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Monthly Insights: February Outlook

**Energy Sector**

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## Sector Price Action & Performance Review: Energy



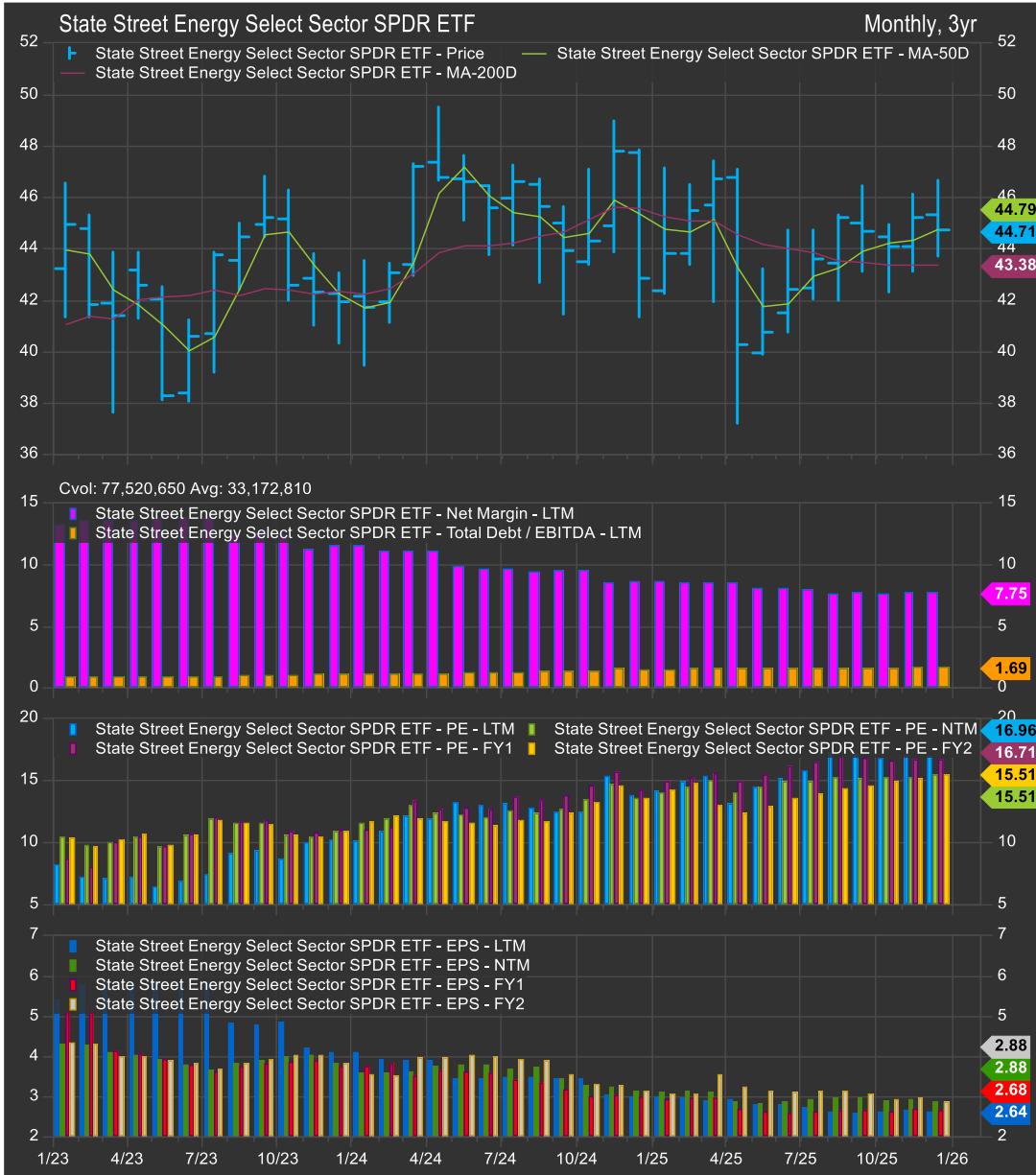
Energy stocks ripped to the upside with the advent of the new year and haven't looked back. Geopolitical machinations are the story here, but there's an open-ended quality to the narrative that is potentially compelling beyond the near-term.

From a technical perspective the bullish reversal comes on strong persistent volume and decisively reverses a clear underperformance trend vs. the S&P 500.

