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Monthly Insights: January Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy

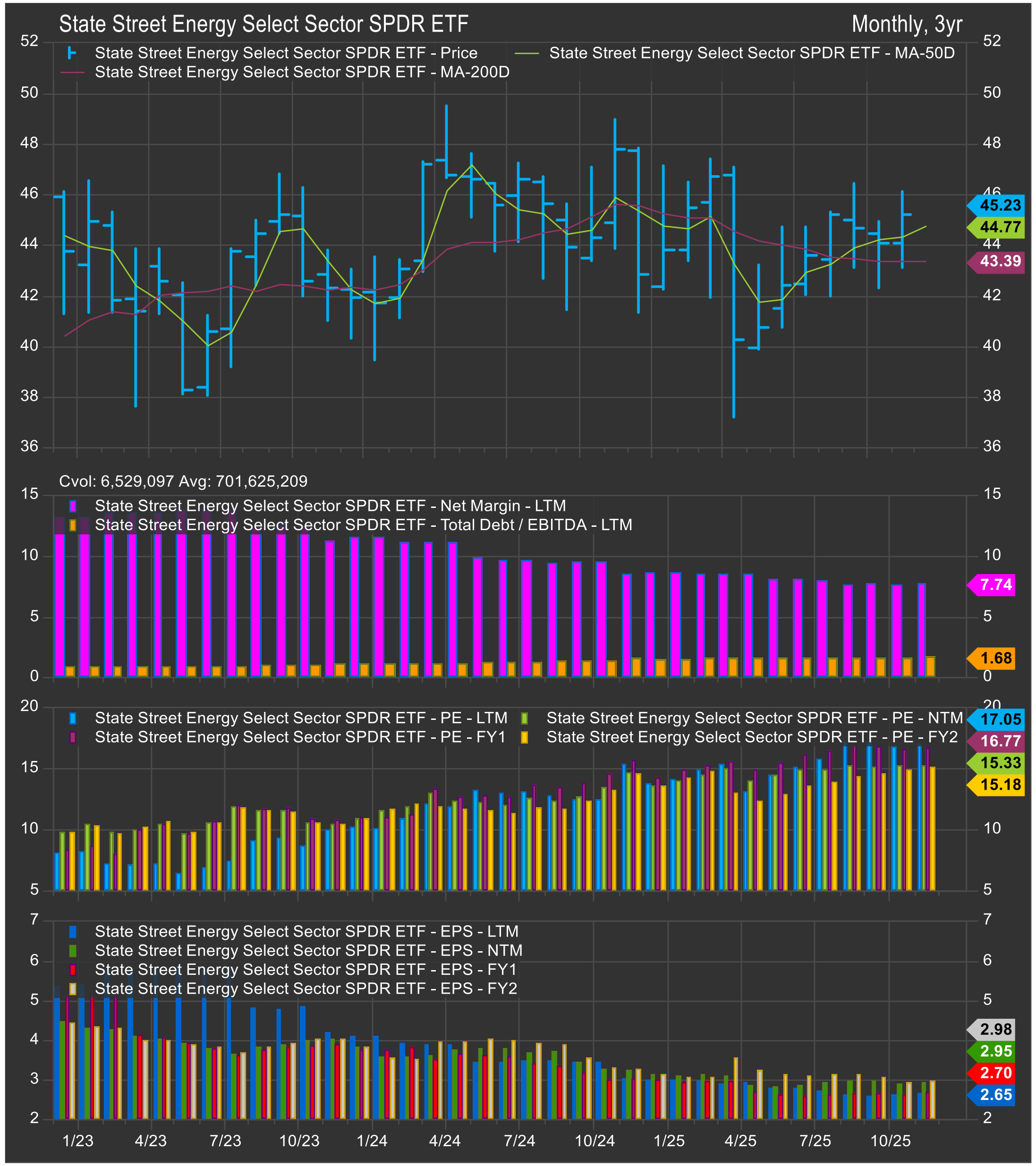
Energy stocks saw selling in December that has the sector sitting at relative lows for the year vs. the S&P 500. A continued bearish imbalance in supply/demand dynamics has kept the sector under pressure in 2025 despite elevated Geo/Political tensions and continued business cycle expansion.

