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Monthly Insights: June Outlook

Energy Sector

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Sector Price Action & Performance Review: Energy



The S&P 500 Energy sector enters June as a **modest overweight**. Energy remains one of the cleanest expressions of the current **inflationary bull-market regime**. The sector offers direct exposure to elevated crude prices, refined-product tightness, geopolitical risk premium, LNG demand and commodity-linked cash flows. It also provides useful portfolio diversification at a time when the broad S&P 500 is increasingly concentrated in AI and mega-cap growth.

Using VDE as the reference security, the sector has had a very strong intermediate move but is not tactically overbought. In the 5/28 return and flow data, VDE is up **4.52% over one month**, **9.19% over three months** and **35.43% over six months**, while its **RSI is only 48.1**. That is a constructive technical profile: the sector has clear intermediate leadership, but recent consolidation has reset near-term momentum. Flows are more mixed, with **-\$112 million of one-month outflows** but **+\$824 million year-to-date inflows**, suggesting investors are willing to own Energy as a strategic hedge, but are not chasing it indiscriminately.

The main technical risk is a break in crude price leadership. If Brent/WTI move lower on a credible Hormuz reopening, and if Energy equities fail to hold recent consolidation levels, the sector could lose its hedge premium quickly. Conversely, if oil holds firm despite diplomatic headlines, Energy equities may attract renewed inflows because investors will read that as evidence of physical-market tightness rather than purely geopolitical speculation

June Outlook

The June outlook is **modestly constructive**. Energy should be overweight, but not aggressively overweight. The sector's best function in the portfolio is to provide inflation protection, geopolitical risk exposure and real-asset diversification alongside more growth-oriented overweights in Technology and Industrials.

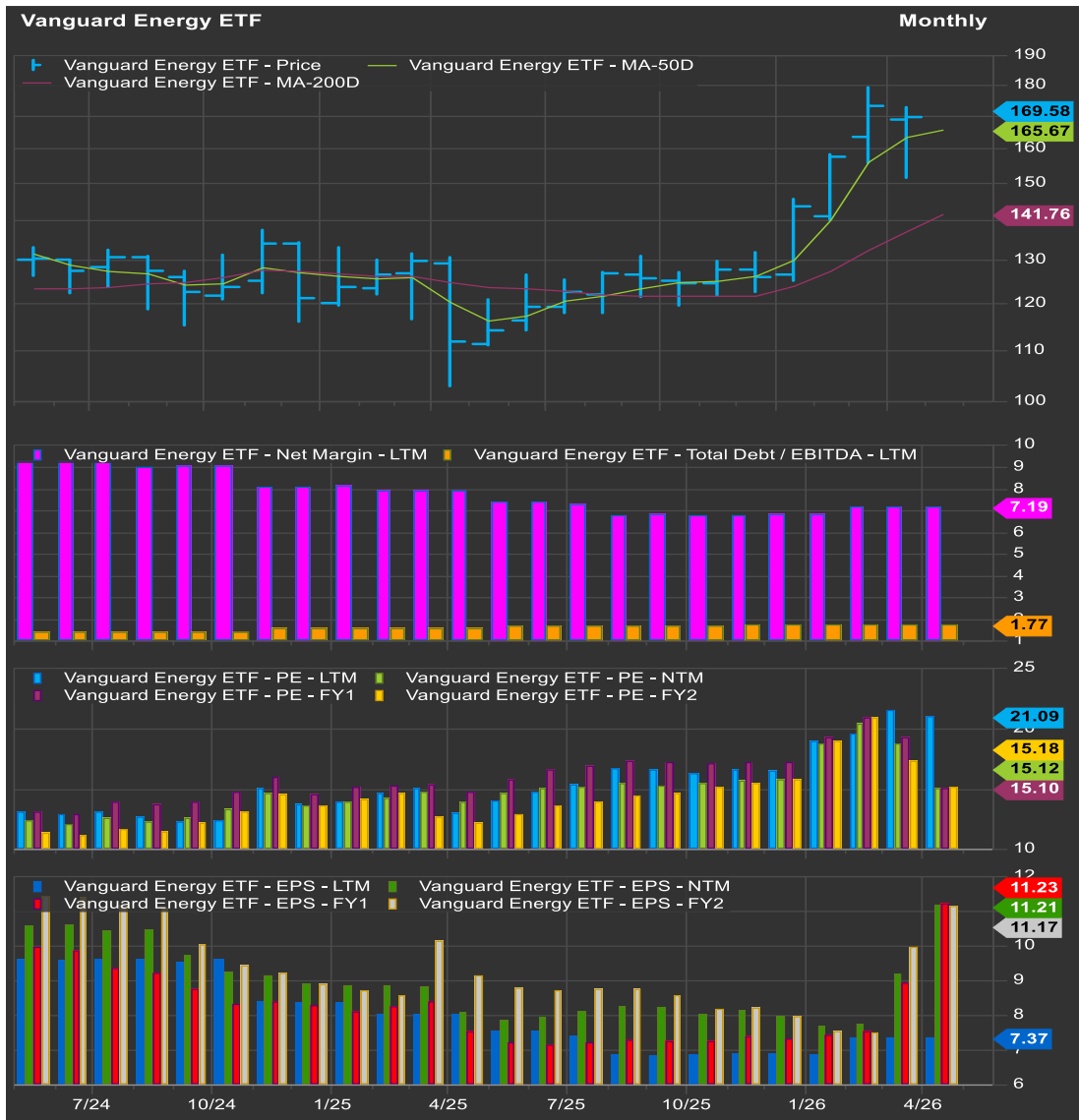
The upside case is straightforward: crude remains elevated, product inventories continue to draw, the Strait of Hormuz recovery is slow, gasoline demand firms into summer, and Energy companies continue to convert high commodity prices into free cash flow and shareholder returns. In that scenario, integrated majors, refiners and select E&Ps should outperform, while midstream provides lower-volatility participation.

