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Monthly Insights: July Outlook

# Energy Sector

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# Sector Price Action & Performance Review: Energy



Energy enters July as a **high-earnings-growth sector with deteriorating near-term price momentum**. VDE is still up **21.3% over six months**, but the sector lost leadership in June as crude oil's geopolitical risk premium collapsed. The model's WTI proxy fell from the high-\$80s earlier in June to **\$69.23 by 6/26**, producing a sharp reversal in Energy equities. The sector's model score fell to **-0.94**, ranking **10th of 11 sectors**, while VDE's RSI dropped to **37.8**.

The industry-level signal is more useful than the sector-level signal. **Oil, Gas & Consumable Fuels** held up much better than **Energy Equipment & Services**. Midstream, refining and select storage/transportation names were the relative winners, while oilfield services and large upstream/integrated producers lagged as investors started discounting lower crude prices and less urgency around emergency supply growth..

## July Outlook

The base case for July is **selective and neutral-to-cautious** for Energy. The sector's fundamentals are strong, valuation is low and dividends are attractive, but crude price momentum has weakened enough to keep Energy from being a broad leadership call. The better opportunity is industry-specific.

The most attractive July setup is in **midstream and select refining**. Midstream names offer cash-flow durability, dividend support and less direct exposure to daily crude-price swings. Refiners can still work if product inventories remain below normal and crack spreads stay resilient. Williams, Kinder Morgan, Targa, ONEOK, Valero and Marathon Petroleum are the names with the strongest relative evidence in the stock table.

The weaker setup is in **Energy Equipment & Services**. SLB, Halliburton and Baker Hughes all have negative one-month excess returns, weak momentum scores and poor chart structures. The industry needs either a sustained crude rebound, stronger upstream capex guidance or a clearer LNG/international project-cycle catalyst before it becomes compelling again.

Large-cap integrated and E&P names are fundamentally cheap, but price action is not confirming. Exxon, Chevron, ConocoPhillips, Occidental and Diamondback have attractive valuation and dividend characteristics, but their negative momentum scores and weak 50-day-distance readings argue for patience. These stocks are more likely to work if crude stabilizes above the late-June lows or if Q2 earnings commentary convinces investors that cash returns can remain strong even under lower spot prices.