From a technical perspective the sector remains challenged by a weak trend in Crude prices and near-term consolidation in Nat. Gas prices which had been an upside catalyst in November. The results have been retracement to YTD relative lows for the Energy sector as interest in legacy E&P's and Integrated names has been steadily diminishing throughout the year.

Structural headwinds from vehicle electrification, alt. energy investment and regulation remain in place. The sector's prospects likely turn on the potential for rotation towards Value stocks or the emergence of inflation pressures that spur investors to seek near-term cash flows over longer-term growth prospects.

We start January out of the Energy Sector with an UNDERWEIGHT position of -2.78% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Energy Sector



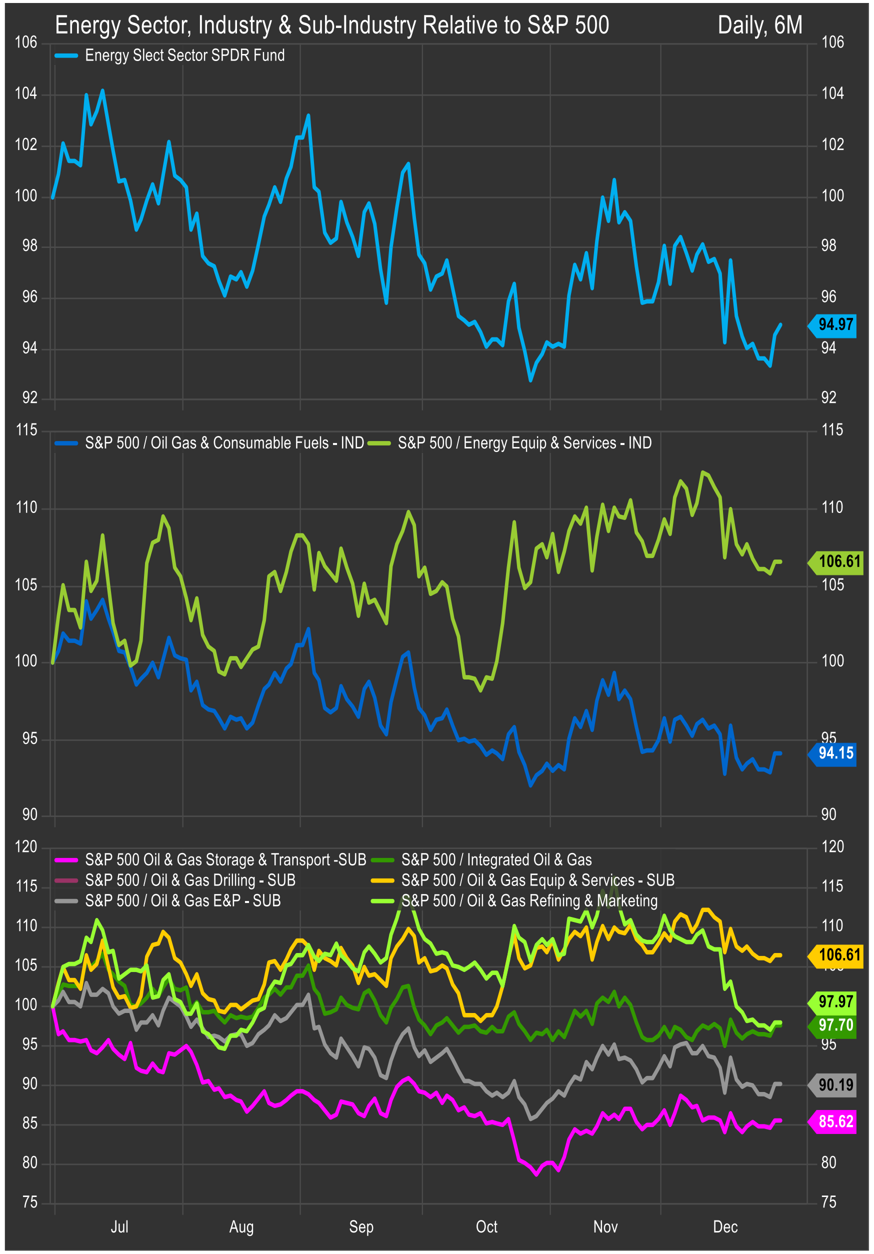
The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings

