



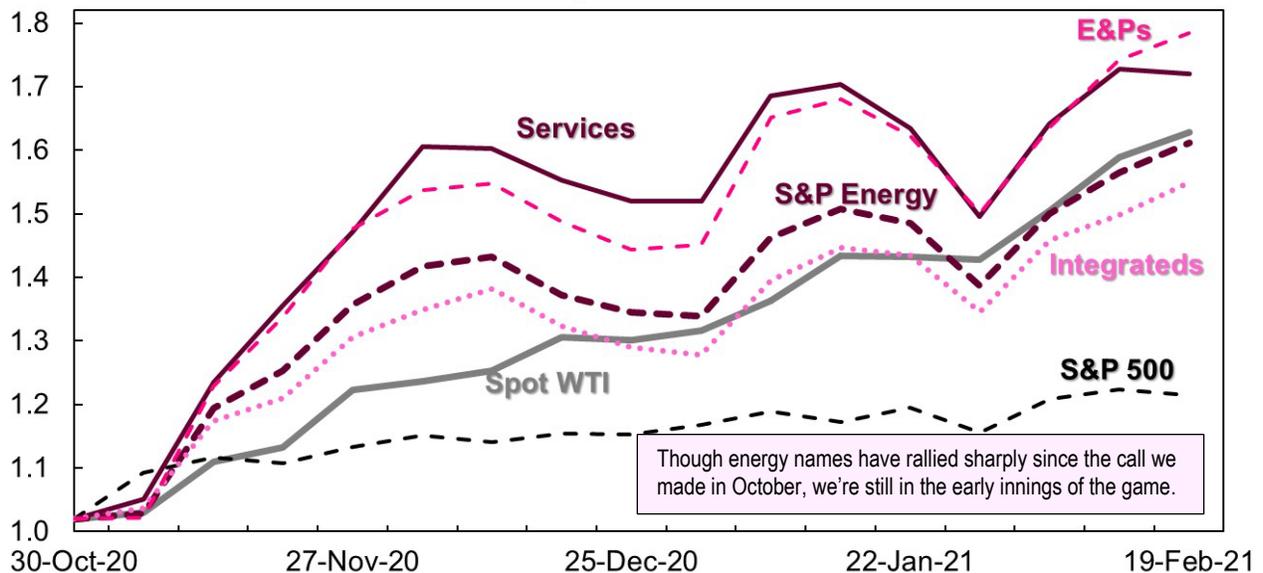
DRAGGED INTO THE RING...KICKING AND SCREAMING

S&P Energy Index Relative to the S&P 500



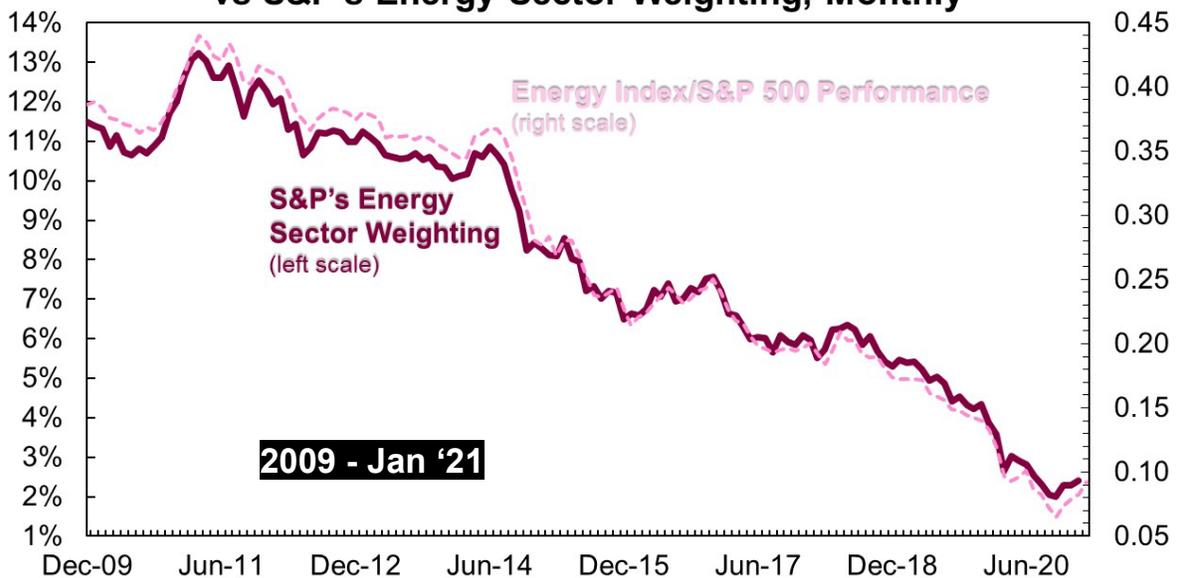
As our bullish case for the oil market continues to unfold, the related case for the energy equities is unfolding in kind. Recall that our forecast for the supply/demand balance portends a significant draw on global oil inventories. That, in turn, translates into bullish crude price pressures which then, in turn, translates into bullish pressure on energy share prices since they trade as a proxy for the commodity – and this is for both the absolute and relative value of share prices. Our analysis below is updated through the end of last week, but if we account for yesterday's settle, the S&P Energy Index has rallied 64.8% since our call in late October – by contrast, the S&P 500 is up 18.5% for the same period. From a momentum perspective, the “golden cross” in the relative value of the energy index this past Friday seemed to have been a factor in yesterday's +4% gain in energy names. Though the energy sector is currently a small portion of the overall S&P 500, that weighting is a gate that swings both ways as we discuss further on the following page.