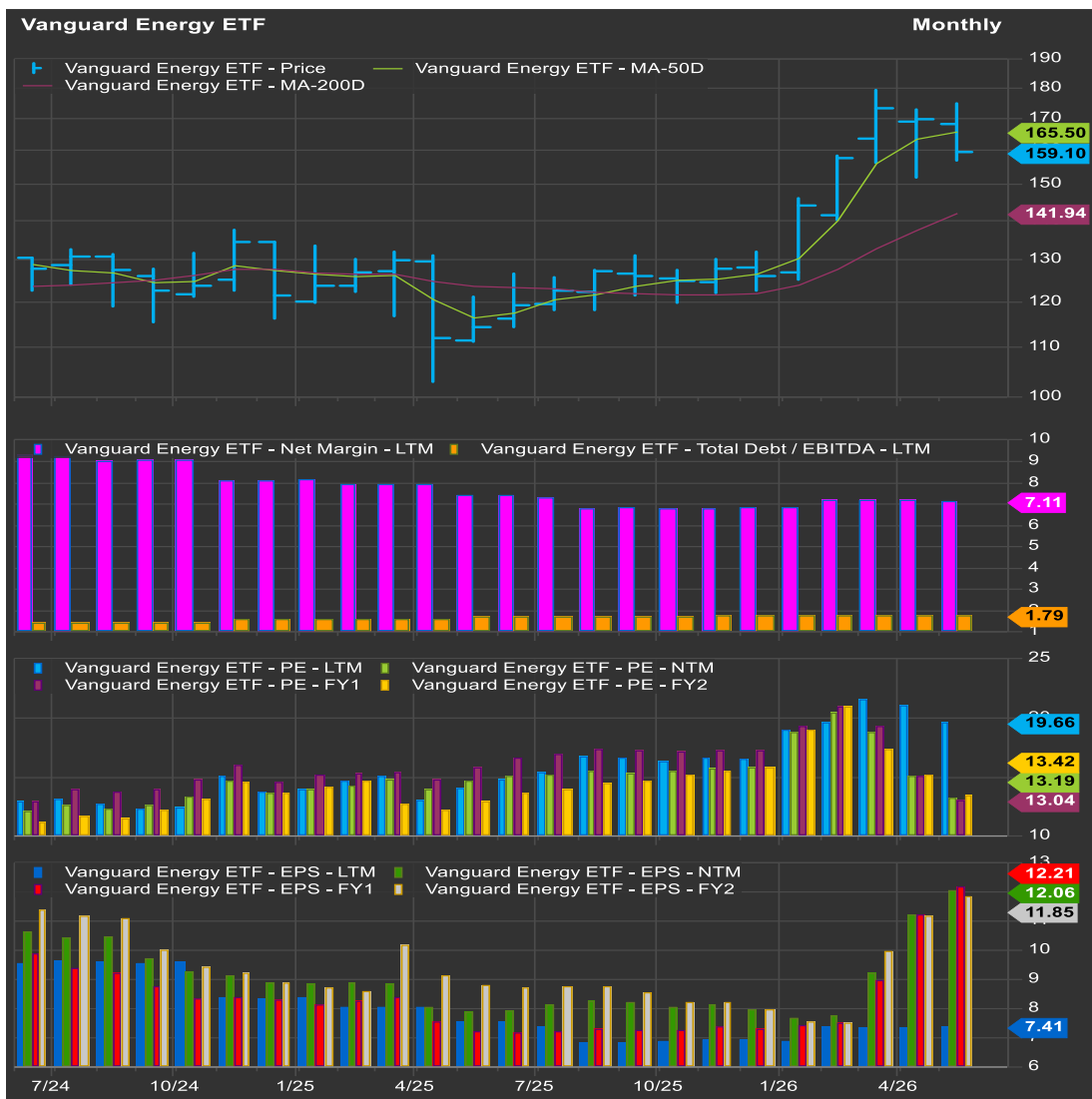
Upside case: Hormuz risk returns, oil rebounds, OPEC+ supply additions are offset by demand or logistics constraints, and Q2 Energy earnings confirm FactSet's aggressive revision path. In that scenario, Energy could quickly regain leadership because valuations are low and positioning has already been reduced.

Downside case: Hormuz flows normalize, OPEC+ supply returns, gasoline demand remains soft and crude moves lower. In that scenario, Energy's earnings-revision story would look backward-looking, and the weakest groups would likely remain Equipment & Services and high-beta E&P.

**Bottom line:** Energy's July outlook is not bearish on fundamentals, but it is cautious on timing. The sector has strong earnings, low valuation and dividend support, but price action has shifted against broad Energy exposure. Favor midstream and select refiners; wait for crude stabilization before upgrading integrated oil, E&P or oilfield services.

**We start July out of the Energy Sector with an underweight position of -3.22% in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

# Fundamentals: Energy Sector



The fundamental story is much stronger than the price action. FactSet expects Energy to deliver the **highest Q2 earnings growth rate of all 11 S&P 500 sectors**, with estimated year-over-year earnings growth of **123.2%**. Energy also saw the largest increase in estimated dollar-level earnings since the start of the quarter, rising **50.6%** to **\$52.3B** from **\$34.7B**. That is a powerful revision profile, but the sector still declined **12.6%** since March 31, which highlights the market's skepticism about the durability of crude-linked earnings.