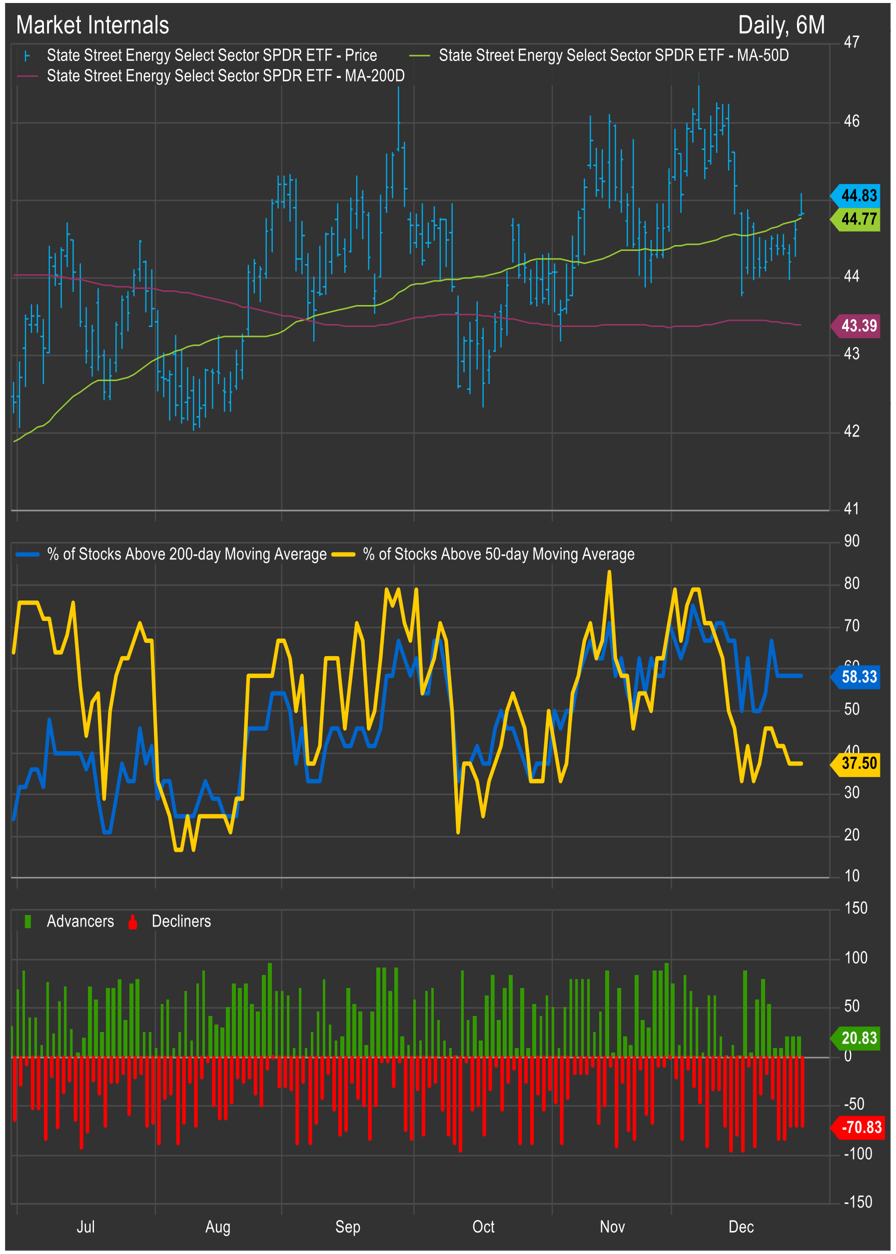
Margins have stabilized after several consecutive quarters of contractionary readings(chart, panel 2).

