

U.S. Energy and Commodity Price Outlook

ENERGY SECTOR REPORT

Buy-rated energy stocks:

Integrated Oil & Gas:

- **Chevron** (CVX - \$152.34)
- **Suncor** (SU - \$33.85)
- **TotalEnergies SE** (TTE - \$63.92)

Refining & Marketing:

- **Marathon Petroleum** (MPC - \$167.16)

Storage & Transportation:

- **Enbridge** (ENB - \$34.38)
- **TC Energy** (TRP - \$39.35)

Prices and opinion ratings as of market close on 02/28/2024 and are subject to change.
Source: Reuters.

For more information:

Individuals can obtain the full research report with full disclosures on any of the companies mentioned in this report by contacting a local Edward Jones financial advisor, or write to: Edward Jones, 12555 Manchester Road, St. Louis, MO 63131. Information about research distribution is available through the Investment Services link on www.edwardjones.com.

OIL AND NATURAL GAS PRICE OUTLOOK

Our long-term expectation is for average oil prices to typically be in the range of \$55 to \$75 per barrel. We expect oil to be in this range most of the time over the longer term. Persistent supply constraints, lower inventories, and geopolitical conflicts continue to put upward pressure on oil prices. The recent conflict between Hamas and Israel in the Middle East is unlikely to have a direct and meaningful impact on global oil and gas supply, given these areas are not major producers. However, the uncertainty surrounding the potential backlash from Middle Eastern oil producers like Iran could increase commodity-price volatility. Given these factors, we believe that oil could remain close to \$75 in the near term.

In addition to the items noted above, a strengthening U.S. dollar and concerns about global economic growth have recently impacted oil prices. Longer-term, we believe that an increase in supply and a deceleration in demand will settle average oil prices within our long-term range of \$55 to \$75 per barrel in the United States. A key risk to our long-term outlook is the pace of oil-demand growth, which is less certain given the global economy's growing interest in cleaner energy sources. Although we expect average oil prices to remain within our projected range over the long term, we also anticipate significant price volatility (movements above and below this range) in the near term.

We see natural gas prices in the U.S. ranging from \$2.00 to \$4.00 per thousand cubic feet over the long term. Natural gas prices can swing significantly based on changes in weather. Demand growth has been strong, driven by liquefied natural gas (LNG) exports and increasing usage for power generation. Hotter summers and colder winters tend to drive higher demand and prices in the shorter term. In coming years, we expect that growing LNG exports and further usage growth for power generation should support prices in our long-term range.

GUIDANCE

Despite the recent outperformance of energy stocks driven mostly by higher oil prices, we believe that negative sentiment towards the energy sector is likely to remain a headwind given the global economy's transition towards a lower-carbon future. Energy stocks can be very volatile given the commodity-sensitive nature of cash flows. In looking through these short-term movements, we see long-term upside potential in our Buy-rated stocks. We prefer energy stocks in the integrated oil & gas, storage & transportation, and refining & marketing subsectors, where companies have strong financial positions that allow them to weather commodity-price volatility and support robust cash returns to shareholders.

Analyst: Faisal Hersi, CFA
Analyst: Nick Hummel, CFA

Please see important disclosures and analyst certification on page 5 of the report.

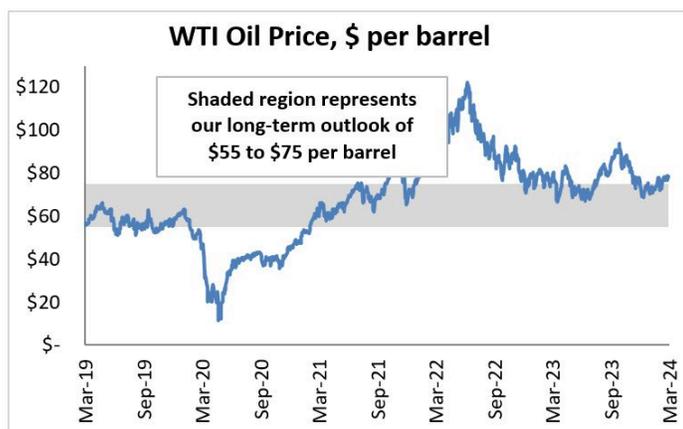
What Is Our Outlook for Oil Prices?

