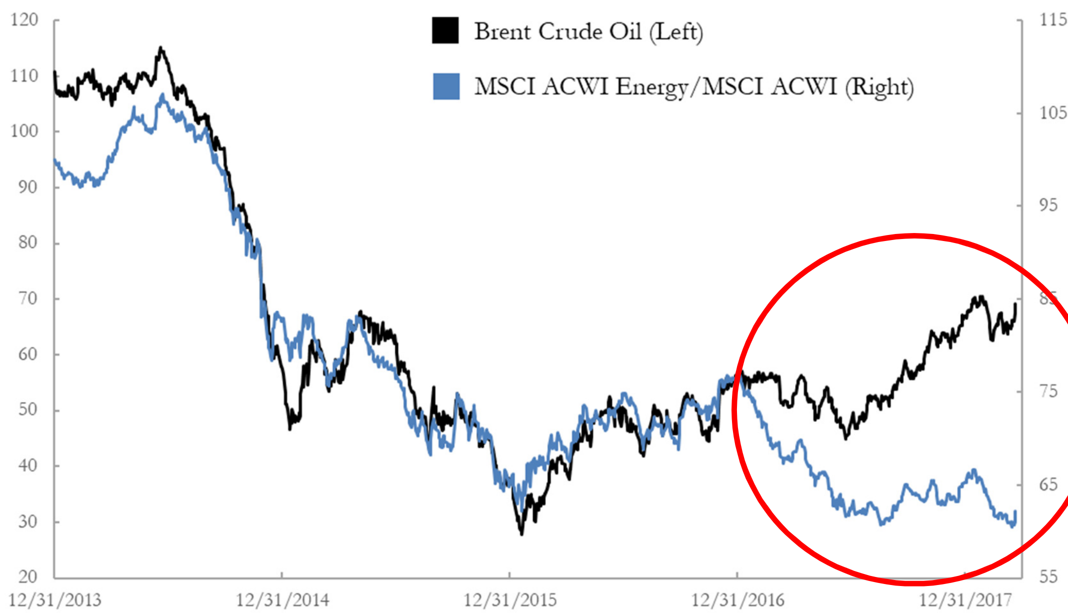
Todd's Chart of Interest

March 27, 2018

Brent Out of Shape



Source: Bloomberg and MSCI

- Over the past year or so we've witnessed a disconnect between global Energy stocks and the price of oil. Brent crude has continued to recover from the lows of early-2016 while Energy stocks have continued to underperform the broader index (MSCI ACWI).

- Whether this is due to investors expecting to see oil prices back in the low $30's or a lack of conviction in the sustainability of global growth, the correlation between oil prices and relative Energy stock performance went from near perfect before oil prices bottomed (+0.98) to negative since the bottom (-0.29). This is a dramatic change that history would suggest shouldn't persist.

- We believe Energy stocks should recover and are overweight this sector. Technological advancements have lowered their operating cost profile, boosting their cash generation potential. Sustainable global growth should also help support demand. Given that Energy stocks relative underperformance is historically stretched, we think it is more likely that this sector outperforms going forward.

The indexes used in the chart are unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs: **MSCI ACWI Index** is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries. **MSCI ACWI Energy Index** is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries. All securities in the index are classified in the Energy sector as per the Global Industry Classification Standard (GICS®).

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