

# Thackray Report

## Energy Opportunity or Wait?

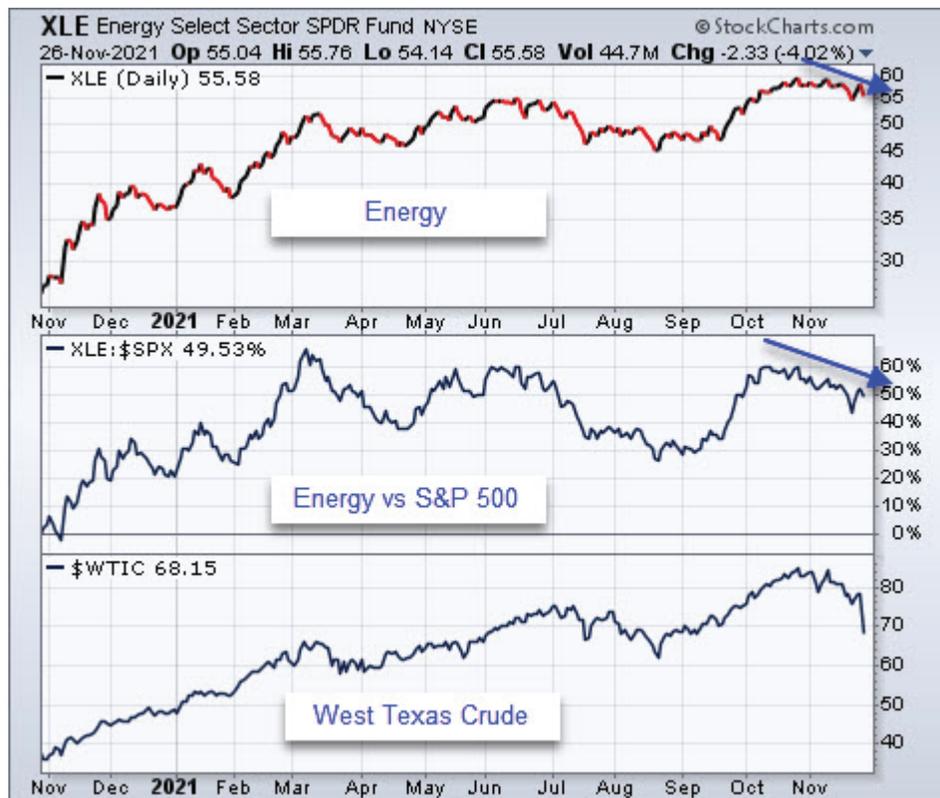
November 29, 2021

Written by Brooke Thackray

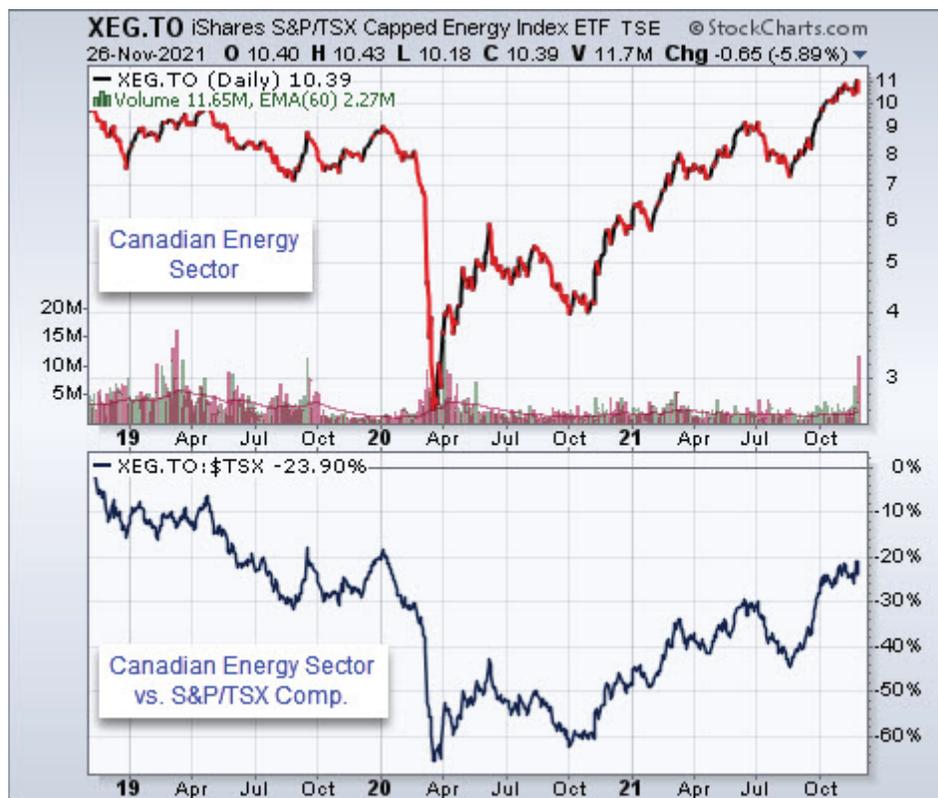
*The energy sector in the US has been underperforming the S&P 500 since late October, is it an opportunity?*

Investors had been warming up to the energy sector over the summer as there was a realization that there was a demand / supply disconnect that could drive the prices higher. The energy sector has two strong seasonal periods. One from February 25 and May 9 and the other from July 24 to October 3. This year, the energy sector in the US started to show weakness in late October on both an absolute and relative basis compared to the S&P 500. The Canadian energy sector has fared better than the US, but last week started to turn down on weaker oil prices.