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, the problem is the only attractive attribute the sector has had is its relative "cheapness" and the valuation multiple has elevated in the near-term to 17x, will below the S&P 500 multiple, but a YTD high...

Industry/Sub-Industry Performance and Breadth: Energy





Energy Industries (chart, left): Late At the sub-industry level, Refiners broke lower on profit-taking while the rest of the sector remained moribund despite some recent firmness in natural gas prices. Integrated Oil & Gas co.'s continue to struggle under a challenging supply/demand dynamic

Energy Sector Internals (chart, right): Internal strength gages collapsed back to lows. The short-term breadth series is now just above the 30 level while the longer-term series has been more stable due to the weak long-term trend at the sector level.

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	23,691.8	0.51	12.0	1.6	0.69	7.1
SLB	SLB Limited	Consolidation	56,619.7	0.52	3.9	2.0	0.70	4.4
TRGP	Targa Resources Corp.	Bullish Reversal	39,482.1	0.75	2.8	1.4	0.81	4.0
COP	ConocoPhillips	Downtrend	114,464.6	0.61	-3.8	2.3	0.27	3.5
XOM	Exxon Mobil Corporation	Consolidation	508,295.0	0.67	2.1	2.2	0.14	3.0
TPL	Texas Pacific Land Corporation	Retracement	20,304.4	1.45	-9.2	0.5	0.44	1.5
OKE	ONEOK, Inc.	Consolidation	46,349.2	0.50	-4.6	3.7	0.77	0.2
KMI	Kinder Morgan Inc Class P	Consolidation	60,913.9	0.81	-6.6	2.8	0.75	-0.7
CVX	Chevron Corporation	Downtrend	304,021.6	0.82	-4.4	3.0	0.40	-1.0
WMB	Williams Companies, Inc.	Consolidation	73,028.9	1.03	-8.6	2.2	0.64	-2.0
DVN	Devon Energy Corporation	Consolidation	22,695.7	0.36	-1.3	1.7	0.61	-2.7
APA	APA Corporation	Bullish Reversal	8,646.8	0.34	2.1	2.7	0.42	-3.3
CTRA	Coterra Energy Inc.	Consolidation	19,948.1	0.41	1.2	2.2	0.47	-3.3
FANG	Diamondback Energy, Inc.	Consolidation	42,569.1	0.51	-1.9	1.8	0.48	-3.6
EOG	EOG Resources, Inc.	Downtrend	56,777.5	0.40	-11.4	2.5	0.62	-3.9
OXY	Occidental Petroleum Corporation	Consolidation	39,812.4	1.03	-14.3	1.5	0.40	-4.2
PSX	Phillips 66	Consolidation	51,811.6	0.44	-7.5	2.4	0.97	-7.0
VLO	Valero Energy Corporation	Bullish Reversal	50,527.9	0.53	-3.3	1.8	0.95	-7.2
EXE	Expand Energy Corporation	Consolidation	26,622.6	0.46	-5.5	1.4	0.23	-9.3
BKR	Baker Hughes Company Class A	Consolidation	44,779.8	0.70	-8.5	1.3	0.89	-10.5
EQT	EQT Corporation	Consolidation	34,036.8	0.49	-8.9	0.8	0.56	-11.3
MPC	Marathon Petroleum Corporation	Consolidation	49,178.6	0.46	-17.8	1.5	0.98	-16.5

Energy services stocks were a relative bright spot in December as HAL and SLB outperformed

There was some rotation towards mid-stream exposures as falling rates in the near-term has added luster to dividend paying stocks

Refiners have seen profit taking in the near-term

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

Economic & Policy Drivers: Energy Sector

The S&P 500 Energy sector's 2025 performance reflected a **challenging commodity and demand backdrop**, partially offset by capital discipline and shareholder returns. As repeatedly noted in December market updates, **WTI crude struggled to sustain rallies**, at times falling to its **lowest level since early 2021** on optimism around Russia–Ukraine peace discussions, before rebounding modestly on geopolitical developments involving Venezuela. These moves translated into **episodic strength but persistent underperformance** versus other cyclical sectors.

