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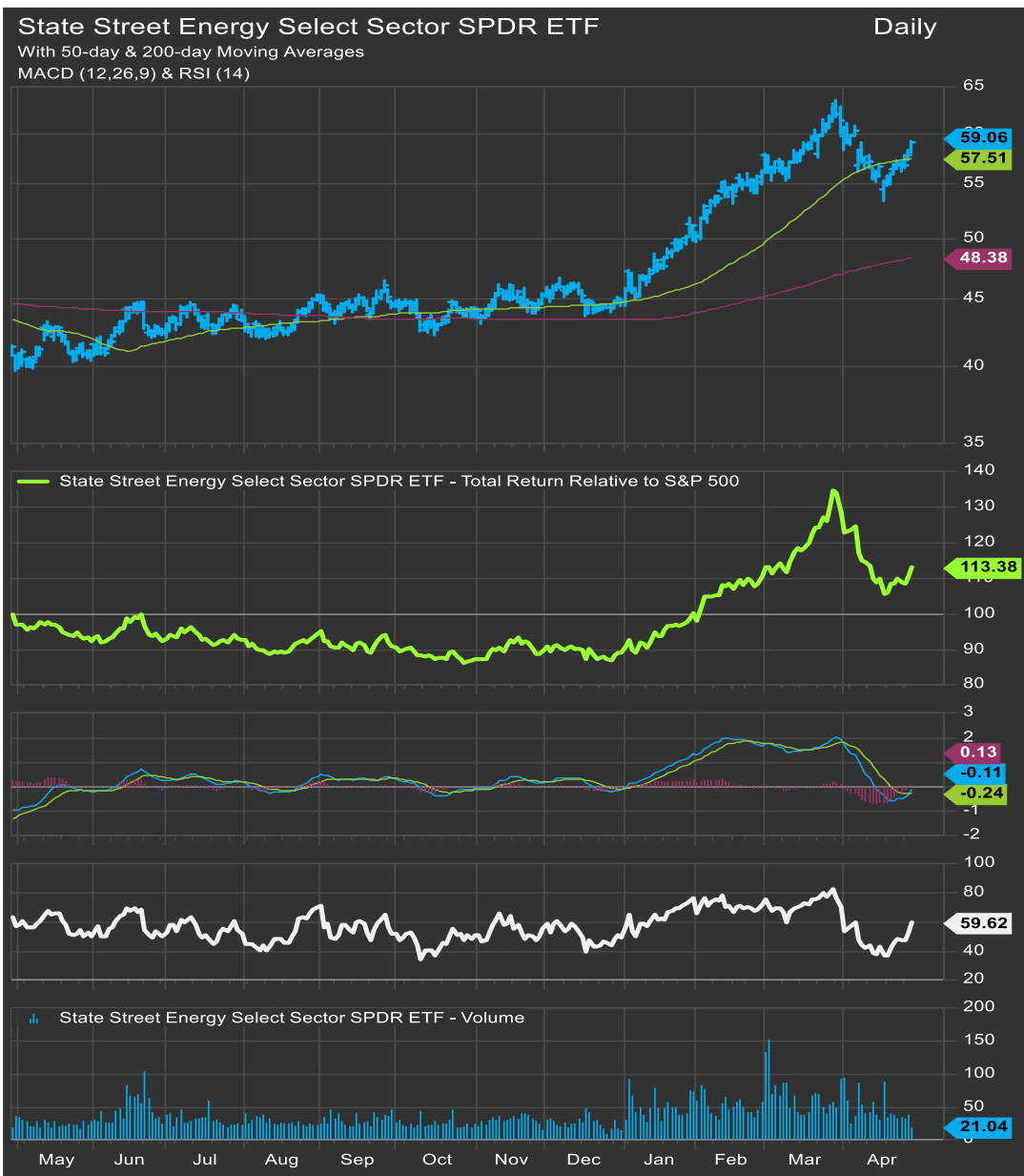
Monthly Insights: May Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy



The Energy sector entered April as one of the strongest year-to-date leadership groups, but the month itself was a consolidation period rather than a clean continuation move. The S&P 500 Energy sector was still up **28.35% year-to-date** as of April 28, but it was down **6.47% month-to-date**, showing that investors took profits after a sharp first-quarter rally tied to higher crude prices, Middle East supply disruption, and inflation-hedge demand.

