

SPECIAL FEATURE

‘Structural Reversal for the Energy Sector?’ by Louise Yamada.

Last July we wrote a positive technical opinion for the price of Oil, with a projected price potential toward 100 per barrel. Now 8 months later, Oil has achieved that price and is consolidating the gains.

Additionally, the Energy stocks have been lifting, some with breakouts, but others at least improving in price and technical patterns; and the Energy Sector has been outperforming (**Fig. F-1**) over recent months.

Fig. F-1 S&P Energy Sector with Relative Strength vs. the S&P 500 (Monthly)



Source: LY Advisors

If we look at the longer-term history of the Energy Sector and its Relative Strength (RS) to the S&P 500, one can go back to the price and RS patterns from the early 2000s into the 2008 peaks for both price and RS, the last structural outperformance cycle for this sector.

Over the subsequent years, the price rallied again to a slight new high in 2014, but the RS was diverging negatively by declining during that entire price rally and also developing a 6-7-year RS support level.

In 2014 the Energy Sector RS broke that support and registered what we identified at the time as a structural breakdown, to suggest the price of the stocks (and the commodity) were vulnerable to structural declines.

The RS continued to decline all the way into 2020, accompanying price to new lows. From that low point, stabilization in RS began to take place into 2021, as the price recovered back to 2019 levels (representing price resistance; see blue horizontal line). Now 2 years later, price has lifted through that resistance and appears poised to move higher over time.

The RS, following a now 2-year stabilization / base (see RS saucer), has correspondingly lifted to break out of that base (red horizontal line resistance) to outperform. Additionally, the RS penetrated the 2014 downtrend, to suggest there should be further outperformance, possibly to address / penetrate the 2008 RS downtrend and continue higher. The implication is that price should follow and continue to advance over time.

Not shown is the monthly momentum, which has also stabilized and is turning up close to crossing into a long-term Buy; the weekly momentum (not shown) is positive and rising to suggest continued progress, notwithstanding interim pullbacks which could be used to accumulate the more technically attractive stocks.

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