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Morning Briefing

Energy, P/Es & Influencing Shoppers

Check out the accompanying chart collection.

Executive Summary: Oil and gas industry execs have a wish list for the Trump administration's energy policy. With one of their own—Liberty Energy CEO Chris Wright—likely to reign over the Department of Energy, their wishes may be more than pipe dreams. … Also: A look at how the valuations of S&P 500 sectors and industries have changed over the course of this year. For many IT industries, lofty P/Es expanded further, while only a handful of industries saw P/Es actually shrink. … And: Is it any surprise that social media influencers influence gift-buying? Maybe not, but the extent of influence one study found is eye-opening.

Energy: Wright-Sizing Oil. President-elect Donald Trump may be known for wanting to "drill, Baby, drill," but his supporters in the oil and gas patch may have different ideas. The world has plenty of oil and gas, and adding to supplies risks lowering prices. The global market has so much oil that OPEC has kept almost six million barrels a day of production off the market for multiple years.

The price of a barrel of Brent crude oil, at $73.62, is near its lows of the past three years (*Fig. 1*). That doesn't exactly incentivize oil and gas companies to race out and drill new wells. Trump's nominee to head the Department of Energy (DOE), Chris Wright, knows that full well as the CEO of Liberty Energy, a supplier to the fracking industry.

That said, the industry does have a laundry list of changes it would like to see made under the new Trump administration. They'd like Trump to restart granting liquid natural gas export licenses and open more federal land for drilling. They'd like to eliminate President Biden's rules on tailpipe emissions. And instead of increasing green energy, they'd like Trump to focus on increasing demand for oil and gas.

Let's take a look at the state of the energy sector and what the future might hold under Trump and Wright:

(1) *Swimming in oil.* Plenty of oil is being produced both domestically and abroad. The US is the world's largest producer of "black gold," producing a record 13.2-13.5 million barrels per day (mbd) since early June (*Fig. 2*). US production has benefitted from technological advancements in fracking that make the process much more efficient. Even though the US is producing record volumes of oil, the number of oil rigs in use is closer to the historical lows than it is to the highs (*Fig. 3*).

On the global stage, OPEC+ members have been holding back much potential production since 2022 to bolster the price of oil. The organization could be selling an additional 5.86mbd of production; but given the current price of oil, OPEC is expected to announce at today's meeting the extension of its production cuts through Q1, a December 3 Reuters *article* reported. We'll be watching to see how much longer OPEC+ members are willing to lose market share to the US and other producers that are increasing production.

Adding to the pressure on oil prices has been the lack of demand growth from China and OECD countries. Gasoline demand in China has been falling due to the growing number of electric vehicles (EVs) on the road, the country's slow economic growth, and its declining population. China consumed an average of 3.2mbd of gasoline in August, down 14% y/y, according to a US Energy Information Administration *report*.

New policies under President-elect Trump could have an outsized impact on the oil market. A trade war with China could put downward pressure on economic growth and oil demand. Conversely, if Trump and his hawkish Secretary of State nominee Senator Marco Rubio enforce sanctions on Iran and Venezuela, supply from those nations could fall by roughly 1mbd, a December 3 *Barron's* *article* estimated.

(2) *New folks running the show.* In addition to Rubio, there will be a new cast of characters in the Trump administration influencing energy policy. Wright, the nominated DOE leader, stands to have the biggest impact on energy industries. He has an interesting take on global warming, which he lays out in this *video*. While he acknowledges that carbon dioxide has increased and that it may cause global warming, he doesn't believe global warming has caused weather to grow more extreme. Monetary losses due to global weather events as a percentage of GDP is flat, he says, and deaths from extreme weather are down even as the US population has increased.

Wright implies that instead of spending to mitigate climate change, humanity would be better off spending to eliminate poverty and ensure prosperity. Hydrocarbons have been key to improving out standard of living, as they're needed to make plastics and fertilizer and to fuel industrial processes, including the production of windmills, solar panels, and batteries.

The government has spent billions of dollars on wind and solar power sources, and they still represent a small slice of the global energy pie. Wright would prefer the government to focus on energy supplies that are secure, reliable, and affordable. That said, Liberty has invested in "new energy" sources including Fervo Energy, an advanced geothermal company that uses fracking technology to unlock the earth's heat to make power. It has also invested in a sodium-ion battery technology company and owns an equity stake in Oklo, a small modular nuclear reactor company. Wright sits on Oklo's board of directors.