The Energy Select Sector SPDR Fund (XLE) mirrored that pattern. Barchart showed XLE down **5.70% over the prior month** as of April 29, with a one-month low of **\$53.41 on April 17** and a one-month high of **\$63.46 on March 30**. XLE was trading near **\$59** on April 29, leaving the ETF in a rebound attempt but still below its late-March high.

Technically, the sector remains in a medium-term uptrend but has lost short-term momentum. The key investment question for May is whether the April pullback was a healthy digestion of overbought conditions or the start of a more durable fade in the oil-risk premium. A sustained move back above the \$60–63 range would argue that investors still believe crude prices and cash flows can stay elevated. A break back toward the April low near \$53–55 would suggest that geopolitical de-escalation, recession fears, or profit-taking are overwhelming the commodity tailwind.

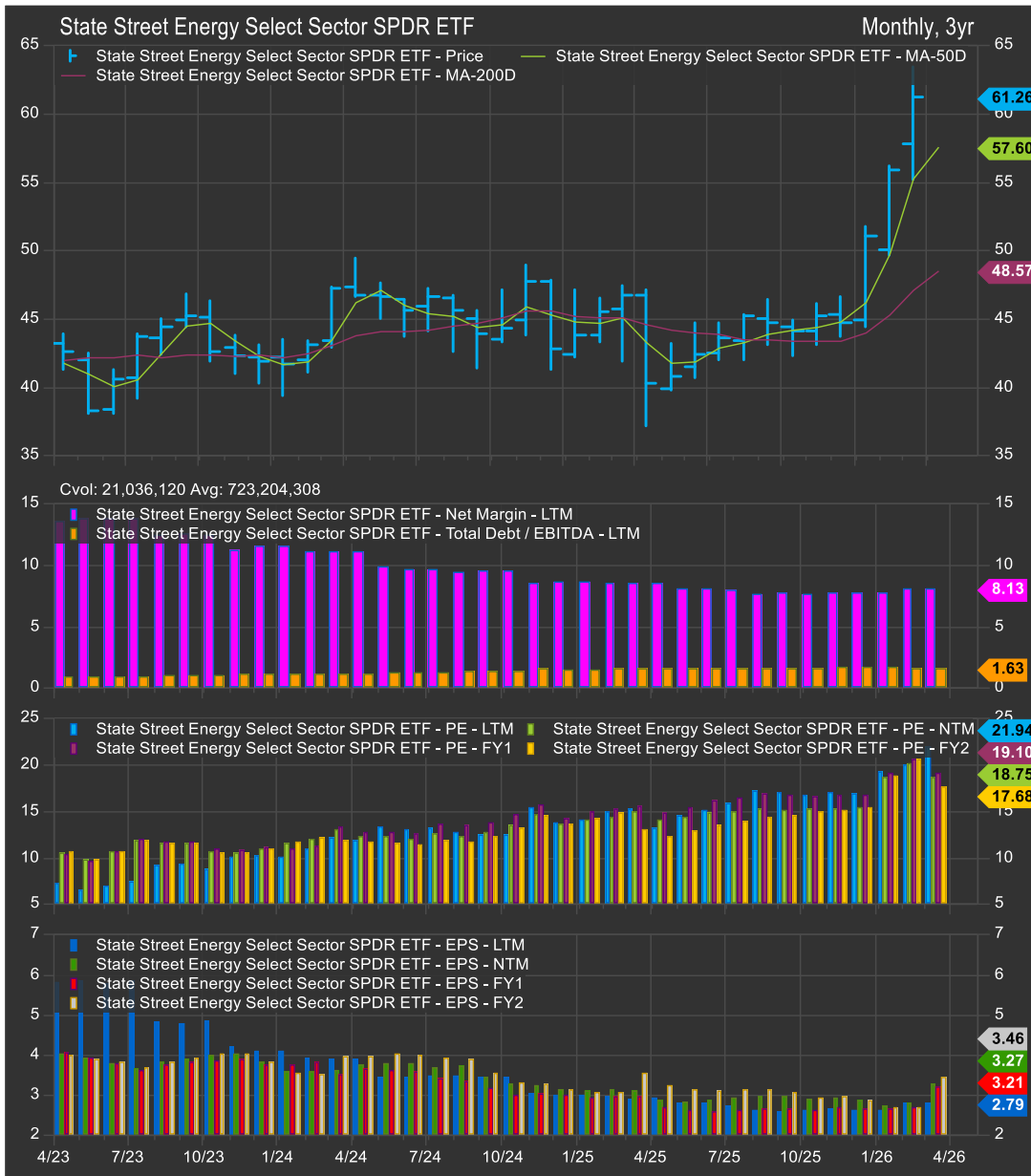
XLE is also highly concentrated. State Street shows the fund's top holdings as Exxon Mobil at **22.39%**, Chevron at **16.74%**, ConocoPhillips at **7.22%**, SLB at **4.68%**, Williams at **4.33%**, EOG Resources at **4.14%**, Valero at **4.12%**, Marathon Petroleum at **3.86%**, Baker Hughes at **3.76%**, and Phillips 66 at **3.74%**. At the industry level, XLE is **89.63% Oil, Gas & Consumable Fuels** and **10.37% Energy Equipment & Services**, which means the ETF is overwhelmingly tied to upstream, integrated, refining, and midstream fundamentals rather than a broad energy-transition basket.

