8	1.5	0.87	14.0
CTRA	Coterra Energy Inc.	Consolidation	20,092.8	0.41	4.8	2.2	0.42	13.2
DVN	Devon Energy Corporation	Consolidation	22,833.7	0.36	2.6	1.7	0.57	11.3
EQT	EQT Corporation	Bullish Reversal	36,820.0	0.56	6.0	0.7	0.59	10.9
BKR	Baker Hughes Company Class A	Bullish Reversal	48,874.9	0.76	8.9	1.2	0.89	7.6
APA	APA Corporation	Bullish Reversal	8,749.7	0.33	10.5	2.7	0.48	6.5
OKE	ONEOK, Inc.	Consolidation	44,996.4	0.49	-7.8	3.8	0.87	5.6
WMB	Williams Companies, Inc.	Consolidation	73,541.8	1.05	-1.1	2.2	0.67	5.2
KMI	Kinder Morgan Inc Class P	Consolidation	59,957.3	0.80	-4.0	2.8	0.78	5.0
FANG	Diamondback Energy, Inc.	Consolidation	42,781.1	0.49	-1.3	1.7	0.44	4.9
VLO	Valero Energy Corporation	Bullish Reversal	53,215.0	0.55	9.9	1.7	0.98	1.5
PSX	Phillips 66	Consolidation	54,378.2	0.47	-0.1	2.3	0.97	1.3
XOM	Exxon Mobil Corporation	Consolidation	484,004.1	0.63	-1.8	2.3	0.14	0.6
EOG	EOG Resources, Inc.	Downtrend	57,624.0	0.40	-12.7	2.5	0.64	0.2
COP	ConocoPhillips	Downtrend	107,618.7	0.55	-10.3	2.4	0.26	-0.1
SLB	SLB Limited	Consolidation	53,273.3	0.49	-4.7	2.1	0.68	-0.6
MPC	Marathon Petroleum Corporation	Bullish Reversal	57,637.5	0.53	1.9	1.3	0.99	-1.0
OXY	Occidental Petroleum Corporation	Consolidation	40,807.4	0.94	-11.7	1.5	0.37	-1.3
CVX	Chevron Corporation	Downtrend	301,041.6	0.77	-6.8	3.0	0.39	-1.9
HAL	Halliburton Company	Bullish Reversal	21,705.6	0.47	7.8	1.7	0.70	-3.0
TPL	Texas Pacific Land Corporation	Support	19,829.2	1.39	-16.3	0.5	0.49	-6.4

November saw broad near-term improvement at the stock level. Large Integrated names XOM and CVX remain muted, but smaller E&P names, midstream exposures and refiners remain constructive.

Commodities prices have risen in the near-term on demand for natural gas as well as base and precious metals. We think commodities sectors may continue to benefit from rotation as they have been structurally out of favor in the current cycle

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

Fundamental Backdrop Remains Better Than Price Action

Energy equities are discounting an economic deterioration that the data do not support. U.S. macro figures released in November reflected ongoing resilience:

Core capital goods orders rose 0.9% m/m, beating expectations.

Durable goods orders increased 0.5%, in line with consensus.

Pending home sales rose 1.9%, better than expected.

Initial jobless claims printed at 216K, below the 230K consensus.

None of these data are consistent with the recessionary drop in crude implied by price action. Moreover, geopolitical drivers remain unresolved: Russia rejected the revised U.S.–Ukraine peace plan, stating it “doesn’t fit us at all,” reversing the optimism that briefly pressured crude lower. Meanwhile, OPEC+ is expected to **leave output unchanged**, suggesting producers see no material deterioration in demand.

This disconnect between economic reality and Energy price action is a core pillar of the tactical overweight case.

Macro and Policy Environment Turning Supportive

A major shift occurred in November as rate expectations moved sharply toward easing. December cut odds surged to **80%+**, up from **~30%** just one week earlier. Fed officials added fuel: Waller and Daly explicitly backed a cut, while Miran said the economy “needs big rate cuts.” Consumer confidence provided cover for that stance, dropping to **88.7**, the weakest since April, while **core PPI came in at 0.1%**, well below expectations.

For Energy, this backdrop provides two benefits:

Soft-landing macro expectations improve demand assumptions.

A weaker dollar (down **0.3%** on a key session) supports crude pricing.

Energy does not rely on falling yields the way Tech does—but easing removes a major macro headwind and stabilizes the outlook for global growth-sensitive sectors.

December Outlook: Oversold, Under-Owned, and Poised for Mean Reversion

Energy enters December with deeply oversold technicals and the lightest positioning in the S&P 500. After weeks of systematic outflows and broad factor whiplash, the sector is now uniquely positioned to benefit from:

Mean reversion flows as investors rebalance after sharp November dispersion.

Seasonality, with Energy historically strong in December and January.

Stabilizing crude, as geopolitical assumptions that drove selling have reversed.

Valuations at multi-year lows relative to Tech and the broader index.

Meanwhile, the sector’s selloff occurred just as the risk backdrop improved: the S&P is up multiple days in a row, Treasury yields have stabilized, and VIX has retreated from the week’s highs. Energy’s drawdown reflects sentiment—not fundamentals—and that dynamic is unlikely to persist into a month known for strong flows and declining liquidity.

Conclusion: A Compelling Tactical Overweight

The case for a December overweight rests on a simple but powerful dynamic: **Energy sold off far more than fundamentals justify**. Demand indicators remain firm, geopolitical tensions are unresolved, rate expectations have swung decisively dovish, and positioning is as light as it has been all year. Crude’s decline has outpaced any change in macro conditions, leaving Energy attractively priced heading into a seasonally strong window.

With oversold conditions, structural underweights across institutional portfolios, improving macro visibility, and stabilizing crude, the Energy sector offers one of the most compelling **tactical long opportunities** heading into December

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.