(3) *What might change.* In a November 15 *interview*, Harold Hamm, CEO of Continental Resources and avid Trump supporter, laid out a laundry list of changes that the oil and gas industry would like to see under the Trump administration. Topping the list: eliminating the "impediments put in place by the Biden administration to slow or halt oil and gas leasing activity on federal lands or in the Gulf of Mexico."

Hamm also would like to see: 1) simpler and streamlined permitting processes for building pipelines, downstream facilities, and infrastructure like housing; 2) reversal of the Biden administration's "pause" on the issuance of new liquid natural gas export licenses to non-free-trade-agreement countries; 3) less interference by federal agencies in the day-to-day operations of the industry; 4) continuation of certain Inflation Reduction Act policies, including the tax credit for capturing and storing carbon; and 5) the elimination of tax breaks for wind and solar power.

If confirmed as Energy secretary, Wright would oversee the Loan Program Office's $6 billion budget for loan guarantees, control a $2 billion program to retrofit older factories to make EVs, and control $6 billion in grants for battery companies, according to an E&E News *article*.

Lobbyist, politician, and *Fox News* commentator Sean Duffy was nominated to head the Department of Transportation (DOT). Trump supporters would like his team to roll back the latest Corporate Average Fuel Economy (a.k.a. CAFE) standards, which complement the emissions standards set by the Environmental Protection Agency. DOT planned to boost fleetwide fuel economy to 50.4 miles per gallon in 2031 from 46.7 miles per gallon in 2026. The DOT also presides over a $7.5 billion program to place EV chargers along major highways and to seed local EV networks.

(4) *A look at the numbers.* With the price of oil in the $70-per-barrel area, the Energy sector stock price index has underperformed the S&P 500 ytd. Here's the performance derby for the S&P 500 and its 11 sectors ytd through Tuesday's close: Communication Services (37.7%), Information Technology (36.3), Financials (33.8), Consumer Discretionary (27.7), Utilities (26.2), S&P 500 (26.8), Industrials (24.2), Consumer Staples (17.5), Energy (12.1), Real Estate (9.7), Materials (9.6), and Health Care (7.4) (*Fig. 4*).

That said, the S&P 500 Energy stock price index appears to be testing the upper end of its three-year trading range (*Fig. 5*). Analysts following companies in the sector's industries expect slight y/y revenue declines this year and next of 1.4% and 1.5% (*Fig. 6*). But they see a dramatic swing in earnings next year, from an 18.8% decline in 2024 to 4.8% growth in 2025 and 16.7% growth in 2026 (*Fig. 7*).

Strategy: A Look at P/Es. As we approach the last stretch of 2024, it's a good time to examine where forward P/Es stand today compared to one year ago (*Table 1*). The S&P 500 stock price index has climbed more than 25% so far this year, but its forward P/E has expanded only modestly, to 22.3 from 18.9, because forward earnings have increased too. (FYI: Forward earnings is the time-weighted average of analysts' consensus operating earnings estimates for the current year and the following one; the forward P/E is the multiple based on forward earnings.)

The S&P 500 Information Technology sector started the year with the highest forward P/E of the 11 S&P 500 sectors outside of Real Estate. It ends the year with a forward P/E that is still the highest except for Real Estate's but that has increased only a touch, to 28.4 from 26.2. Many of the Information Technology's component industries saw their already lofty valuations continue to increase over the course of the year.

Here are some examples: Application Software (34.3, 32.0), Systems Software (32.0, 31.2), Semiconductors (27.6, 23.2), and Communication Equipment (21.0, 15.1). One interesting exception is the Semiconductor Equipment industry, which has a forward P/E that shrunk to 18.9 from 21.5 at the start of the year. Threatened bans on exporting advanced semiconductor chips and equipment to China took a toll on the industry's valuation.

Some of the S&P 500 industries with the largest jumps (5.0pts or more) in forward P/Es this year have nothing to do with technology, including: Automobile Manufacturers (37.4, 27.9), Consumer Staples Merchandise Retail (34.4, 24.6), Movies & Entertainment (32.7, 27.4), Construction Materials (30.5, 24.5), Electrical Components & Equipment (27.3, 20.2), Aerospace & Defense (27.0, 20.7), Home Improvement Retail (25.8, 18.5), Oil & Gas Storage & Transportation (23.4, 15.3), Communication Equipment (21.0, 15.1), Construction Machinery & Heavy Trucks (17.8, 12.4), Consumer Finance (15.7, 9.9), and Oil & Gas Refining & Marketing (14.9, 8.7).