The May outlook for Energy is **market weight to modest overweight**, with a tactical bias toward maintaining exposure as an inflation and geopolitical hedge. The sector has already had a strong year-to-date run, and April showed that it is vulnerable to profit-taking when de-escalation hopes rise. However, the macro backdrop remains supportive: oil prices are elevated, product inventories are tight, U.S. exports are strong, LNG demand is strategically important, and forward earnings estimates are improving.

The main upside scenario is persistent disruption around the Strait of Hormuz, sustained Brent above \$100, continued product-market tightness, and improving Energy earnings revisions. The main downside scenario is faster geopolitical de-escalation, OPEC+ supply leakage, weaker global demand, or a broader equity-market shift away from inflation-sensitive cyclicals. In portfolio terms, Energy remains one of the better hedges against oil-price inflation and geopolitical risk, but after April's volatility it should be sized as a tactical overweight rather than an unchecked momentum trade.

We start May long the Energy Sector with an overweight position of 4.13% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark

Fundamentals: Energy Sector



Energy fundamentals were mixed in April because the sector’s earnings base lagged the sharp move in spot crude. FactSet noted that while oil prices rose **77% during Q1**, the average Q1 2026 oil price was only **1.8% above** the Q1 2025 average. As a result, the Energy sector was expected to report a slight **0.1% year-over-year earnings decline** for Q1 2026, even though forward earnings estimates were much stronger.

The earnings setup was bifurcated by subindustry. FactSet expected **Oil & Gas Refining & Marketing** and **Oil & Gas Storage & Transportation** to show year-over-year earnings growth, while **Integrated Oil & Gas, Oil & Gas Equipment & Services, and Oil & Gas Exploration & Production** were expected to decline year-over-year in Q1. The key nuance is that Exxon Mobil was the largest contributor to the expected sector earnings decline; excluding Exxon, Energy sector earnings would have been expected to grow **12.5%**.

The forward setup is more constructive. FactSet projected Energy earnings growth above **35%** for each of the next four quarters, including estimated growth of **71.0% in Q2 2026, 42.1% in Q3 2026, 40.9% in Q4 2026, and 37.6% in Q1 2027**. That means the market is not buying Energy for backward-looking Q1 earnings; it is buying the sector for the possibility that higher crude, tight refined-product markets, and global supply disruption translate into stronger cash flow later in 2026.

The fundamental risk is that Energy’s current earnings upgrade cycle depends heavily on geopolitics. If the Strait of Hormuz disruption eases, oil prices normalize faster than expected, or global demand weakens under the weight of higher fuel prices, forward earnings estimates could prove too optimistic. Conversely, if supply disruption persists, the sector’s cash-flow upside remains significant.