The energy sector has been in the news as gas prices have skyrocketed. Investors have been following the developments of OPEC+ refusing Biden's request to supply more oil and the Biden administration announcing that they were going to release two and half days oil demand from the the US Strategic Petroleum Reserve. On Friday November 26, the price of oil collapsed over 13% as investors feared that the new COVID-19 variant "Omicron" was going to reek havoc in the global economies.



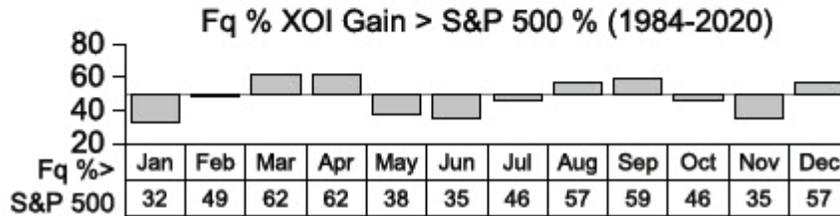
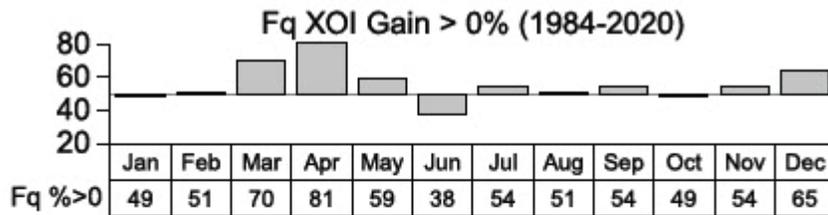
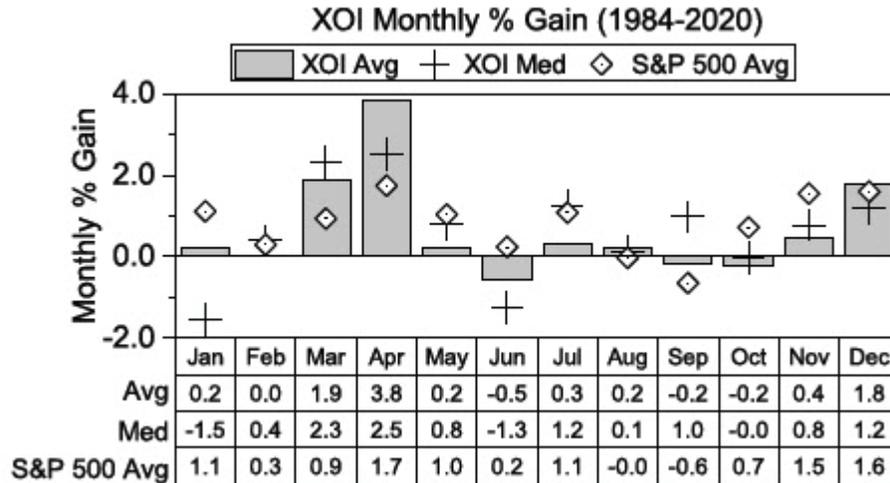
The Canadian energy sector has recently held in much better than the US energy sector on an absolute basis and relative to the S&P/TSX Composite Index. A large part of this superior performance is based upon Canadian energy companies recently announcing generally stronger than expected earnings recently. This does not mean that the Canadian companies are immune to declining oil prices. If oil prices continue to head lower, it would be expected that Canadian energy companies would follow the US energy sector lower.



On a seasonal basis, the energy sector is in its shoulder season between two strong seasonal periods. Sometimes, it can make sense taking a position early in a sector depending on price momentum in a sector. The typical early buy window can be four to six weeks before the start of a seasonal period.

The graph below from my *Thackray's 2022 Investor's Guide*, shows the monthly gains, losses and frequency of success of the energy sector, as represented by the NYSE ARCA OIL and GAS INDEX (XOI) from 1984 to 2020. The graph shows that on average, the energy sector tends to be positive in December, but underperform the S&P 500. The frequency of positivity is 65% and frequency of outperforming the S&P 500 is 57% in December. In other words, on a seasonal basis relative to the S&P 500, the energy sector tends to have a mild negative seasonal tendency. However, in January, the energy sector relative to the S&P 500 has a fairly strong negative profile. On a median basis, January has been the worst month of the year since 1984. Its frequency of positivity has been less than half and it has only outperformed the S&P 500 one-third of the time.

From a seasonal perspective, when there is a weak month before the start of the seasonal period, it is often better to not to enter into a position in the sector three months before the start of the seasonal period. Sure, in the case of the energy sector it could perform well in December, but the problem is January with its weak seasonal performance. It is typically better to wait until some time in January, or even into February before considering a position. A large correction into January could provide the ideal scenario for an early entry into the energy sector in the month of January.



On Friday November 26, 2021, the price of crude oil fell strongly losing 13%, as the COVID-19 Omicron was declared a variant of concern by the WHO. Initial indications are that the variant is more contagious than Delta, but South Africa medical officials are indicating that it could be milder and so far no one has died from the variant. Over the coming days and weeks, more clarity should be garnered around the Omicron variant. Investors should expect some volatility in the energy sector, either up or down, depending on the news coming out about the Omicron variant. On a seasonal basis, on average it has been best to wait until at least sometime in January on a pull-back before taking a position in the energy sector.

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