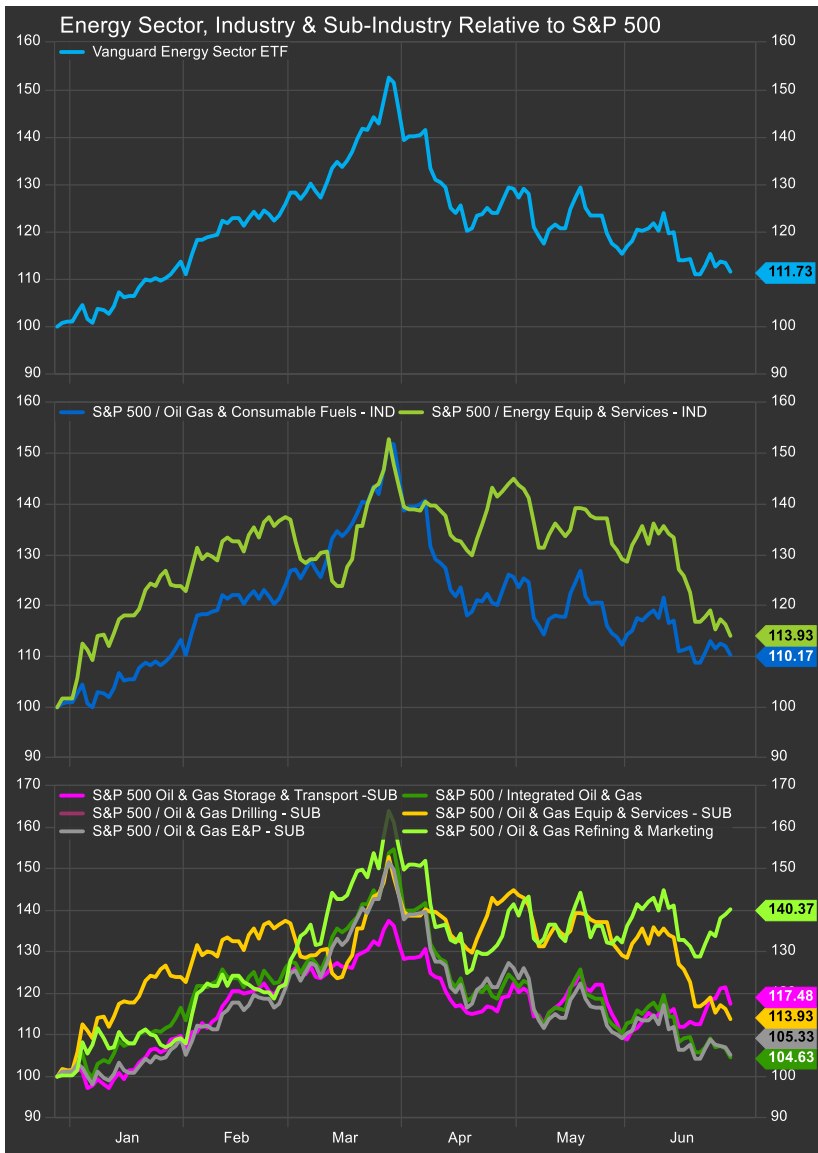
The earnings revision story is broad inside Energy. FactSet reports that **16 of the 21 Energy companies** saw mean EPS estimates increase since March 31, and **12** had estimate increases of more than 10%. The largest contributors included Chevron, Exxon Mobil, Marathon Petroleum, ConocoPhillips, Valero, EOG, Phillips 66, Occidental and Diamondback. That means analysts have been upgrading the same large-cap producers and refiners that recently came under price pressure.

At the sub-industry level, the earnings-growth profile is highly uneven. FactSet expects **Oil & Gas Refining & Marketing** earnings growth of **216%**, **Integrated Oil & Gas** growth of **161%**, **Oil & Gas Exploration & Production** growth of **112%** and **Oil & Gas Storage & Transportation** growth of **7%**. The outlier is **Oil & Gas Equipment & Services**, where earnings are expected to decline **19%**. This lines up closely with the stock-level table: refiners and midstream names held up, while SLB, Halliburton and Baker Hughes lagged.

Revenue and margin trends also support the fundamental case. FactSet expects Energy revenue growth of **27.8%**, the second-highest among the 11 sectors, and expects the sector's Q2 net profit margin to rise to **13.4%**, versus **7.7%** a year ago and a five-year average of **9.6%**. The valuation backdrop is also supportive: Energy has the lowest forward P/E of any S&P 500 sector at **12.6x**. The problem is that investors are discounting lower future oil prices faster than analysts are revising estimates.