Industry/Sub-Industry Performance and Breadth: Energy



Industry / Group	April Performance Trend	Key April Drivers	Fundamental Read	Macro / Policy Sensitivity
Integrated Oil & Gas	Pulled back after strong first-quarter leadership	Higher crude supported the cash-flow outlook, but profit-taking, Q1 earnings timing, and uncertainty around how long the Middle East risk premium can last weighed on sentiment.	Strong balance sheets, capital discipline, dividends, buybacks, and diversified upstream/downstream exposure remain supportive, but Q1 earnings comparisons were not yet fully reflecting spot-price strength.	Sensitive to Brent and West Texas Intermediate (WTI) crude, refining margins, global demand, production taxes, offshore leasing policy, and geopolitical risk.
Exploration & Production (E&P)	Volatile but fundamentally leveraged to oil upside	Crude above \$100 improved revenue expectations, but investors remained focused on capital discipline, hedging, cost inflation, and whether producers will chase growth.	Oil-weighted Exploration & Production companies have the most direct upside to sustained crude strength. Gas-weighted producers are less advantaged because Henry Hub natural gas remains more contained.	Sensitive to WTI prices, drilling costs, service inflation, shale productivity, federal land policy, and investor pressure for free cash flow over volume growth.
Refining & Marketing	Relative fundamental winner	Tight gasoline and distillate inventories, elevated diesel prices, and strong export demand supported margins, even as crude volatility complicated feedstock costs.	Refiners benefit when product cracks stay wide. The risk is that high gasoline and diesel prices eventually destroy demand or invite political scrutiny.	Sensitive to refinery utilization, gasoline demand, diesel inventories, renewable fuel rules, hurricane risk, and consumer fuel affordability.
Midstream / Storage & Transportation	Defensive relative performer	Stable fee-based cash flows, strong natural gas infrastructure demand, Liquefied Natural Gas (LNG) growth, and export bottlenecks supported the group.	Midstream is less directly exposed to spot crude than upstream, offering steadier cash flow and income. LNG and pipeline infrastructure remain secular supports.	Sensitive to Federal Energy Regulatory Commission (FERC) approvals, pipeline permitting, LNG export capacity, interest rates, and natural gas volumes.
Oilfield Services & Equipment	Mixed	Higher crude improves upstream spending appetite, but service names lag if producers remain capital-disciplined and do not accelerate drilling aggressively.	International and offshore service demand remains better than short-cycle U.S. shale, but margins depend on pricing power and activity levels.	Sensitive to global rig count, offshore project sanctioning, Middle East activity, U.S. shale budgets, and equipment inflation.
Natural Gas / LNG Levered Exposure	Improved strategically, mixed near term	LNG disruption and global gas shortages raised the strategic value of U.S. exports, but U.S. facilities were already near peak utilization, limiting immediate upside.	U.S. natural gas has better medium-term demand support from LNG exports, data-center power demand, and industrial use, but near-term Henry Hub prices are less explosive than global LNG prices.	Sensitive to LNG export approvals, FERC permitting, pipeline constraints, European and Asian gas prices, and weather.

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
BKR	Baker Hughes Company Class A	Uptrend	67,133.3	1.26	14.8	1.00	1.00	-5.1
SLB	SLB Limited	Bullish Reversal	83,538.1	0.92	14.1	1.52	0.68	-8.1
HAL	Halliburton Company	Bullish Reversal	34,092.6	0.78	17.0	1.23	0.53	-11.2
WMB	Williams Companies, Inc.	Bullish Reversal	89,317.5	1.43	4.7	2.07	0.60	-12.9
TRGP	Targa Resources Corp.	Uptrend	53,350.4	1.11	19.0	1.44	0.69	-12.9
FANG	Diamondback Energy, Inc.	Bullish Reversal	56,279.2	0.54	15.4	1.50	0.07	-13.0
OKE	ONEOK, Inc.	Bullish Reversal	56,570.5	0.73	7.1	3.44	0.58	-16.6
CTRA	Coterra Energy Inc.	Bullish Reversal	26,296.5	0.58	15.6	1.87	0.05	-16.8
DVN	Devon Energy Corporation	Bullish Reversal	30,727.1	0.44	16.4	1.61	0.07	-17.1
VLO	Valero Energy Corporation	Bullish Reversal	71,829.6	0.53	17.0	1.44	0.42	-17.7
KMI	Kinder Morgan Inc Class P	Bullish Reversal	70,727.2	1.06	0.5	2.69	0.61	-18.7
COP	ConocoPhillips	Bullish Reversal	151,527.8	0.69	13.0	1.95	-0.26	-19.3
MPC	Marathon Petroleum Corporation	Bullish Reversal	68,497.0	0.52	14.3	1.25	0.46	-19.8
EOG	EOG Resources, Inc.	Bullish Reversal	72,739.5	0.46	9.3	2.19	0.06	-20.7
OXY	Occidental Petroleum Corporation	Bullish Reversal	58,123.3	0.70	15.8	1.23	-0.32	-22.4
CVX	Chevron Corporation	Consolidation	375,850.8	0.75	1.9	2.72	0.16	-23.0
XOM	Exxon Mobil Corporation	Bullish Reversal	625,811.6	0.72	2.3	1.98	-0.19	-24.1
EQT	EQT Corporation	Consolidation	37,165.9	0.57	-3.3	0.79	0.32	-24.2
PSX	Phillips 66	Bullish Reversal	66,214.3	0.55	4.2	2.18	0.79	-24.5
APA	APA Corporation	Bullish Reversal	13,658.9	0.37	29.8	1.89	-0.27	-24.5
EXE	Expand Energy Corporation	Retracement	23,309.0	0.50	-16.3	1.71	0.20	-26.7
TPL	Texas Pacific Land Corporation	Bullish Reversal	29,706.9	2.07	8.6	0.40	0.31	-28.0