With global demand continuing to recover from the pandemic and supply still constrained despite high oil prices, the oil market remains tight. Recently, high oil prices have been supported by rising geopolitical tensions and a tight supply-and-demand market. The tightness of the oil market has been driven by moderate inventory balances, OPEC+ production cuts, and steady demand recovery.

The invasion of Ukraine by Russia has also put upward pressure on oil prices. Russia produces 10 million barrels of oil a day, roughly 10% of global demand, and is Europe's largest natural gas supplier. Geopolitical conflicts involving major global oil producers tend to put upward pressure on oil prices. Given today's relatively tight market conditions, we expect oil prices to remain volatile and near the top end of our long-term forecast range.

Long-term, we expect oil prices in the U.S. to be between \$55 to \$75 per barrel, reflecting the volatile nature of the commodity, as large price swings are common (**see Figure 1**). A key risk to our long-term outlook is the pace of oil-demand growth, which is less certain given the global economy's transition towards a lower-carbon future. Although we expect average oil prices to remain within our projected range over the long term, we also expect significant price volatility (movements above and below our range) in the near term, as the world continues its efforts to fully reopen after a major global pandemic.

Figure 1



Source: FactSet and Edward Jones Securities Research, data as of 02/28/2024.

What Is the Status of the Global Oil Supply?

OPEC -- The Organization of the Petroleum Exporting Countries (OPEC), along with Russia and 10 other non-OPEC countries (collectively referred to as OPEC+), have been curtailing oil production since early 2017 to offset the growth in U.S. oil production in order to keep supply balanced with oil demand. Combined, OPEC+ accounts for nearly half of the world's oil production. In March of 2020, OPEC+ failed to reach an agreement to increase production cuts in response to reduced demand due to the COVID-19 pandemic. Russia was not on board with additional cuts, and Saudi Arabia (the de facto head of OPEC) was unwilling to shoulder the burden of additional cuts. With no agreement in place, Saudi Arabia responded by starting a price war with Russia. This was an unexpected and drastic turn of events for the oil market, which was already suffering from reduced demand due to COVID-19. As a result, oil prices fell precipitously.

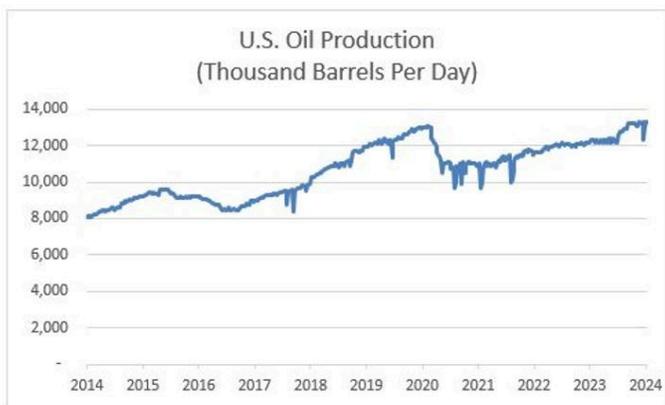
One month later, OPEC+ met again to address the rapidly deteriorating oil market. This time the group was able to agree to a historic production cut. The alliance agreed to reduce its oil production by 9.7 million barrels of oil per day in May, June and July, followed by a 7.7 million barrels of oil per day cut from August through December 2020. Although the coalition had initially signaled that production cuts would fall to roughly 5.8 million barrels per day in the first quarter of 2021, Saudi Arabia surprised the global energy community by deciding to unilaterally increase its production cuts by 1 million barrels per day for the first four months of the year, essentially leaving total curtailments for the group at more than 7 million barrels per day.

On the positive side, the production cuts have helped reduce the large build in oil inventories that occurred around the world in 2020. In July 2021, Saudi Arabia and other members of the OPEC+ coalition agreed to collectively increase production, targeting a full end to oil production cuts by September 2022. OPEC+ crude-oil spare production capacity currently stands at roughly 5 million barrels per day vs. 7.7 million barrels per day in December 2020. The ongoing production cuts from key OPEC+ producers (Saudi Arabia and Russia) have kept oil prices near \$75 per barrel in recent months. Overall, we think OPEC+ will keep its commitment to managing global oil markets, especially in light of modest production growth from North and South America.

