

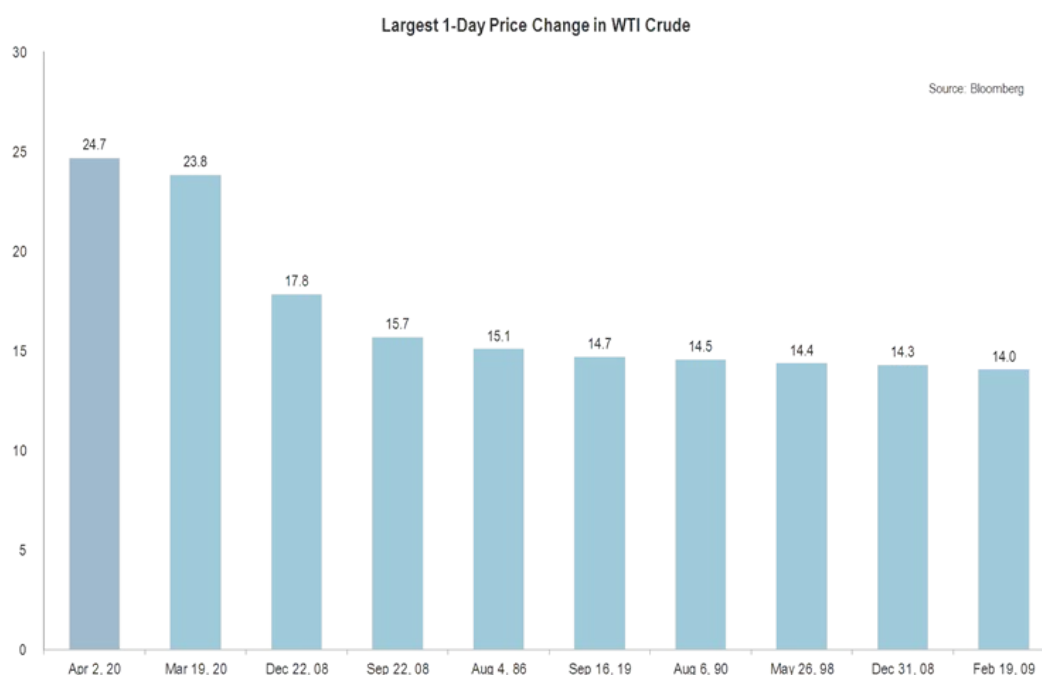


Insights on recent market events

Market Update: Black Gold

Yesterday was another day, in a long list of many, for the record books. This time it was oil that stole the show. The price for a barrel of crude oil surged by over 30% immediately following President Trump's message that Saudi Arabia and Russia were moving to end their market share battle. The President said that the two nations might agree to reduce output by about 10 million barrels per day, drumming up much needed relief for a massively oversupplied oil market. Crude oil settled back from the initial spike but still finished the day 25% higher at a price of \$25.32 per barrel.

In the span of the past three weeks alone, we have seen, not one, but two of the largest daily percentage oil price increases in history. And, yet, the oil price is actually down, point to point, by over ~15% during this period. As we wrote in our prior market update, the last three months have been the worst three months for the commodity's price on record.



Thursday's oil price spike help propel the S&P 500 energy sector 9.1% higher, significantly outpacing the S&P 500 Composite's 2.3% advance. It is not surprising to see a strong reactionary bounce from energy stocks, given the severity of this year's valuation destruction and the deep negativity surrounding the sector.

The question now swirling around is whether yesterday's action marks the inflection to better times ahead for the Energy sector. And, this largely depends on whether energy demand is about to turn the corner. Planes aren't flying, cars are parked in the garage, and many energy intensive industries are still closed for business. It is hard to make a strong case for the sector's imminent return while so much of the global economy remains in lockdown due to the virus. The weakness in other assets levered to the oil price, like the Canadian dollar and Russian Ruble, suggest to us that the

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energy sector is not yet out of the woods. But at some point in the future, we are likely to look back to the price of oil in March/April of 2020 and say “I wish I had owned just a little bit more energy back then”.

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