The downside case is also clear. A durable U.S.-Iran agreement, faster-than-expected normalization of shipping, weaker demand, or a broader risk-off move could compress crude risk premium and pressure the sector. Energy is also exposed to policy risk around sanctions, SPR releases, federal leasing, LNG approvals, pipeline permitting and emissions regulation.

The recommended June posture is to stay **modestly overweight Energy**, with a bias toward integrated majors, high-quality midstream and select refiners. Maintain exposure as a hedge against high commodity prices and inflation persistence but avoid overextending into high-cost producers or highly levered services. The sector remains useful and timely, but its risk/reward is more tactical and commodity-dependent than the secular overweight cases in Technology and Industrials.

We start June long the Energy Sector with an **overweight position of 0.77% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Energy Sector



Fundamentals are supportive, but not uniformly clean. FactSet showed that Energy produced a strong aggregate earnings surprise in Q1, with the sector reporting earnings **19.9% above estimates**, the third-largest positive earnings surprise among S&P 500 sectors. The largest positive Energy surprises came from Phillips 66, Marathon Petroleum, Occidental, Chevron and Valero. However, FactSet also noted that Energy's Q1 earnings-growth rate deteriorated to **0.6%** from **8.2%** at the end of March, and that Energy had one of the smallest revenue surprise percentages at **0.9%**.

