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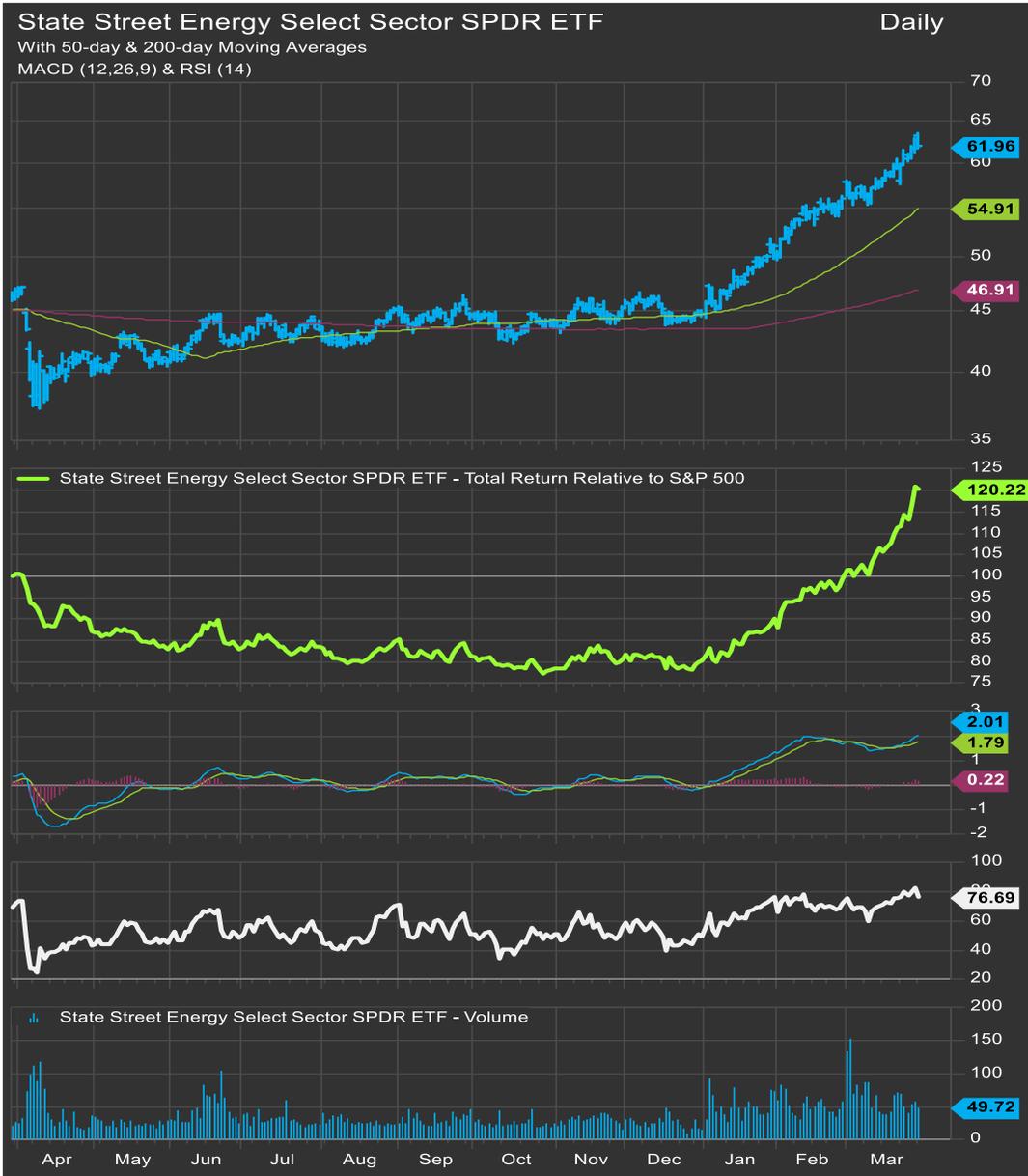
Monthly Insights: April Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy



The Energy sector was one of the most volatile and ultimately divergent sector stories of Q1 2026, swinging between leadership and laggard status within the span of weeks as geopolitical developments — specifically the Iran Strait of Hormuz crisis — created an extraordinary supply shock that briefly elevated the sector to the top of the S&P 500 performance rankings before a partial de-escalation signal triggered sharp profit-taking into month-end. The Energy Select Sector SPDR (XLE) traded as high as \$62–\$63 intraday during peak Iran risk premium conditions before retreating to approximately \$60.17 by March 25 — still representing meaningful outperformance versus the SPY's approximately 5–6% YTD decline on an absolute basis, but with a trajectory that complicated the investment thesis considerably.