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 February long the Energy Sector with an **overweight position of 3.08%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

## Fundamentals: Energy Sector



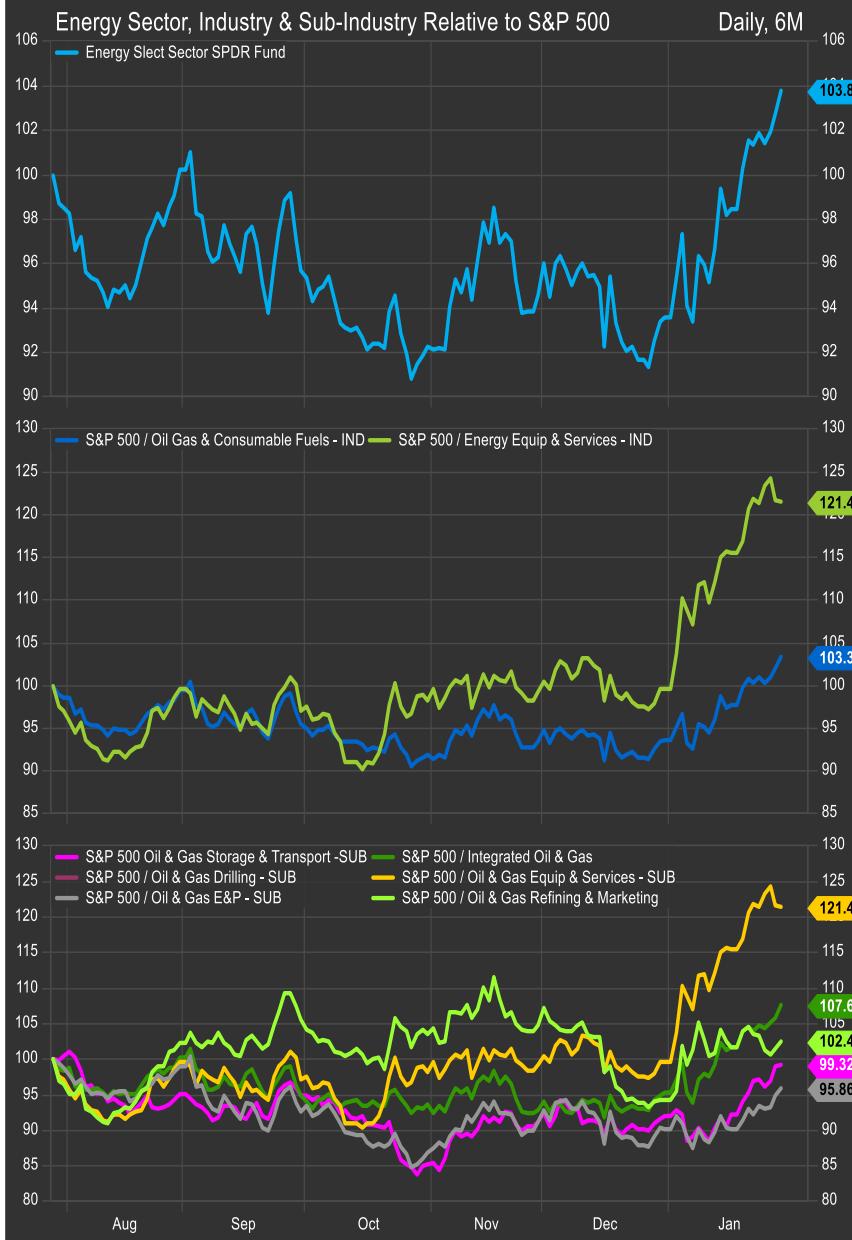
The chart (left) shows S&P 500 Energy Sector Margins, Debt/EBITDA, Valuation and Earnings

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, well 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
SLB	SLB Limited	Bullish Reversal	73,076.9	0.67	32.0	1.6	0.84	28.5
BKR	Baker Hughes Company Class A	Bullish Reversal	55,881.0	0.86	18.6	1.1	1.05	24.4
TPL	Texas Pacific Land Corporation	Consolidation	24,457.9	1.79	14.2	0.3	0.31	22.6
HAL	Halliburton Company	Bullish Reversal	28,076.7	0.59	25.5	1.4	0.82	18.5
XOM	Exxon Mobil Corporation	Bullish Reversal	580,197.6	0.78	17.1	1.9	0.12	14.7
CVX	Chevron Corporation	Consolidation	342,157.7	0.99	9.0	2.6	0.41	12.5
OXY	Occidental Petroleum Corporation	Consolidation	44,167.0	1.60	5.9	1.3	0.31	11.7
WMB	Williams Companies, Inc.	Bullish Reversal	81,724.0	1.17	13.0	2.0	0.61	11.7
VLO	Valero Energy Corporation	Bullish Reversal	56,127.9	0.61	11.2	1.6	1.00	11.4
DVN	Devon Energy Corporation	Bullish Reversal	24,985.4	0.45	16.8	1.6	0.53	10.9
PSX	Phillips 66	Consolidation	57,247.0	0.51	6.7	2.2	1.03	10.4
COP	ConocoPhillips	Consolidation	125,289.5	0.76	10.5	2.0	0.22	10.0
KMI	Kinder Morgan Inc Class P	Bullish Reversal	66,898.5	0.88	11.1	2.6	0.73	9.8
TRGP	Targa Resources Corp.	Bullish Reversal	43,174.3	0.82	20.7	1.3	0.84	9.2
FANG	Diamondback Energy, Inc.	Consolidation	45,921.5	0.62	8.6	1.6	0.40	8.8
OKE	ONEOK, Inc.	Bullish Reversal	49,872.9	0.55	7.8	3.4	0.82	8.0
APA	APA Corporation	Bullish Reversal	9,224.9	0.45	14.5	2.5	0.50	7.8
EOG	EOG Resources, Inc.	Downtrend	60,239.3	0.46	1.0	2.3	0.55	7.5
CTRA	Coterra Energy Inc.	Consolidation	21,158.7	0.50	13.0	2.1	0.32	7.0
MPC	Marathon Petroleum Corporation	Consolidation	51,706.6	0.54	-6.6	1.4	1.07	4.3
EQT	EQT Corporation	Consolidation	34,923.0	0.51	3.6	0.7	0.30	3.0
EXE	Expand Energy Corporation	Consolidation	26,117.7	0.50	4.4	1.4	0.13	-0.6

At the stock level this has been a highly correlated move to the upside.