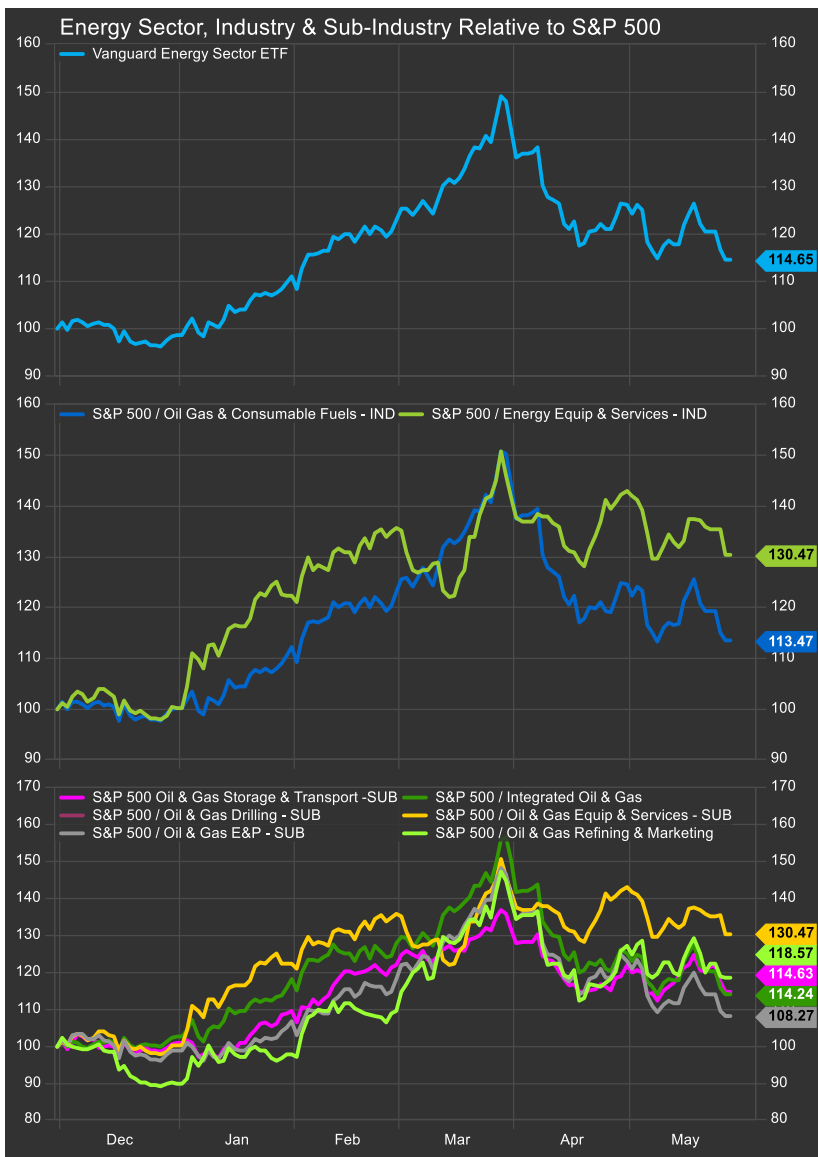
That mixed earnings picture is important. Energy is not being driven by broad, clean earnings acceleration in the same way Technology is. Instead, it is being driven by the intersection of commodity prices, capital discipline, shareholder returns, refining spreads, inventories and geopolitical optionality. This makes the sector attractive in the current macro environment, but it also means the investment case is more path-dependent than secular-growth sectors.

VDE's composition is useful for framing the exposure. Vanguard's Energy ETF had **106 holdings**, a **22.3x P/E**, **2.5x P/B**, **17.6% ROE** and a **39.1% earnings-growth rate** as of March 31. The portfolio is highly concentrated in the largest integrated and upstream companies, with Exxon Mobil at **22.7%**, Chevron at **15.0%**, ConocoPhillips at **6.1%**, and the top ten holdings at **64.1%** of assets. By industry, VDE is weighted toward **Integrated Oil & Gas at 39.5%**, **Exploration & Production at 23.1%**, **Storage & Transportation at 14.4%**, **Equipment & Services at 10.5%**, and **Refining & Marketing at 10.2%**.

