Market Commentary Blog

Cash Flow *and Carey*

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8/24/23

An Update On Energy-Related Stocks

Energy-Related Stocks vs. the S&P 500 Index

(YTD, 1-Year and Average Annualized Total Returns thru 8/21/23)

Period	S&P 500 Energy Index	S&P 500 Utilities Index	50% Energy/ 50% Utilities	S&P 500 Index
YTD	2.31%	-9.13%	-3.41%	15.80%
1-Year	15.41%	-16.29%	-0.44%	5.81%
3-Year	41.33%	5.30%	23.32%	10.70%
5-Year	8.95%	6.62%	7.79%	10.86%
10-Year	5.04%	9.14%	7.09%	12.45%
15-Year	4.25%	7.44%	5.85%	10.78%
20-Year	9.25%	9.62%	9.44%	9.80%
25-Year	8.26%	6.95%	7.61%	7.75%

Source: Bloomberg. 50%/50% combination reflects daily rebalancing. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Today's blog post compares the performance of energy-related stocks to the broader market, as measured by the S&P 500 Index, over an extended period. Given that most developed and developing economies are dependent on oil, natural gas, and electricity for their growth, the prices of those commodities often (but not always) influence the valuations of companies involved in those sectors. Click here to view our last post on this topic.

The S&P 500 Energy Index (Energy Index) outperformed the broader S&P 500 Index in just three of the eight time frames represented in today's table. For comparison, the S&P 500 Utilities Index (Utilities Index) has underperformed the S&P 500 Index in all eight of the periods.

As many investors are likely aware, the valuations of Energy and Utilities companies are often related to the price of their respective commodities. From our perspective, the recent total returns of Energy and Utilities stocks continue to reflect this association. Case in point, the price of a barrel of WTI crude oil rose by 0.57% on a YTD basis through 8/21/23, according to data from Bloomberg. The Energy Index rose by 2.31% on a total return basis over the same period. For comparison, the price of one million British Thermal Units (BTU) of natural gas plummeted by 41.18% on a YTD basis through 8/21/23. The Utilities Index posted a total return of -9.13% for the same time frame.

The Price to Earnings (P/E) multiples for the S&P 500 and Utilities Indices stand above their 20-year averages, while the P/E ratio for the Energy Index sits well-below its 20-year average.

As of 8/21/23, the 2023 year-end P/E ratios for the S&P 500, Energy, and Utilities Indices stood at 20.20, 11.83, and 16.87, respectively. By contrast, the 20-year weekly average P/E ratios for those same indices stood at 18.33, 34.01, and 16.64, respectively, through 8/21/23. Energy and Utilities stocks represented a combined weighting of approximately 7.08% of the S&P 500 Index as of 8/18/23, according to data from S&P Global. The estimated 2023 year-end P/E ratios for the S&P 500 Index, Energy Index, and the Utilities Index reflect year-over-year earnings growth estimates for 2023 of -2.82%, -32.1%, and 6.9%, respectively, as of 8/18/23.

Takeaway

With total returns of 65.43% and 1.56%, respectively, Energy and Utilities were the only S&P 500 Index sectors to post positive total returns in 2022 (not in table). Since then, they have underperformed the broader S&P 500 Index by a significant margin. In our view, volatility in the price of crude oil and natural gas helps to explain some of the more recent underperformance of these sectors. The price of a barrel of WTI crude oil rose by 0.57% while the price of one million BTUs of natural gas fell by 41.18% YTD through 8/21/23. By comparison, the Energy and Utilities Indices posted total returns of 2.31% and -9.13% over the same period. Earnings for the Utilities Index are forecast to remain positive for 2023. We don't find this surprising given that most households will keep using their lights, air conditioning, stoves, and furnaces even if budgets are stretched and commodity prices fluctuate. Energy stocks, on the other hand, tend to be more volatile. Lower economic activity means fewer deliveries, trips to the store, and travel, which can have a negative effect on the earnings of Energy companies.