Despite the big pull-back in April, we are still constructive on Energy stocks with crude finishing the month on a strong note.

At the stock level the entire sector was negative for April, but we suspect the melt-up in Tech shares has priced in a little too much good news on the geopolitical front. Ceasefire news was met with relief, but crude remains over \$100 a barrel and Energy Sector earnings are rebounding 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 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 Energy sector's April setup was dominated by a rare combination of geopolitical supply risk, high crude prices, tight product markets, and U.S. export strength. Unlike Consumer Staples, where inflation is mostly a margin headwind, Energy can benefit directly from higher commodity prices. The challenge is that the sector's strongest macro tailwind is also its largest risk: if the geopolitical premium fades, earnings estimates and multiples could compress quickly.

Oil-price risk premium and the Strait of Hormuz

The most important macro variable remains the Middle East conflict and the disruption around the Strait of Hormuz. The U.S. Energy Information Administration (EIA) assumes the conflict does not persist past April and that traffic through Hormuz gradually resumes, but it still expects production shut-ins to fall only to **6.7 million barrels per day in May** and return close to pre-conflict levels only in late 2026. The EIA also expects Brent crude to peak around **\$115 per barrel in Q2 2026** before easing, while maintaining a risk premium throughout the forecast period.

That forecast is central to the Energy investment case. If Brent stays near or above \$100, large-cap integrated oils and oil-weighted Exploration & Production companies should see meaningful cash-flow uplift. If the EIA's de-escalation assumption proves too optimistic and outages persist, Energy earnings estimates could continue to rise. If de-escalation happens faster and physical flows normalize, Energy could struggle to hold April's leadership premium.

Brent-WTI spread and U.S. export advantage

The EIA also noted that the Brent-West Texas Intermediate spread widened to an average of **\$12 per barrel in March** and was forecast to peak near **\$15 per barrel in April**, reflecting Brent's greater exposure to shipping costs and reduced Middle East-to-Asia flows.

This matters because U.S. producers and exporters can benefit when global barrels are scarce, and U.S. crude is comparatively advantaged. Reuters reported that the United States became a net crude exporter on a weekly basis for the first time since World War II, with crude exports reaching a record **6.44 million barrels per day** and total crude-and-product exports reaching **14.18 million barrels per day** for the week ended April 24.

The investment read-through is positive for U.S. upstream, midstream, export infrastructure, and Gulf Coast refining. However, a very wide Brent-WTI spread can also reflect global disruption rather than healthy demand, so investors should separate export opportunity from broader macro stress.

Product-market tightness: gasoline, diesel and refining margins

Refining became one of the more attractive subindustry setups in April. The EIA said higher crude prices pushed gasoline and diesel prices higher, with diesel particularly elevated because of tight global supplies and U.S. inventories below the five-year average. It forecast retail gasoline prices near **\$4.30 per gallon in April** and diesel above **\$5.80 per gallon** before easing later in the year.

Reuters also reported that U.S. gasoline inventories fell for an eleventh consecutive week and distillate inventories posted a large decline during the week ended April 24. This supports refiners because tight product inventories can widen crack spreads and improve margins. The risk is political and economic: if gasoline and diesel prices remain elevated into driving season, demand destruction and consumer pressure could rise.

OPEC+ cohesion and supply discipline

The Organization of the Petroleum Exporting Countries and allies (OPEC+) remains a major swing factor. Reuters reported that HSBC expects the United Arab Emirates' planned May 2026 departure from OPEC and OPEC+ to have limited immediate impact because Hormuz disruption is currently limiting Gulf shipments, but it could weaken longer-term quota discipline once shipping access normalizes.