Ticker	Exposure	Price	1D	1W	1M	3M	6M	RSI	1M Flow	YTD Flow	1Y Flow
VOO	S&P 500	\$670.26	-0.5%	-2.6%	-2.9%	+13.0%	+6.0%	43.2	-\$2.63B	+\$56.87B	+\$119.13B
VDE	Energy	\$152.07	-0.3%	+0.2%	-5.5%	-12.7%	+21.3%	37.8	-\$119M	+\$701M	+\$222M

# Industry/Sub-Industry Performance and Model Scores



Indicator	Latest Reading	June Message	Investment Interpretation
Energy sector score	<b>-0.94</b>	Weak model signal	Energy ranks 10th of 11 sectors; near-term trend has deteriorated.
Energy sector rank	<b>10 / 11</b>	Lagging	Energy has fallen out of leadership despite strong YTD performance.
VDE 1M return	<b>-5.5%</b>	Momentum damaged	Crude reversal and lower commodity risk premium pressured the sector.
VDE 3M return	<b>-12.7%</b>	Intermediate trend negative	The sector's spring leadership has corrected sharply.
VDE 6M return	<b>+21.3%</b>	Longer-term gains intact	Energy still has strong YTD/6M performance, but entry point is less favorable.
VDE RSI	<b>37.8</b>	Not washed out, but weak	RSI is low enough to show selling pressure but not extreme capitulation.
WTI crude proxy	<b>\$69.23</b>	Down sharply	Crude weakness is the main near-term sector headwind.
Bloomberg Commodity Index	<b>122.99</b>	Commodity impulse cooled	Broad commodity weakness reduces inflation-hedge demand.
10Y breakeven inflation	<b>2.20%</b>	Inflation expectations eased	Lower inflation expectations reduce Energy's hedge premium.
HY OAS	<b>283 bp</b>	Credit stress contained	Credit markets are not sending a recessionary warning, but risk spreads widened modestly.

## Top 10/Bottom 10 Stock Level Performers: Energy

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum	Div Yield Rel.	Beta
WMB	Williams Companies	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	+10.0%	1.58	3.6	2.00	0.44
VLO	Valero Energy	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	+8.6%	0.51	6.6	1.27	0.28
KMI	Kinder Morgan	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	+6.7%	1.11	-3.2	2.62	0.36
TRGP	Targa Resources	Energy	Oil Gas & Consumable Fuels	Uptrend	+6.7%	1.18	7.6	1.30	0.49
OKE	ONEOK	Energy	Oil Gas & Consumable Fuels	Consolidation	+5.2%	0.75	-4.5	3.46	0.39
MPC	Marathon Petroleum	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	+3.8%	0.46	3.8	1.10	0.31
TPL	Texas Pacific Land	Energy	Oil Gas & Consumable Fuels	Consolidation	+1.4%	2.05	-12.5	0.41	-0.07
EOG	EOG Resources	Energy	Oil Gas & Consumable Fuels	Consolidation	+1.2%	0.41	-8.2	2.22	-0.08
PSX	Phillips 66	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	-0.2%	0.48	-6.1	2.04	0.54
DVN	Devon Energy	Energy	Oil Gas & Consumable Fuels	Consolidation	-0.9%	0.38	-14.7	1.94	-0.04

The top Energy performers are concentrated in **midstream, refining and storage/transportation-oriented exposure**, not pure upstream beta. Williams, Kinder Morgan, Targa and ONEOK show that investors favored cash-flow stability, dividend support and infrastructure-like exposure. Valero and Marathon Petroleum show that refining leverage still has a place in the Energy trade, especially when product markets remain tight even as crude prices fall.

The top table also shows a valuation discipline. Valero, Marathon, Phillips 66, Devon and EOG all trade at valuation multiples below the index, while many also carry dividend-yield multiples above the index. That tells us June's Energy winners were not expensive growth stories; they were value/cash-flow stories with either bullish reversal or consolidation patterns.

The most constructive chart profiles are **Williams, Valero, Kinder Morgan, Marathon Petroleum and Phillips 66**, all of which have bullish reversal patterns. Targa is the cleanest momentum name, with the only uptrend pattern in the Energy sector table. The weaker signal is that even several top-10 Energy names still have negative momentum scores, which means this is not yet a broad industry leadership phase.