Refining Margins

Refining was a relative bright spot at times in 2025, but margins compressed meaningfully into year-end. December commentary frequently referenced **weakness in refined product pricing**, reflecting softer gasoline and distillate demand and rising inventories. The absence of sustained driving demand growth limited crack spread expansion, and refiners did not consistently capture the benefit of crude volatility. As a result, downstream earnings provided **less of a counterbalance** to upstream weakness than in prior cycles.

Supply Dynamics

Supply conditions were a key headwind. December reports highlighted **emerging oversupply signals in U.S. crude markets**, while data showed Russia's export revenues declining largely due to **lower prices rather than constrained volumes**. Global spare capacity remained ample, and market participants consistently faded geopolitical risk premiums, viewing them as temporary rather than structurally bullish. OPEC+ discipline helped limit downside but failed to create a sustained tightening of balances.

Driving Trends

U.S. consumer resilience supported mobility, but **driving demand growth was modest**. While holiday travel volumes were strong, several December data points suggested consumers were increasingly price-sensitive, with fuel demand failing to accelerate despite solid GDP growth (Q3 GDP at **4.3% vs. 3.0% consensus**). This capped upside for gasoline demand and weighed on both upstream realizations and refining margins.

Vehicle Electrification

Electrification trends also played a growing role in investor skepticism. December coverage increasingly pointed to **uncertain EV adoption trajectories**, but even amid uneven penetration rates, markets continued to discount **long-term oil demand growth**, particularly for gasoline. This structural overhang contributed to lower valuation multiples for traditional energy equities relative to other cyclicals.

Policy and Regulation

Policy developments were a growing influence on sector performance in late 2025 and into the 2026 outlook.

Monetary Policy: Strong late-2025 economic data pushed expectations toward a **more cautious easing path** from the **Federal Reserve**, with markets pricing only **~40–55 bp of cuts through end-2026**. A higher-for-longer rate environment supports a firmer dollar, historically a headwind for oil prices and global demand.

Trade and Sanctions: December headlines highlighted **continued U.S. tanker seizures tied to Venezuela** and speculation around **expanded sanctions enforcement**, contributing to short-term price volatility but failing to create durable supply tightness. Markets treated these actions as tactical rather than structurally disruptive.

Energy and Environmental Regulation: While no major new U.S. restrictions were announced in December, ongoing regulatory uncertainty—particularly around **emissions standards, permitting timelines, and methane rules**—continued to reinforce capital discipline. This constrained production growth but also limited upside investment, reinforcing a range-bound outlook.

Industrial Policy and Power Demand: December reporting increasingly focused on **surging electricity demand tied to AI and data centers**, including the reactivation of older power plants. This policy-tolerant approach to power supply supports **integrated producers and power-adjacent assets** more than pure upstream oil exposure

Macro and Policy Outlook for 2026

Looking into 2026, the sector faces a **less supportive macro setup**. Late-2025 data pushed Fed expectations in a more hawkish direction, with markets pricing **roughly 40–55 bp of rate cuts through end-2026**, a potential headwind for global demand growth and supportive of a firmer dollar—historically negative for oil prices.

Supply-side risks remain skewed toward **continued abundance rather than scarcity**, absent a major geopolitical disruption. At the same time, December reporting underscored **surging electricity demand tied to AI and data centers**, including the reactivation of older power plants. This dynamic favors **integrated producers and power-linked assets** more than pure upstream oil exposure.

Investment Implications

Refining margins unlikely to re-expand materially without stronger driving demand or supply dislocations.

Oil supply growth continues to outpace demand growth, limiting upside to crude prices.

Electrification and efficiency gains remain a structural headwind to long-term petroleum demand growth.

Capital returns, not growth, remain the primary support for sector valuations.

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.