For investors, this is a two-stage risk. In the near term, disrupted logistics matter more than formal quota policy. Over the medium term, any weakening of OPEC+ discipline could increase supply once physical flows resume, potentially pressuring oil prices later in 2026 or 2027. That argues against assuming today's crude price is a permanent new floor.

U.S. production discipline and shale behavior

The April oil rally has not yet produced a major shift in U.S. production behavior. Reuters reported that U.S. oil production was steady at **13.6 million barrels per day** in the latest weekly EIA data. That is important because public-market investors still prefer capital discipline, dividends, buybacks, and balance-sheet strength over a return to aggressive shale volume growth.

For May, a disciplined production response would be bullish for equities because it allows higher prices to flow into free cash flow. A rapid increase in drilling budgets would be less supportive because it could revive cost inflation, pressure service capacity, and raise investor concerns about oversupply.

Natural gas and LNG: strong global demand, limited near-term U.S. flexibility

Liquefied Natural Gas (LNG) became strategically more important in April as Middle East disruption affected global gas flows. The EIA reported that the United States exported an estimated **17.9 billion cubic feet per day** of LNG in March, the second-highest monthly export volume after December 2025's record, but it also noted that U.S. terminals were already running at high utilization, limiting near-term export growth.

The EIA separately forecast that U.S. LNG exports would rise **1.9 billion cubic feet per day in 2026** to average **17.0 billion cubic feet per day**, then increase another **1.5 billion cubic feet per day in 2027**. This supports midstream, pipeline, compression, and LNG infrastructure exposure. However, it is less immediately bullish for U.S. domestic natural gas producers if Henry Hub prices remain contained by production growth and limited near-term export flexibility.

U.S. energy policy: more supportive for hydrocarbons

Federal policy was broadly more supportive of traditional Energy than in prior years. The Department of Energy (DOE) said the administration had ended the prior LNG export pause and approved more LNG export capacity since January than the volume currently exported by the world's second-largest LNG exporter. For large-cap Energy investors, this improves the long-term policy backdrop for LNG developers, pipeline companies, natural gas producers, and oilfield service firms tied to export infrastructure.

The Federal Energy Regulatory Commission (FERC) also remains central because pipeline and LNG approvals determine whether U.S. supply can reach export markets. FERC's LNG resource page tracks existing, approved-not-yet-built, and proposed U.S. LNG export terminals, highlighting the importance of infrastructure bottlenecks and permitting timelines. Faster approvals would be supportive for midstream and services; delays would constrain the ability of U.S. natural gas to fully arbitrage global LNG tightness.

Environmental regulation and methane policy

Environmental regulation is still a risk variable, but April developments were friendlier to producers. Harvard's Environmental & Energy Law Program noted that on April 6, the Environmental Protection Agency (EPA) released a final rule revising parts of its 2024 methane regulations for oil and gas, loosening requirements for flares and vent gas and giving operators more flexibility.

This is supportive for upstream and midstream margins because compliance costs may be less severe than feared. However, methane policy remains legally and politically contested. Investors should not treat lower compliance burden as a permanent certainty, especially for companies with high emissions intensity or assets exposed to state-level regulation.

Offshore, leasing and decommissioning policy

Offshore policy also moved in a more producer-friendly direction. Industry updates in April noted that the Department of the Interior proposed rolling back Biden-era bonding requirements that had increased the amount offshore oil and gas producers must post for decommissioning obligations. Lower bonding requirements could improve capital flexibility for offshore operators and marginally support Gulf of Mexico activity. The risk is that looser bonding rules could face legal or political challenges if critics argue they shift decommissioning risk to taxpayers.

Energy transition policy: less favorable for renewables, indirectly supportive for hydrocarbons

Energy transition policy also shifted toward hydrocarbons. The Associated Press reported that Democrats were investigating Trump administration approvals of nearly **\$2 billion** in taxpayer-funded payouts to companies to exit offshore wind projects, with conditions tied to reinvestment in fossil fuels. While this is not directly an XLE driver, it reinforces the policy tilt away from offshore wind and toward traditional energy infrastructure.

For S&P 500 Energy, that policy backdrop is supportive at the margin because it reduces the relative policy advantage that renewables enjoyed in prior cycles. However, it also raises headline and litigation risk around energy policy, which could make project timelines and capital allocation more politically sensitive.

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.