P/Es improved markedly this year for many industries in the Financials sector, but most rose less than 5.0pts. Consider the numbers for: Asset Management & Custody Banks (19.0, 14.5), Investment Banking & Brokerage (16.6, 11.9), Diversified Banks (13.6, 9.4), and Regional Banks (12.7, 8.7).

Given the strong stock market rally in 2024, only a handful of industries saw their forward P/Es shrink this year. The S&P 500 Gold industry saw the largest forward P/E drop, to 10.6 from 19.6, when the year kicked off. While the price of gold has increased by 28.5% ytd, the stock price index of S&P 500 Gold industry (with a sole constituent company, Newmont) is basically flat ytd (*Fig. 8* and *Fig. 9*). The company missed expectations for Q3 revenue and earnings, and its capital expenditures jumped sharply.

Other industries that saw their forward P/Es compress over the course of this year include Soft Drinks (20.4, 20.9), Oil & Gas Equipment & Services (12.7, 13.9), Brewers (10.3, 11.0), and Broadcasting (9.1, 9.9). While the Drug Retail industry's forward P/E hasn't budged one way or the other, it remains at the bottom of the barrel at 5.9.

Disruptive Technologies: Social Shopping. Social media is playing an ever-greater role in influencing purchases. Just over half (52%) of the 900 people aged 18-54 surveyed said they had purchased a holiday gift because it was recommended by an influencer on social media, according to a December 3 *press release* by The Influencer Marketing Factory. Social media platforms were the top source of holiday gift inspiration (30%), followed by recommendations from friends and family (24) and advertisements (21).

YouTube was the most influential site according to 24% of respondents, followed by Instagram (21%), TikTok (21), Facebook (20), and Pinterest (10). Consumers were more likely to buy a product if the influencer offered product reviews and demos (24%), discounts and exclusive offers (23), holiday-themed content (17), or "unboxings" (16)—i.e., videos of content creators sharing their impressions as they first open a product's box.

Most respondents (64.3%) need to see a product promoted by an influencer two to three times before purchasing it. Only 17.4% of respondents said they had purchased a product promoted by an influencer just one time. Consumers said they were motivated by discount codes (25%) and honest reviews (24). At least some things don't change!

Corrigendum: We regret that in yesterday's Morning Briefing*, "billion" incorrectly appeared in six places instead of the intended "trillion." The corrected copy is linked here.*

Calendars

US: Thurs: Initial Claims 215k; Trade Balance -$75.7bl OPEC Meeting; Fed's Balance Sheet; Natural Gas Storage; Barkin. **Fri:** Nonfarm Payroll, Total & Private 202k/160k; Average Hourly Earnings 0.3%m/m/3.9%y/y; Average Weekly Hours 34.3; Unemployment Rate 4.2%; University of Michigan Consumer Sentiment Index 73.1 Consumer Credit $10.0b; Daly; Bowman; Goolsbee. (FXStreet estimates)

Global: Thurs: Eurozone Retail Sales -0.4%; Germany Factory Orders-2.0%; France Industrial Production 0.3%; Japan Household Spending 0.4%m/m/-2.6%y/y. **Fri:** Eurozone GDP 0.4%q/q/0.9%y/y; Eurozone Employment Change 1.0%q/q/20.2%y/y; Germany industrial Production 1.0%; Italy Retail Sales 0.9%. (FXStreet estimates)

Strategy Indicators

Stock Market Sentiment Indicators (*link*): The *Bull-Bear Ratio* rose for the fourth week this week to 3.91, matching it highest reading since late July, after falling the prior two weeks from 2.69 to 2.61. *Bullish sentiment* climbed for the second week from 60.0% to 62.9% this week—the most bulls since late July, when the report noted seven consecutive weeks with bulls over 60%, ending at 64.2%. The reading remains in the high-risk danger zone above 55.0% for the eighth straight week, according to the report. Meanwhile, *bearish sentiment* slipped for the fifth straight week this week by 5.9ppts (to 16.1% from 22.0%), the fewest bears since late July, when it dropped to 14.9%. The *correction count* remained at 21.0% this week after slipping from 21.7% to 21.0% last week; it has been hovering around 20% for the past eight weeks—with recent readings down significantly from the 33.9% in early September.