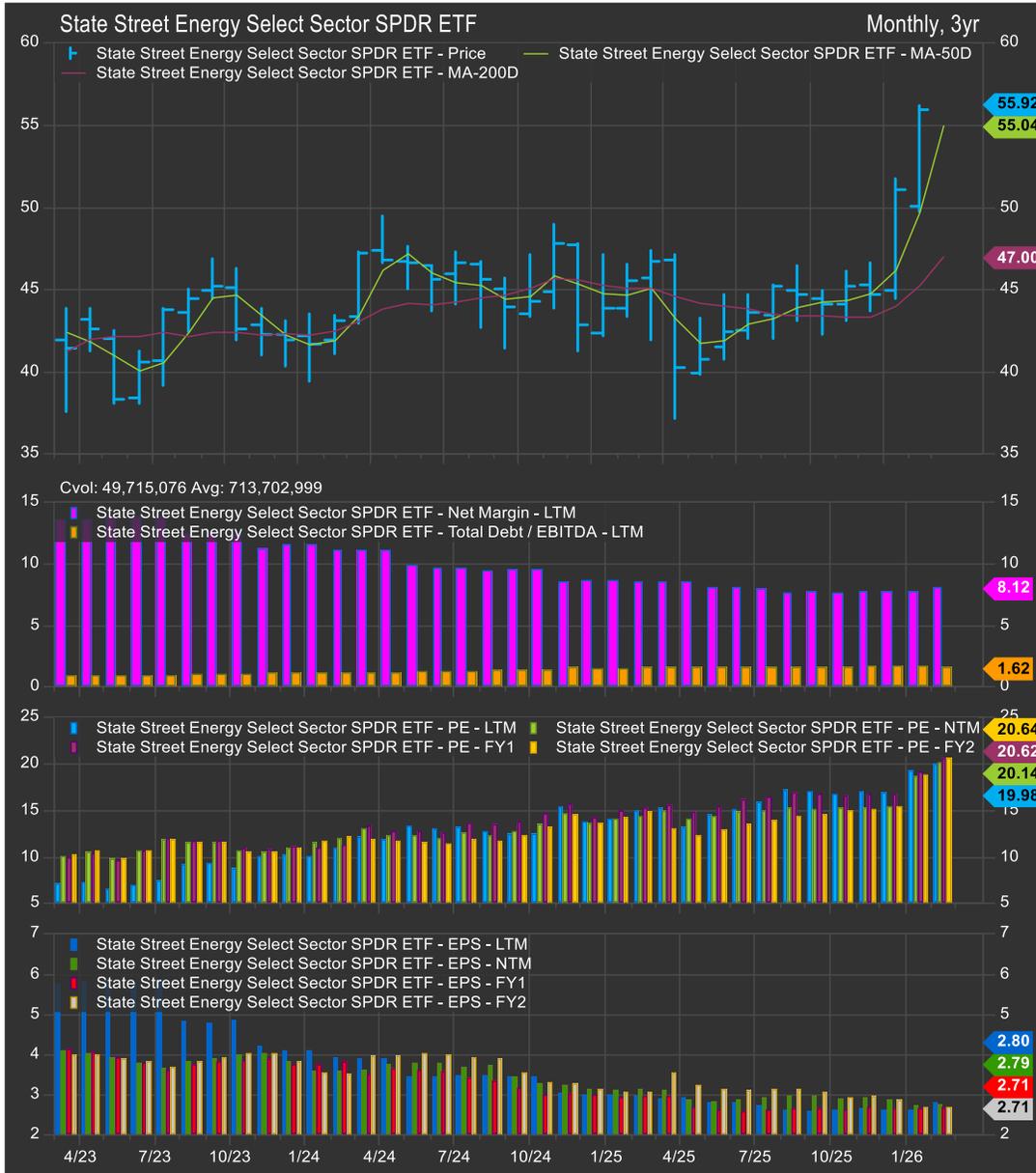
The sector's path through March was defined by a geopolitical event of historic proportions. The closure of the Strait of Hormuz — through which approximately 20% of global crude oil supply and 20% of global LNG trade transits daily — represented the largest crude oil supply shock in recorded history, according to high-frequency shipping data showing maritime traffic effectively halting through the strait.