Price Performance of Crude and Selected Instruments
 Indexed, October 31 = 1.00

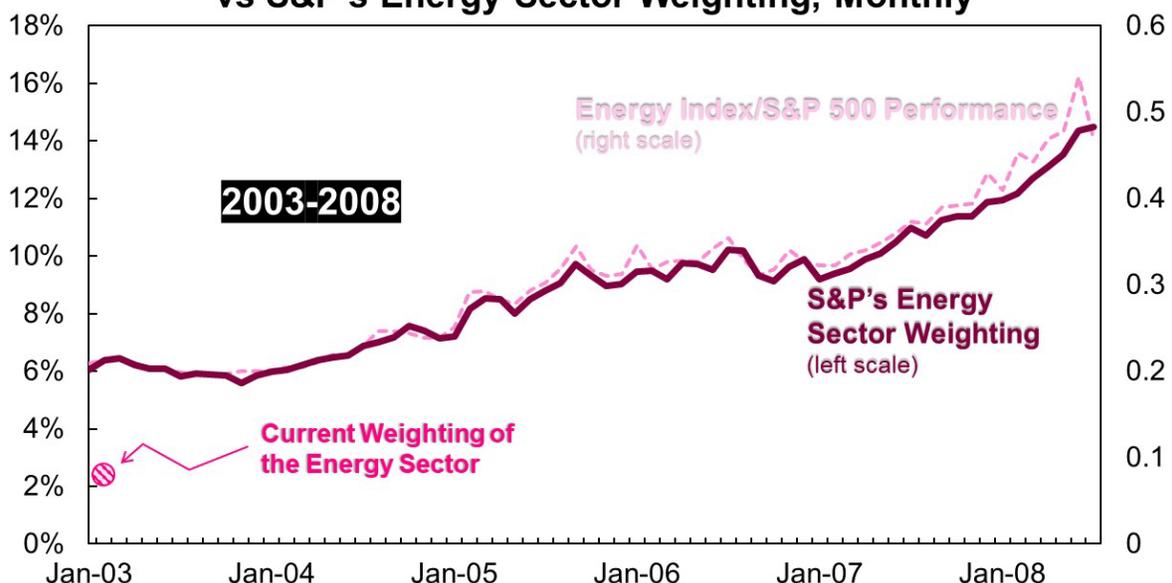


As noted in previous reports, the S&P's weighting of the energy sector is perfectly positively correlated to the share price performance vis-à-vis the S&P 500. As our medium-term forecast unfolds and oil prices move higher, we fully expect the S&P will increase the weight of the energy sector forcing money managers to buy into the space. This is a self-reinforcing cycle, a point we feel is easily discerned from our analyses on this page. As per the previous page, our bullish medium term oil price outlook portends equally bullish pressure for energy shares (absolute and relative). As analogues go, we think we are at the start of a period that will liken 2003-2008. Today, like then, the period preceding the bull run was marked by deep seated skepticism on a number of fronts. We would even go so far as noting that the start of the bull run was marked by a major energy company being removal from the S&P 500 (back in 2002, it was Royal Dutch Shell and last year it was Exxon getting tossed in the proverbial woodchipper). Signs of such disdain for the space, however painful, are good indications about the formation of a secular bottom.

S&P Energy Sector's Relative Performance vs S&P's Energy Sector Weighting, Monthly



S&P Energy Sector's Relative Performance vs S&P's Energy Sector Weighting, Monthly



DON'T GET CAUGHT UP NUMBERS, AND INSTEAD FOCUS ON THE INTENT

OPEC's production cut agreed to last April came in reaction to the COVID-related demand shock that produced a contraction that was a multiple of what we saw in the wake of the global credit crisis. The aim of OPEC's cut was to prevent a cataclysmic ballooning of oil inventories that could have taken years to work down (and kept prices depressed for an extended period). The thinking behind the two-year time frame for the quota deal allowed for a conservatively long period for the pandemic's effects to work its way through the global system. Collectively, the thought (and execution) of the quota deal has been light years ahead of what we lived through during the OPEC meetings we attended during the '80s and '90s. Equally impressive is that most market watchers and pundits missed OPEC's intent in creating this COVID-induced quota deal (this was also the case for the November 2016 deal which first involved an expanded non-OPEC roster). The other goal of the quota deal is to work inventories lower (and oil prices higher), a perspective that also appears to have been lost on most.

	Phase I	Phase II	Phase III	Interim	Unwind
OPEC	<u>Quota</u>	<u>Quota</u>	<u>Quota</u>	<u>1Q Quota</u>	<u>That's Left</u>
Saudi Arabia	8.470	9.020	9.460	9.119	0.341
Iraq	3.583	3.815	4.002	3.857	0.145
UAE	2.439	2.598	2.724	2.626	0.098
Kuwait	2.163	2.303	2.416	2.329	0.087
Nigeria	1.408	1.500	1.573	1.516	0.057
Angola	1.177	1.253	1.314	1.267	0.047
Algeria	0.814	0.867	0.909	0.876	0.033
Gabon	0.144	0.153	0.161	0.155	0.006
Congo	0.250	0.266	0.279	0.269	0.010
E. Guinea	0.098	0.104	0.109	0.105	0.004
OPEC 10	20.546	21.879	22.947	22.119	0.828

