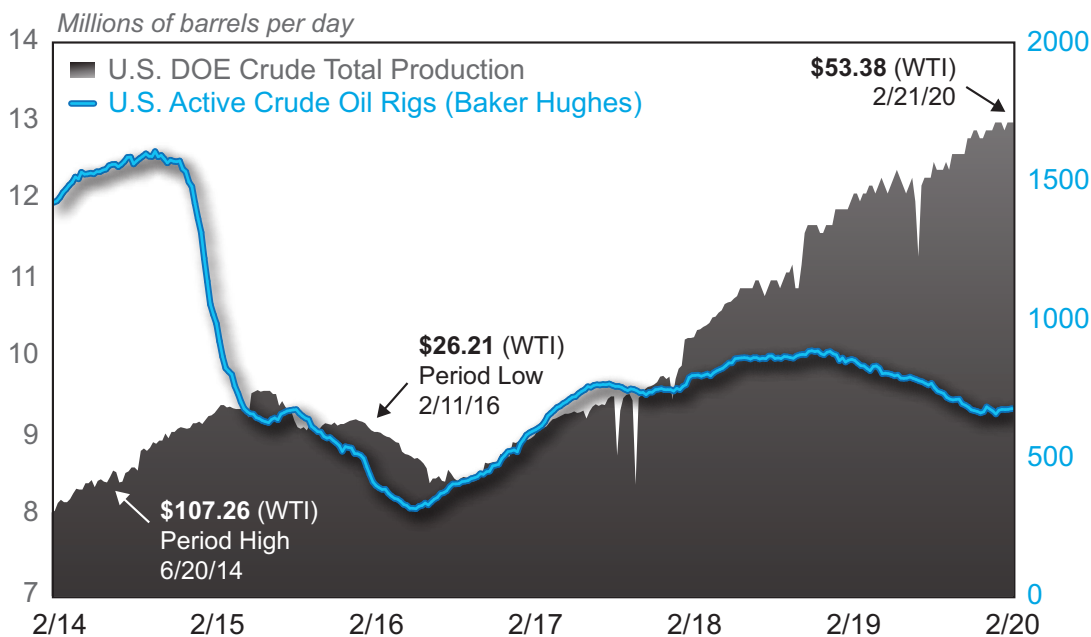


The Climate For U.S. Crude Oil

U.S. Crude Oil Production vs. U.S. Active Crude Oil Rigs



Source: Bloomberg. Weekly data points. 2/21/14-2/21/20.

View from the Observation Deck

1. The price of West Texas Intermediate (WTI) crude oil closed at \$48.73 per barrel on 2/26/20, down 20.19% from its closing price of \$61.06 on 12/31/19, according to Bloomberg.
2. For comparative purposes, the S&P 500 Energy Index posted a total return of -20.61% over that same period, according to Bloomberg.
3. As indicated in the chart, U.S. crude oil production and active crude oil rig count figures are released on a weekly basis, so the most recent data is through 2/21/20.
4. The main takeaway from the chart is that U.S. crude oil production has risen in recent years despite the dramatic drop in the number of active oil rigs. As of 2/21/20, the rig count stood at 679, down from a period high of 1,609 on 10/10/14. U.S. crude oil production increased from 9.0 million barrels per day as of 10/10/14 to 13.0 million as of 2/21/20, according to the U.S. Department of Energy.
5. The second takeaway is that the price of WTI crude oil was cut in half from its period high, from \$107.26 per barrel on 6/20/14 to \$53.38 on 2/21/20.
6. Various factors can influence the global demand for crude oil over time. The direction of global economic activity (GDP growth rates) can influence demand, as can the relative international value of the U.S. dollar (exchange rate). Geopolitical events, such as higher trade tariffs against China, can influence demand by tempering global economic growth and driving the value of the U.S. dollar higher (think safe-haven). And, as we have been reminded, so can the onset of a virus.
7. The Organization of the Petroleum Exporting Countries (OPEC) cut its oil production from 30.3 million barrels per day on 2/28/14 to 28.4 million on 1/31/20, according to Bloomberg. The drop in OPEC's output, however, has not been enough to offset the rise in U.S. production.
8. Today, the energy sector accounts for only a 3.54% weighting in the S&P 500 Index, down from 10.24% at the end of 2013, according to Bespoke Investment Group and Bloomberg.
9. We intend to monitor and comment on the energy sector moving forward.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Energy Index is a capitalization-weighted index comprised of 500 stocks representing the energy sector.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.