That composition argues for a quality-biased Energy allocation. Integrated majors remain the preferred core exposure because they combine upstream leverage, downstream optionality, strong balance sheets and shareholder-return discipline. E&P offers more direct crude beta, but also greater downside if geopolitical risk premium fades. Midstream remains attractive for more durable, fee-based cash flows and inflation-linked contract structures. Refiners benefit from tight product markets, but earnings can reverse quickly if crack spreads normalize. Services require sustained producer capex and international activity.

Ticker	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VDE	\$168.02	+0.44%	-2.03%	+4.52%	+9.19%	+35.43%	48.1	-\$112.2M	\$824.2M	\$541.0M

Industry/Sub-Industry Performance and Breadth: Energy



Industry	Approx. Fund Weight	Fundamental Read	Macro / Policy Sensitivity
Integrated Oil & Gas	39.5%	Highest-quality cash-flow sleeve; integrated balance sheets absorb volatility.	Brent/WTI, refining, LNG, sanctions, capital discipline.
Oil & Gas Exploration & Production	23.1%	Highest beta to crude and natural gas prices.	WTI, natural gas, shale productivity, OPEC+, hedging, leasing.
Oil & Gas Storage & Transportation	14.4%	More durable fee-based cash flows and inflation escalators.	Volumes, LNG exports, pipelines, permitting, rates.
Oil & Gas Equipment & Services	10.5%	Benefits from drilling, completion and international capex.	Rig counts, offshore capex, service pricing, sanctions.
Oil & Gas Refining & Marketing	10.2%	Product cracks and fuel tightness support earnings.	Gasoline/diesel demand, outages, biofuel policy, crude differentials.
Oil & Gas Drilling	1.4%	Small but high-beta capex exposure.	Dayrates, offshore projects, shale activity, financing.
Coal & Consumable Fuels	0.8%	Small sleeve; can benefit from power-market tightness.	Power demand, environmental rules, gas prices, exports.

Top 10/Bottom 10 Stock Level Performers: Energy

Symbol	Name	GICS Sector 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
TRGP	Targa Resources Corp.	Energy	Uptrend	56,590.9	1.10	11.4	1.35	0.58	4.8
MPC	Marathon Petroleum Corporation	Energy	Bullish Reversal	72,122.9	0.44	12.8	1.17	0.38	4.2
PSX	Phillips 66	Energy	Bullish Reversal	70,015.3	0.48	6.9	2.06	0.60	2.2
KMI	Kinder Morgan Inc Class P	Energy	Bullish Reversal	71,683.9	1.04	-3.8	2.69	0.44	0.1
WMB	Williams Companies, Inc.	Energy	Bullish Reversal	90,954.4	1.45	-2.1	2.06	0.54	-1.1
SLB	SLB Limited	Energy	Bullish Reversal	84,470.8	0.93	9.3	1.54	0.75	-2.6
OKE	ONEOK, Inc.	Energy	Bullish Reversal	55,575.2	0.71	1.2	3.54	0.51	-3.2
VLO	Valero Energy Corporation	Energy	Bullish Reversal	71,364.8	0.46	8.8	1.44	0.35	-3.6
EOG	EOG Resources, Inc.	Energy	Bullish Reversal	71,532.0	0.40	2.0	2.22	-0.01	-4.1
XOM	Exxon Mobil Corporation	Energy	Consolidation	613,037.7	0.65	-3.4	2.04	-0.34	-4.5
CVX	Chevron Corporation	Energy	Consolidation	363,267.4	0.64	-4.5	2.82	0.00	-5.3
OXY	Occidental Petroleum Corporation	Energy	Consolidation	56,584.8	0.58	2.9	1.26	-0.39	-5.6
FANG	Diamondback Energy, Inc.	Energy	Bullish Reversal	54,248.5	0.48	3.2	1.63	0.11	-6.2
HAL	Halliburton Company	Energy	Bullish Reversal	33,081.8	0.73	7.4	1.29	0.58	-6.3
EXE	Expand Energy Corporation	Energy	Retracement	22,162.2	0.49	-20.3	1.79	0.02	-8.2
COP	ConocoPhillips	Energy	Consolidation	140,262.2	0.56	-2.0	2.14	-0.32	-9.6
APA	APA Corporation	Energy	Bullish Reversal	12,944.1	0.32	10.9	2.01	-0.32	-9.7
EQT	EQT Corporation	Energy	Consolidation	34,507.6	0.55	-16.4	0.86	0.13	-10.6
TPL	Texas Pacific Land Corporation	Energy	Retracement	28,009.8	2.02	-13.5	0.43	0.08	-12.0
BKR	Baker Hughes Company Class A	Energy	Uptrend	62,698.7	1.16	-6.4	1.05	1.04	-12.2
DVN	Devon Energy Corporation	Energy	Consolidation	51,041.1	0.38	-5.2	1.95	0.09	-13.1