# Top 10/Bottom 10 Stock Level Performers: Energy

Symbol	Company	Sector	Industry	Pattern	1M Excess	Valuation Rel.	Momentum	Div Yield Rel.	Beta
SLB	SLB	Energy	Energy Equipment & Services	Consolidation	-11.6%	0.79	-13.4	1.80	0.66
HAL	Halliburton	Energy	Energy Equipment & Services	Retracement	-10.0%	0.65	-15.1	1.45	0.46
BKR	Baker Hughes	Energy	Energy Equipment & Services	Consolidation	-9.9%	1.08	-12.2	1.19	0.92
OXY	Occidental Petroleum	Energy	Oil Gas & Consumable Fuels	Consolidation	-9.7%	0.51	-18.4	1.44	-0.45
APA	APA	Energy	Oil Gas & Consumable Fuels	Bullish Reversal	-7.0%	0.31	-16.2	2.20	-0.43
COP	ConocoPhillips	Energy	Oil Gas & Consumable Fuels	Consolidation	-5.2%	0.55	-17.4	2.31	-0.39
FANG	Diamondback Energy	Energy	Oil Gas & Consumable Fuels	Consolidation	-4.7%	0.47	-11.0	1.70	0.02
XOM	Exxon Mobil	Energy	Oil Gas & Consumable Fuels	Retracement	-4.4%	0.63	-17.2	2.16	-0.42
CVX	Chevron	Energy	Oil Gas & Consumable Fuels	Retracement	-3.9%	0.64	-16.3	2.99	-0.07
EXE	Expand Energy	Energy	Oil Gas & Consumable Fuels	Downtrend	-2.8%	0.49	-24.5	1.88	-0.07

The bottom table is the clearest warning sign for Energy. The three Energy Equipment & Services stocks — SLB, Halliburton and Baker Hughes — are the three weakest names in the sector on 1-month excess return. Their momentum scores are all deeply negative, and their chart patterns are consolidation or retracement rather than reversal. That suggests investors are not yet willing to underwrite a new upstream capex cycle.

The large integrated and E&P stocks also struggled. Exxon, Chevron, ConocoPhillips, Occidental, Diamondback and APA all have attractive valuation multiples and high dividend-yield multiples, but those traits did not protect them from crude-price weakness. In June, the market treated lower oil prices as more important than low P/E ratios or dividend support.

The main distinction is that **cheap Energy with negative momentum stayed cheap**. This is why July selection should focus less on valuation alone and more on whether price structure is improving. Midstream and refining have better evidence of reversal. Oilfield services and large E&P still need crude stabilization before the stock charts become more compelling.

# Economic & Policy Drivers: Energy Sector

The most important Energy news flow is the **collapse in crude's geopolitical premium**. Reuters reported that Brent fell to its lowest level since before the Iran war as more tankers exited the Strait of Hormuz and roughly 20 million barrels moved through the strait in a single day. That turned the Energy narrative from scarcity and supply disruption toward normalization and potential surplus.

OPEC+ is also a headwind for near-term pricing. Seven core OPEC+ members agreed to raise July output targets by **188,000 barrels per day**, the fourth increase in as many months. Reuters noted that the target increase matters more if Hormuz flows normalize, because the market could move quickly from shortage fear to surplus fear.

U.S. inventory data are mixed rather than unequivocally bearish. EIA's weekly petroleum summary showed commercial crude inventories down **6.1 million barrels to 412.1 million barrels**, about **7% below** the five-year average. However, gasoline inventories rose **2.1 million barrels** and distillate inventories rose **3.1 million barrels**, though both remain below their five-year averages. Product demand was mixed: total product supplied rose **2.1% y/y**, gasoline demand fell **3.0%**, and distillate demand rose **3.2%**.

The EIA's June STEO is now a useful baseline but not a clean current-price guide because it was built around the assumption that Hormuz remained closed to most shipping in the near term. EIA forecast global oil demand would fall by **1.1 million b/d** in 2026 and projected Brent at **\$105/bbl** in June and July under that closure assumption, with prices falling as supply flows resumed. The late-June reopening and tanker movement make the downside-to-price portion of that framework more relevant than the \$105 near-term price assumption.