Brent crude surged above \$110–\$112 at peak stress levels, WTI approached \$105–\$108, and natural gas prices spiked sharply on LNG supply disruption fears — a combination that drove Energy to the top of the S&P 500 sector rankings during the acute phase of the crisis.

Energy enters April 2026 as the S&P 500's most geopolitically sensitive sector in an environment where geopolitical risk is the dominant market force — a combination that has produced exceptional near-term performance but also extraordinary volatility and binary risk. The fundamental case for the sector is genuinely compelling at current prices: U.S. producers are generating free cash flow yields that are among the highest in the equity market, capital discipline has prevented the production growth overshoot that historically destroys energy sector returns, and the structural LNG export buildout is creating durable revenue streams independent of short-term commodity volatility. Integrated majors (XOM, CVX) offer the best risk-adjusted exposure — dual earnings leverage from upstream production and refining margins, strong balance sheets, and capital return programs that monetize the current high-price environment for shareholders. Midstream names (WMB, KMI) provide the most defensive energy exposure with utility-like income characteristics and LNG infrastructure optionality. Pure E&P operators (COP, EOG) offer maximum leverage to oil price upside for investors with higher risk tolerance and conviction in the sustained elevated price environment. The sector is not without risk — the bear case of rapid Hormuz resolution and an oil price correction is real and would produce sharp reversals in names that have moved significantly on geopolitical premium. But as a portfolio hedge against the geopolitical and inflationary risks that are simultaneously the equity market's primary headwinds, Energy occupies a uniquely valuable role in April 2026 — one of the few sectors where the macro stress that is hurting SPY is directly and immediately improving earnings.

We start April long the Energy Sector with an **overweight position of 13.20% 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 expanded steadily over the past 12-months. Notably, consensus earnings haven't shifted in any noticeable way. This is very clear event-driven buying.

Industry/Sub-Industry Performance and Breadth: Energy



Energy Industries (chart, left): The entire sector continues to reflate in 2026. Refiners have been the first to start pulling back in the very near-term.

Energy Sector Internals (chart, right): The **short-term breadth series** is now confirming above the 90% level along with the **longer-term series**. We aren't seeing any abatement in momentum.

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	15,680.8	0.60	79.7	1.51	0.34	53.5
MPC	Marathon Petroleum Corporation	Bullish Reversal	74,248.0	0.74	48.1	1.06	0.91	34.4
VLO	Valero Energy Corporation	Bullish Reversal	76,048.3	0.79	51.1	1.25	0.81	31.6
OXY	Occidental Petroleum Corporation	Bullish Reversal	64,422.9	1.09	52.5	0.99	0.07	31.0
PSX	Phillips 66	Bullish Reversal	75,452.1	0.72	44.9	1.73	1.14	29.3
EOG	EOG Resources, Inc.	Bullish Reversal	80,237.7	0.64	41.9	1.86	0.34	27.8
DVN	Devon Energy Corporation	Bullish Reversal	32,283.4	0.59	44.8	1.39	0.31	27.6
CTRA	Coterra Energy Inc.	Bullish Reversal	27,569.2	0.71	43.5	1.62	0.28	26.8
COP	ConocoPhillips	Bullish Reversal	163,549.0	0.94	43.2	1.64	-0.04	25.2
FANG	Diamondback Energy, Inc.	Bullish Reversal	56,778.4	0.73	38.5	1.35	0.27	23.9
OKE	ONEOK, Inc.	Bullish Reversal	59,174.5	0.83	31.9	2.97	0.76	20.8
CVX	Chevron Corporation	Bullish Reversal	421,325.6	1.18	38.9	2.19	0.35	20.4
HAL	Halliburton Company	Bullish Reversal	33,853.7	0.88	45.4	1.15	0.64	20.1
XOM	Exxon Mobil Corporation	Bullish Reversal	712,474.9	1.02	42.2	1.56	-0.05	19.4
EQT	EQT Corporation	Bullish Reversal	42,169.7	0.71	26.7	0.65	0.35	17.3
TRGP	Targa Resources Corp.	Uptrend	53,787.4	1.24	36.8	1.30	0.77	13.4
EXE	Expand Energy Corporation	Bullish Reversal	27,285.2	0.62	10.9	1.36	0.19	13.0
SLB	SLB Limited	Bullish Reversal	80,000.2	0.93	39.8	1.44	0.70	11.5
KMI	Kinder Morgan Inc Class P	Bullish Reversal	75,710.2	1.24	24.6	2.28	0.65	9.6
WMB	Williams Companies, Inc.	Bullish Reversal	89,882.6	1.59	21.8	1.87	0.55	6.5
TPL	Texas Pacific Land Corporation	Bullish Reversal	35,280.8	3.03	56.4	0.31	0.07	5.0
BKR	Baker Hughes Company Class A	Uptrend	62,476.3	1.18	30.9	0.99	0.90	4.2

