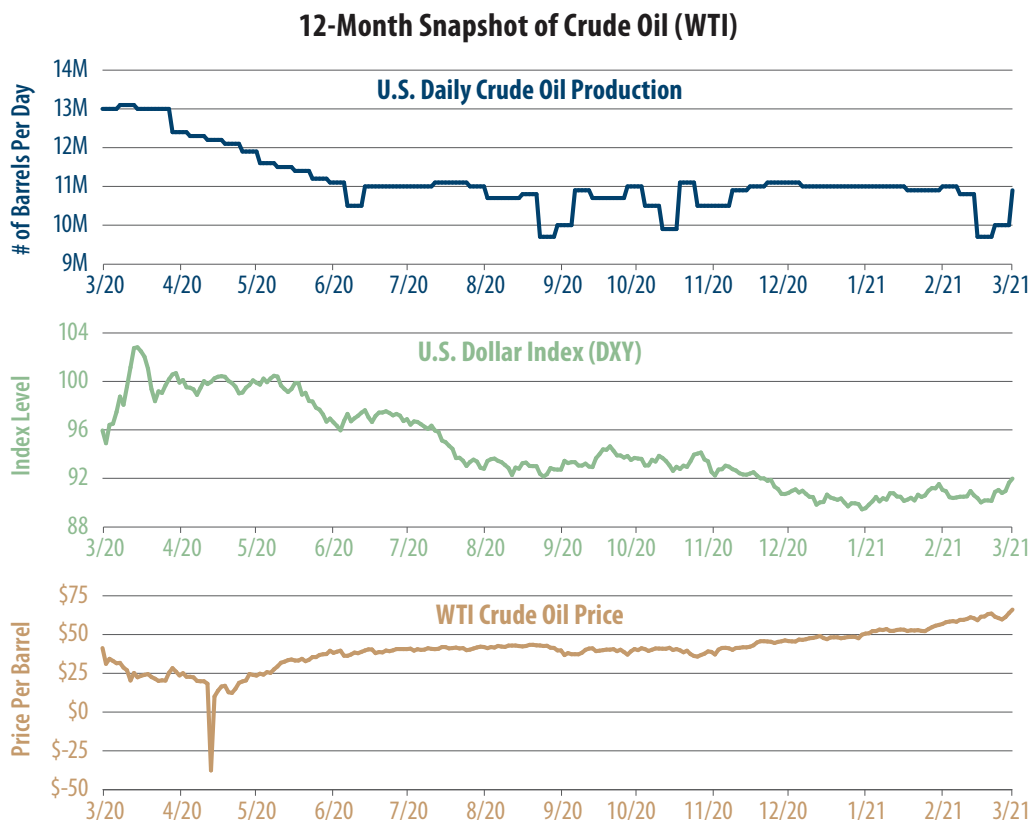


The Climate For U.S. Crude Oil



Source: Bloomberg. Daily data from 3/6/20-3/5/21. **Past performance is no guarantee of future results.**

View from the Observation Deck

1. The price of West Texas Intermediate (WTI) crude oil closed at \$66.09 per barrel on 3/5/21, up 60.10% from its closing price of \$41.28 a year ago on 3/6/20, according to Bloomberg.
2. For comparative purposes, the S&P 500 Energy Index posted a total return of 31.86% over that same period, according to Bloomberg. Here were the returns of the five subsectors that comprise the index: 45.25% (Oil & Gas Exploration & Production); 40.48% (Oil & Gas Refining & Marketing); 36.80% (Oil & Gas Equipment & Services); 29.33% (Integrated Oil & Gas); and 5.34% (Oil & Gas Storage & Transportation).
3. As of 2/26/21, the energy sector accounted for only a 2.8% weighting in the S&P 500 Index, according to Bespoke Investment Group and S&P Dow Jones Indices. That figure was 13.1% at the end of 2008, right in the midst of the financial crisis.
4. The active U.S. crude oil rig count (not shown in charts above) declined by more than 50% from 682 on 3/6/20 to 310 on 3/5/21, according to Baker Hughes.
5. The significant drop in active oil rigs has been accompanied by a significant drop in production. As indicated in the first chart showing U.S. crude oil production, output declined over the period from 13.0 million barrels per day to 10.9 million barrels per day, according to data from the U.S. Department of Energy (DOE). The DOE reported that U.S. crude oil production fell 8% in 2020, the largest annual decrease on record.
6. Commodity prices tend to have an inverse relationship with the U.S. dollar over time. A weakening U.S. dollar can provide a tailwind to commodity prices and vice versa. From 3/6/20-3/5/21, the U.S. Dollar Index declined by 4.14%, according to Bloomberg.
7. The Organization of the Petroleum Exporting Countries (OPEC) and partner countries (OPEC+) met on 3/4/21 and decided to largely maintain their crude oil production cuts through April 2021, according to World Oil. The decline in crude oil production overseas along with the significant pullback in U.S. output enhances the climate for oil prices in the near-term, in our opinion.
8. In addition to pumping less crude oil, Congress just passed the \$1.9 trillion American Rescue Plan Act of 2021, which President Joe Biden is expected to sign into law shortly. Oil prices could get a boost (higher demand) from what U.S. Treasury Secretary Janet Yellen believes will be a "very strong" U.S. economic recovery.

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 and its subsector indices are capitalization-weighted indices comprised of 500 stocks representing the energy sector. Crude oil production provided by the U.S. Department of Energy. The U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar relative to a basket of major world currencies.

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