Natural gas and LNG are the more constructive long-term Energy policy channel. EIA expects U.S. marketed natural gas production to grow **3.3% in 2026**, and projects Henry Hub to average about **\$3.34/MMBtu in 2H26** and **\$3.46/MMBtu in 2027**. Reuters also reported that EIA expects U.S. LNG exports to rise from **15.1 bcf/d in 2025** to **17.2 bcf/d in 2026** and **18.6 bcf/d in 2027**. That supports gas infrastructure and LNG-linked exposure more than it supports near-term oilfield service momentum.

Policy risk is also shifting toward methane and LNG trade rules. The U.S., Qatar and other gas exporters urged the EU to amend upcoming methane-emissions rules for oil and gas imports,

warning that compliance challenges could disrupt European gas supply. For U.S. Energy investors, this creates a policy tension: LNG demand and export capacity are long-term positives, but methane verification and import standards could become a trade friction point for gas-linked producers and infrastructure companies.

## What Shaped the Energy Narrative in June

June started as an Energy-inflation and geopolitical-risk trade, but ended as a **supply normalization and price-reversal trade**. The sector had benefited earlier in the year from higher oil prices, Middle East conflict risk and stronger earnings revisions. By late June, those same drivers reversed. Oil prices fell, inflation expectations eased, and investors reduced exposure to the most commodity-sensitive parts of Energy.

The stock-level table confirms that June was not a simple sectorwide selloff. Midstream and refining held up better, while services, integrated oil and E&P weakened. That is the core industry message for July: the market is distinguishing between Energy cash-flow stability and Energy commodity beta.

The fundamental irony is that Energy has one of the best earnings-revision stories in the S&P 500 but one of the weakest price signals. FactSet's revisions point to higher Q2 earnings, higher revenues and higher margins, but the stocks are discounting lower future crude prices. July performance will depend on which signal wins: analyst revisions or spot commodity momentum.

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

- **ETFInsight** V8 Sector Model Workbook, June 26, 2026 — Vanguard sector ETF returns, RSI readings, sector selection scores, macro indicator readings, rates, credit, commodities, volatility and breadth data.
- **20260629\_SP50\_Stocks.csv** — S&P 500 stock-level 1-month excess returns, sector classification, GICS industry, chart pattern, valuation multiple relative to index, momentum score, dividend-yield multiple and beta.
- **20260528\_SP500\_Insight.pptx** — prior monthly S&P 500 report structure, slide flow, tone and recurring content template.
- **ETF Central** VOO ETF profile, June 26, 2026 — VOO price, performance, AUM, 1-month flow, YTD flow and 1-year flow data.
- **ETF Central** VDE ETF profile, June 22, 2026 — VDE performance, AUM, 1-month flow, YTD flow, 1-year flow, holdings count and Energy ETF reference data.
- **FactSet** Earnings Insight, June 26, 2026 — S&P 500 and Energy sector earnings-growth estimates, revenue-growth estimates, sector revisions, Energy sub-industry earnings and revenue expectations, margins and valuation.
- **EIA** Weekly Petroleum Status Report, week ending June 19, 2026 — crude inventories, gasoline inventories, distillate inventories, refinery utilization, imports and product supplied.
- **EIA** Short-Term Energy Outlook, June 2026 — global oil demand forecast, Brent price assumptions, petroleum product prices, U.S. exports, natural gas production and Henry Hub outlook.
- **Reuters:** Brent settles at lowest since before start of Iran war as more tankers exit Hormuz, June 24, 2026 — oil-price reversal, Strait of Hormuz shipping normalization and supply-risk premium fading.
- **Reuters:** OPEC+ approves fourth oil output quota hike since Hormuz closure, June 7, 2026 — July production-target increase, OPEC+ supply policy and surplus-risk context.
- **Reuters:** U.S. natural gas output and demand to hit record highs in 2026, EIA says, June 9, 2026 — LNG export forecasts, natural gas production and demand outlook.
- **Reuters:** U.S., Qatar urge EU to change methane rules, warn of supply risk, June 24, 2026 — LNG policy, methane-import rules, European supply risk and gas-trade regulation.

# 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.