Prosperity at the stock level remains broad based.

Refiners have led this month, likely due to some de-rating prior to the advent of hostilities in the Middle East

Every stock in the sector outperformed the S&P 500

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

Economic & Policy Drivers: Energy Sector

The Strait of Hormuz — The Defining Macro Event The Hormuz closure is not merely a supply shock — it is a structural reconfiguration of global energy market risk premiums that will take months to fully price and resolve. Approximately **17–18 million barrels per day** of crude oil and condensate transited the strait in normal conditions, alongside the majority of Qatar's LNG exports. The effective halt of this traffic has created simultaneously: a crude oil supply deficit, an LNG supply shortage affecting European and Asian buyers, declining global oil and gas inventory levels, and a repricing of geopolitical risk in energy markets that is unlikely to fully reverse even if diplomatic resolution is achieved. The consequence for the Energy sector is multidimensional. U.S. upstream producers — insulated from the physical supply disruption by their domestic production base — are direct beneficiaries of the elevated price environment. LNG exporters on the U.S. Gulf Coast are benefiting from demand redirection as European and Asian buyers seek non-Hormuz LNG alternatives. The energy infrastructure sector — pipelines, terminals, storage — is experiencing elevated throughput demand as rerouting creates new flow patterns. The losers are the consumer-facing downstream businesses and the broader global economy absorbing the inflation shock — but within XLE's constituent structure, the benefits are concentrated and real.

Oil Price Dynamics — The \$90–\$115 Range WTI crude oscillated between approximately **\$90 and \$112** through March — an unusually wide intramonth range driven by the Hormuz crisis and partial de-escalation signals. The floor of this range — around \$90 — reflects the price level at which OPEC+ production discipline becomes strained and alternative supply begins to respond. The ceiling reflects acute Hormuz risk premium at maximum stress. For XLE constituents, this entire price range represents highly profitable operating territory: U.S. shale producers' break-even costs have declined to approximately **\$45–\$55/barrel** for well-positioned operators, meaning even the low end of March's price range generates exceptional free cash flow margins. The sustainability of prices above \$90 in an Iran resolution scenario is the key question. Saudi Arabia and OPEC+ have demonstrated willingness to defend \$70–\$75 as a floor through production management, suggesting that even a complete Hormuz resolution — which would not be instantaneous — would not return prices to the pre-crisis range quickly given inventory drawdowns and the psychological repricing of geopolitical risk.

Inflation and Broader Market Impact Elevated energy prices are simultaneously good for XLE and bad for the broader market environment in which XLE trades. High oil prices contribute to the inflationary pressure that keeps the Fed from cutting rates, compress consumer discretionary spending by raising gasoline and utility bills, and weigh on industrial profit margins through energy input costs. This creates a structural tension for energy sector investors: the conditions that maximize XLE outperformance — sustained high oil prices — are also conditions that depress SPY and increase the probability of a demand-destructive recession that would eventually weigh on energy consumption. Energy's role as both a sector beneficiary and a macro headwind is the most important conceptual framework for navigating the sector in Q2 2026.

Natural Gas — A Secondary But Growing Story U.S. natural gas prices have benefited from the Hormuz-driven LNG supply redirection dynamic. Henry Hub prices recovered from their historically depressed 2024–2025 levels as European and Asian LNG demand redirected toward U.S. Gulf Coast terminals. This is a meaningful earnings catalyst for gas-weighted producers and LNG infrastructure operators that was not a significant factor in the 2025 energy sector thesis. The structural U.S. LNG export capacity buildout — several new terminal projects are in various stages of completion — positions the U.S. as the global swing LNG supplier in supply disruption scenarios, a role that generates premium pricing for Gulf Coast operators.