S&P 500 Earnings, Revenues, Valuation & Margins (*link*): The S&P 500's forward profit margin was unchanged w/w at a record high of 13.4% during the November 28 week. It is now 3.1ppts above its seven-year low of 10.3% during April 2020. Forward revenues and earnings edged down a hair w/w from their record highs a week earlier. Prior to that, revenues and earnings had been steadily making new record highs for just over 12 months. That compares to its prior 16-month string of record highs from March 2021 to June 2022; prior to that, they peaked just before Covid-19 in February 2020. The consensus expectations for forward revenues growth was unchanged w/w at 5.5%, and is just 0.3ppt below its 23-month high of 5.8% during the August 1 week. It has gained 3.2ppts from its 33-month low of 2.3% during the February 23, 2023 week. That's down from a record high of 9.6% growth at the end of May 2021 and compares to 0.2% forward revenues growth during April 2020, which was the lowest reading since June 2009. The forward earnings growth forecast rose 0.1ppt w/w to a five-week high of 14.0%, which is just 0.2ppt below its 36-month high of 14.2% during the October 17 week. It's now 10.7ppts above its 31-month low of 3.3% during the February 16, 2023 week. That's down from its 23.9% reading at the end of April 2021, which was at its highest since June 2010 and up substantially from its record low of -5.6% at the end of April 2020. Analysts expect revenues to rise 4.8% in 2024 (unchanged w/w) and 5.4% in 2025 (unchanged w/w) compared to a revenues gain of 2.1% in 2023. They expect an earnings gain of 10.0% in 2024 (up 0.1ppt w/w) and a 14.3% rise in 2025 (up 0.1ppt w/w) compared to an earnings gain of 2.4% in 2023. Analysts expect the profit margin to rise 0.5ppt y/y to 12.4% in 2024 (unchanged w/w), compared to 11.9% in 2023, and to rise 1.1ppts y/y to 13.5% in 2025 (unchanged w/w). The S&P 500's weekly reading of its forward P/E rose 0.3pt w/w to a 43-month high of 22.3. It's up 2.6pts from a 14-week low of 19.7 during the August 8 week and 7.0pts from a 30-month low of 15.3 in October of 2022. It also compares to 23.1 in early September 2020, which was the highest level since July 2000, and to a 77-month low of 14.0 in March 2020. The S&P 500 weekly price-to-sales ratio rose 0.05pt w/w to a record high of 3.00. That's up from a six-month low of 2.22 during the October 26, 2023 week and compares to a 49-month low of 1.65 in March 2020.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins (*link*): During the November 28 week, forward revenues and forward earnings rose for eight of the 11 S&P 500 sectors. This led to rising forward profit margins w/w for six sectors. Three sectors posted record-high forward revenues this week: Health Care, Information Technology, and Real Estate. These five sectors are less than 0.3% below their recent record highs: Communication Services, Consumer Discretionary, Consumer Staples, Financials, and Utilities. Industrials' forward revenues improved to 2.9% below its early September record. Energy and Materials are the biggest laggards at 6.2% and 14.6% below, respectively. These five sectors had record-high forward earnings this week: Communication Services, Consumer Discretionary, Financials, Information Technology, and Utilities. These four sectors are less than 2.9% below their recent records: Consumer Staples, Health Care, Industrials, and Real Estate.

Forward earnings remains depressed for Energy and Materials, which are 32.7% and 22.4% below their respective post-pandemic highs. Looking at the forward profit margin, these two sectors had record- or post-pandemic highs this week: Communication Services and Financials. In recent weeks, the Consumer Discretionary, Industrials, and Information Technology sectors were in that club. Among the laggards, Energy's forward margin rose 0.1ppt w/w to 9.5% from a 33-month low of 9.4%, but has cratered 1.4ppts since its six-month high of 10.9% in mid-June; Consumer Staples' slipped 0.1ppt w/w to 6.8%, and is just 0.1ppt above its seven-year low in March 2023; and Health Care's 8.7% is only 0.2ppt above its record low in April. Here's how the S&P 500 and its 11 sectors rank based on their current forward profit margin forecasts along with their record highs: Information Technology (26.8%, up 0.1ppt w/w and down from its 27.6% record high in September), Financials (19.5, down from its 19.8 record high in in August 2021), Communication Services (18.5, a record high this week), Real Estate (17.2, down 0.1ppt w/w and from its 19.2 record high in 2016), Utilities (14.3, down from its 14.8 record high in April 2021), S&P 500 (13.4, a record high in 12 of the past 13 weeks), Materials (11.2, down from a 20-month high of 11.6 in July and a 13.6 record high in June 2022), Energy (9.5, up 0.1ppt w/w from a 33-month low and down from its 12.8 record high in November 2022), Industrials (11.1, down from its 11.2 record high in early October), Consumer Discretionary (9.3, at a record high this week), Health Care (8.7, up 0.2ppt from its 8.5 record low at the end of April and down from its 11.5 record high in February 2022), and Consumer Staples (6.8, down 0.1ppt w/w and from its 7.7 record high in June 2020).