Bearish retracement continued for most stocks in the sector. MLP's and Refiners were positive standouts while smaller integrated names took the brunt of the selling

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

What Shaped the Energy Narrative in May

The dominant May narrative was the Middle East supply shock and its impact on crude, products and inflation expectations. The market repeatedly repriced Energy equities around U.S.-Iran headlines, ceasefire speculation and the possibility of reopening the Strait of Hormuz. Reuters reported that Brent rose about 4% on May 26 after U.S. strikes in Iran reduced optimism for a deal, with Brent settling at **\$99.58** and WTI at **\$93.89**; the same report noted that the Strait of Hormuz remained restricted and normally handles roughly one-fifth of global oil and LNG flows.

That geopolitical volatility has created a two-sided but fundamentally supportive setup for Energy. On one side, any credible ceasefire or reopening of shipping routes can trigger sharp crude-price declines, as risk premium comes out quickly. On the other side, continued disruption, low inventory buffers and restricted flows support a higher crude-price floor than investors were underwriting earlier in the year. AP captured the cross-asset version of the same dynamic: stocks rallied to records as oil gave back much of an overnight gain on reports of a tentative U.S.-Iran agreement, but oil remained a central inflation variable for the broader market.

EIA's May Short-Term Energy Outlook reinforces the constructive Energy-sector backdrop. EIA assessed that Middle East production disruptions had increased materially, with **10.5 million barrels per day** of crude production shut in across Iraq, Saudi Arabia, Kuwait, the UAE, Qatar and Bahrain in April. Its May forecast assumed shipping through the Strait of Hormuz begins to recover in June, but does not return to pre-conflict levels until later this year; EIA also forecast global oil inventories to decline by **2.6 million barrels per day** in 2026 and Brent to average roughly **\$106 per barrel in May and June**.

The inventory narrative also supported Energy. Reuters reported that API data showed U.S. crude inventories falling for a sixth straight week, with crude stocks down **2.8 million barrels** and gasoline inventories down **3.2 million barrels** for the week ended May 22. For Energy equities, inventory draws matter because they reduce the market's ability to absorb further supply shocks and keep product markets tight heading into the summer driving season.

Inflation data gave Energy an additional macro role. April CPI rose **3.8% year over year**, while the Energy CPI component rose **17.9%** and gasoline rose **28.4%**. That reinforces Energy's role as an inflation hedge, but it also highlights the sector's macro risk: if oil and gasoline rise too far, they pressure the consumer, lift inflation expectations and reduce the Fed's ability to ease.

Appendix: Sources (all chart sourced from FactSet Research Systems Inc.)

- **EIA Short-Term Energy Outlook, May 2026** — Brent forecast, Middle East production disruption, global oil inventories, LNG exports, natural gas and electricity-demand forecasts.
- **Reuters: Brent crude jumps as U.S. strikes in Iran affect Hormuz reopening expectations** — oil-price and geopolitical risk premium narrative.
- **Reuters: API crude and fuel inventory draw report** — crude, gasoline and fuel inventory backdrop.
- **BLS CPI, April 2026** — energy, gasoline and fuel-oil inflation data used in Energy inflation-hedge framing.

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.