Services names, SLB and BKR led the pack while integrated names, refiners and midstream plays all participated.

This move spurred a number of bullish reversal upgrades in our technical process.

## Metrics:

(Formulas are in the appendix at the end of the report)

### Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueuation

### 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

Energy is re-taking leadership because the market is being forced to price what policymakers can't easily legislate away: **tight supply, geopolitical risk premia, and structurally rising power demand**. Into February, the setup remains **constructive-to-bullish** for the S&P 500 Energy sector and **XLE**, even after periodic risk-on rotations elsewhere.

Three macro channels matter most:

**Geopolitics is back in the price.** The recent ramp in concerns about potential U.S. strikes on Iran has shown up most directly in crude—oil doesn't need a full-blown disruption to rally; it just needs **credible tail risk**. Even “no strike” outcomes tend to keep a residual premium embedded when tension is elevated.

**The “run-it-hot” policy vibe supports demand expectations.** When the White House leans into growth, job resilience, and affordability optics rather than demand destruction, it generally pushes investors toward **cyclicals and real assets**—Energy benefits disproportionately when nominal growth stays firm.

**Rates and the dollar are becoming less of a headwind.** Energy can tolerate higher yields when the move is driven by growth (not tightening shock). Meanwhile, a softer dollar backdrop is typically supportive for commodities, reinforcing crude-linked cash flow expectations.

The net is straightforward: Energy is one of the few sectors where **earnings sensitivity to macro surprises is still asymmetrically positive** (upside surprises matter more than downside ones), and the market is rewarding that again.

## Subsector Performance and Fundamental Drivers

Energy's internal leadership is also improving—another bullish tell.

**Integrated Oils** remain the “quality core.” They offer diversified cash flows, strong balance sheets, and durable shareholder returns. They also benefit from downstream/chemical buffers when crude chops around. In a market that's still skittish about “one-factor” exposures, integrateds are the most **institutionally comfortable** way to own the trade.

**E&Ps** are where torque lives. The key difference versus prior cycles is discipline: capital allocation is still oriented around **free cash flow and returns**, not growth-at-any-cost. If crude holds firm or grinds higher, the group's operating leverage remains meaningful.

**Oilfield Services (OFS)** is the most underappreciated angle when geopolitics and LNG capex are rising. Equipment/service demand tied to **gas infrastructure, international projects, and maintenance cycles** tends to be stickier than investors expect. The recent tape strength in oil services is consistent with a cycle that's shifting from “late” to “long.”

**Midstream** continues to function as the sector's “carry trade”—less beta, steadier distributions, and improving fundamentals as North American energy logistics remain critical. Midstream becomes especially attractive when equity volatility rises but the macro doesn't

break.

## Sector Positioning and Relative Performance Outlook

Energy's relative case into February is unusually clean:

The sector is still under-owned versus its cash flow weight in the economy.

Balance sheets are stronger than in prior commodity cycles.

Shareholder return frameworks are explicit and credible.

The market is once again paying for **inflation resilience** and **geopolitical hedges**.

Importantly, Energy does not need a runaway oil bull market to outperform. It just needs crude to **avoid collapsing** and geopolitical tail risks to **stay even modestly elevated**. That's a lower bar than what many investors assume.

If the next leg in equities is driven by megacap tech earnings, Energy can still work as a **portfolio stabilizer**—and if the market rotates back toward cyclicals/small caps/value on “run-it-hot” policy framing, Energy can participate as a **high-conviction beta-with-cash-flow** sector.

## Subsector Lens

**Integrated Oils: Overweight** — best combination of durability, capital returns, and cycle insulation.

**E&Ps: Overweight (selective)** — highest torque to crude; focus on balance sheet strength and disciplined reinvestment.

**Oilfield Services: Overweight** — improving demand visibility tied to gas/LNG/international activity and maintenance cycles.

**Midstream: Positive bias** — attractive carry/defensive within Energy; particularly useful if volatility rises.

## Bottom Line

Energy is **not a lagging sector** right now—it's one of the market's most efficient ways to own **geopolitical premium + inflation resilience + real free-cash-flow yield**. With crude supported by elevated Iran-related risk, a policy environment that is not signaling demand destruction, and a sector still anchored by capital return discipline, **XLE and high-quality Energy stocks have a strong probability of outperforming into February**—especially versus rate-sensitive defensives and any growth pockets where expectations are already stretched.

# 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.