US Economic Indicators

ADP Employment (*link*): "While overall growth for the month was healthy, industry performance was mixed," noted Nela Richardson, chief economist of ADP. "Manufacturing was the weakest we've seen since spring. Financial services and leisure and hospitality were also soft." *Private payrolls* rose 146,000 in November, below the expected 163,000 increase, while October's gain was revised down to 184,000 from 233,000—depressed by the Boeing strike. Service-providing jobs increased 140,000 last month, while goods-producing jobs rose only 6,000. Within *services-providing* industries, education & health services (50,000) posted the biggest gain, followed by trade, transportation & utilities (28,000), professional & business services (18,000), and leisure & hospitality (15,000); the financial (5,000) and information (4,000) services industries posted smaller gains. Within *goods-producing* industries, construction (30,000) jobs continued to lead the pack, while employment in the natural resources/mining (2,000) industry also added jobs, while manufacturing (-26,000) continued to cut payrolls in November. By size, large companies added 120,000 to payrolls last month, with medium-sized companies posting a 42,000 increase, while small companies cut 17,000 jobs. According to the report, the yearly pay increase for *job-stayers* edged up for the first time in 25 months, to 4.8%, while the rate for *job-changers* accelerated by a percentage point to 7.2%.

US Non-Manufacturing PMI (*link*): The US service sector continued to expand in November, though at a slower pace. The *ISM N-PMI* slipped to 52.1 in November after climbing from 48.8 in June to 56.0 in October—which was the highest since summer 2022. The *business activity/production* index dipped for the second straight month to 53.7 after rising from 49.6 in June to 59.9 in September, while new orders measure also fell for the second month, slipping to 53.7 in November, after climbing from 47.3 in June to 59.4 in September. Meanwhile, the *employment* measure slipped to 51.5 after climbing from 48.1 in September to 53.0 in October, which was the highest since September 2023. November's employment measure was in expansionary territory for the fourth time in five months. The *supplier deliveries* (49.5 from 56.4) measure fell 6.9ppts ppts in October—indicating "faster" supplier deliveries after two months in expansionary or "slower" territory. (Supplier deliveries is the only ISM component that is inversed—with a reading above 50.0 indicating slower deliveries, which is typical as the economy improves and customer demand increases.) On the *inflation* front, the price index (to 58.2 from 58.1) barely budged in November after accelerating the prior three months from 56.3 in June to 59.4 in September. It was at a recent high of 64.0 at the start of this year. Its record high was 84.5 at the end of 2021.

Global Economic Indicators

Global Composite PMIs (*link*): Global economic growth in November recorded a mild uptick, led by the service sector, while business optimism climbed to a six-month high. The Global *C-PMI* Output Index ticked up from 52.3 to a three-month high of 52.4 in November, remaining in expansionary territory for the 13th straight month. The *Services Business Activity* index was unchanged at 53.1 last month, above the 50.4 reading for the *Manufacturing Output Index*, which remained lackluster. *By industry*, consumer goods expanded at a healthy pace in November, while intermediate goods showed a modest gain and the downturn in investment goods continued. *Geographically*, India, Ireland, and the US led the leader board, while China continued to expand. The weakest growth was centered in the Eurozone—with Germany, France, and Italy at the back of the pack. *Input price* inflation eased to its lowest in a year last month, mainly reflecting weaker cost increases (on average) among developed countries, while the rate ticked higher among emerging countries. *Output price* inflation increased in November for the 53rd straight month—but at a pace similar to October’s four-year low.

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