OPEC+ Production Policy OPEC+ production discipline has been the critical supply-side variable maintaining the oil price floor throughout the post-COVID cycle. The cartel's response to the Hormuz crisis — whether to increase production to offset supply disruption or allow prices to remain elevated — will be a key determinant of where oil prices settle once the acute Hormuz risk premium fades. Saudi Arabia's fiscal break-even price of approximately **\$80–\$85/barrel** suggests it has limited incentive to aggressively price-cap the market through production increases, maintaining a structural floor that benefits XLE constituents across the price range.

Economic & Policy Drivers: Energy Sector

Sector-Specific Drivers

Upstream Oil and Gas — Maximum Beneficiaries The exploration and production names within XLE — **ExxonMobil, Chevron, ConocoPhillips, EOG Resources, Pioneer Natural Resources** — are the most direct beneficiaries of elevated oil prices. Their production economics are essentially fixed in the near term — wells drilled, leases held, operating costs established — meaning the entire incremental revenue from oil above their break-even price flows directly to free cash flow. At WTI above \$90, the major U.S. shale operators generate free cash flow yields that are exceptional on an absolute basis and competitive with almost any other sector in the S&P 500. The deployment of this cash flow — whether toward dividends, buybacks, debt reduction, or reinvestment — is the key earnings quality question that differentiates capital-disciplined operators from those tempted to chase production growth at the expense of returns.

The Permian Basin operators (ExxonMobil's XTO, ConocoPhillips, Pioneer) are the most cost-advantaged domestic producers, with break-evens at the lower end of the shale cost curve and the longest-duration inventory of high-quality drilling locations. Their free cash flow generation at current prices is exceptional and their capital return programs are among the most compelling in the S&P 500.

Integrated Majors — Refining Adds a Second Earnings Layer ExxonMobil and Chevron — XLE's two largest constituents — benefit from their integrated structure in a high-oil-price environment through a second earnings layer: **refining margins**. When crude prices rise sharply and rapidly, refined product prices (gasoline, diesel, jet fuel) follow with a lag — creating a temporary period of elevated crack spreads that expands refining margins materially. The March oil price spike created exactly this dynamic, and the integrated majors' downstream divisions benefited from exceptionally wide crack spreads while their upstream divisions simultaneously benefited from high crude realizations. This double earnings leverage makes the integrated majors the sector's most compelling risk-adjusted holding in the current environment.

Midstream — Steady Toll Roads in a Volatile Market Midstream energy infrastructure companies — **Williams Companies, Kinder Morgan, Targa Resources, ONEOK** — operate the pipelines, processing facilities, and storage terminals that transport crude

oil, natural gas, and NGLs from production basins to end markets. Their fee-based business models — collecting tolls on volumes transported rather than taking commodity price exposure — make them the most defensive component of the energy sector. Revenue is tied to throughput volumes under long-term contracts rather than commodity prices, providing earnings stability that is unusual for a sector otherwise highly sensitive to oil price volatility.

In the current environment, midstream is benefiting from two dynamics: elevated throughput as Hormuz-driven LNG demand redirection increases utilization of Gulf Coast export infrastructure, and the structural U.S. LNG buildout creating capital investment opportunities for terminal expansion. The combination of defensive earnings characteristics and participation in the structural LNG export theme makes midstream an attractive risk-adjusted energy holding for investors who want sector exposure with less commodity price volatility than upstream names carry.

Oilfield Services — Leverage to Activity, Not Just Price Oilfield services companies — **Schlumberger (SLB), Halliburton, Baker Hughes** — provide the equipment, technology, and services needed to drill and complete wells. Their revenue is driven by drilling activity rather than commodity prices directly — though activity levels are influenced by producer cash flow, which is itself determined by oil prices. The current high-price environment is generating exceptional producer cash flow, but the capital discipline that defines the post-2020 E&P industry has meant that production growth investment has been more restrained than prior cycles. This limits the oilfield services volume upside relative to what a comparable oil price environment would have produced in 2012–2014.

International activity — where SLB and Halliburton have larger market shares — has been a stronger growth driver than North American land, and the Middle East disruption may paradoxically accelerate international drilling activity as non-Hormuz producers seek to increase output capacity. SLB's technology-driven differentiation and Baker Hughes' LNG equipment exposure make them the higher-quality expressions of oilfield services exposure in the current market.

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.