United States

Since the discovery of fracking technology that made vast amounts of crude oil resources economic to develop, U.S. oil production had risen from 5 million barrels per day in 2010 to 13 million barrels per day at the end of 2019 (see **Figure 2**). U.S. oil production grew 1.6 million barrels per day in 2018 and 1.3 million barrels per day in 2019. The vast majority of U.S. growth has come from three main areas: the Permian basin in West Texas, the Eagle Ford shale in south Texas, and the Bakken area in North Dakota. Collectively, these three areas account for over 80% of U.S. oil production growth. The Permian basin alone accounts for nearly one-third of total U.S. oil production. Before the severe drop in oil prices in early 2020, U.S. oil production was expected to grow by nearly 1 million barrels per day in 2020. Currently, U.S. oil production remains slightly below its pre-pandemic peak of 13.1 million barrels per day reached in February 2020. We do not expect U.S. production growth to significantly accelerate in the near term given relatively modest capital investment from producers.

Figure 2

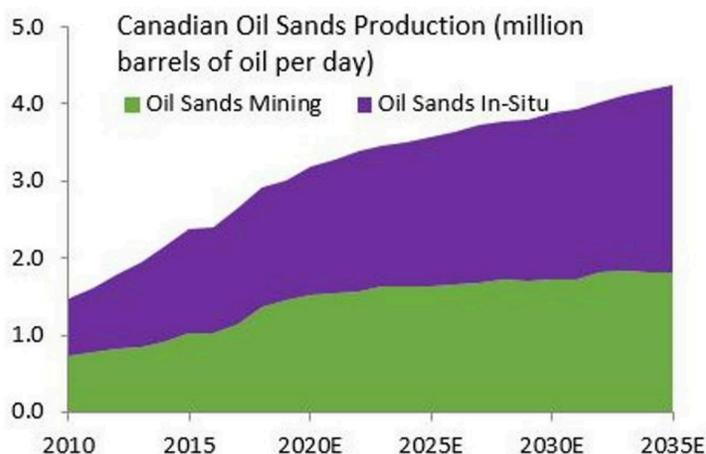


Source: Energy Information Administration

Canada

In Canada, oil sands growth is expected to slow significantly. Over the past decade, oil sands production grew at an average annual rate of around 9.5%. Over the next decade, oil sands production is estimated to grow at an average annual rate of around 2%, according to the Canadian Association of Petroleum Producers, as existing projects see small incremental capacity expansions (**see Figure 3**). While the oil sands will help satisfy global demand growth over the next decade, it will remain challenged to compete with low-cost areas with a smaller environmental impact.

Figure 3

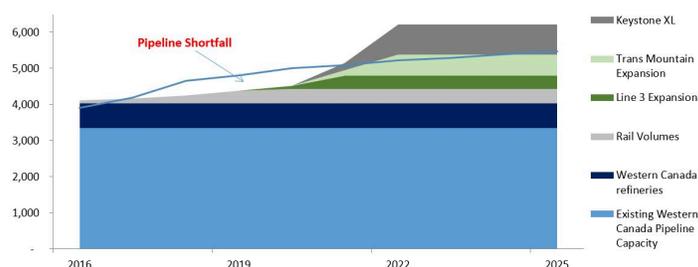


Source: Canadian Association of Petroleum Producers

The vast majority of oil sands output is exported by pipeline to the U.S. where it is refined into finished products such as gasoline, diesel and heating oil. With the start-up of new oil sands production at the end of 2017, there is currently not enough pipeline capacity to transport all the oil production coming out of western Canada. However, there are three large pipeline projects in the works (see **Figure 4**), but environmental and regulatory headwinds have resulted in significant delays in moving these projects forward. Until new pipeline capacity is added, incremental production will need to move to market via rail. This is a much more expensive and less efficient option than pipelines.

Figure 4 - Projected Pipeline Capacity

thousand barrels of oil per day

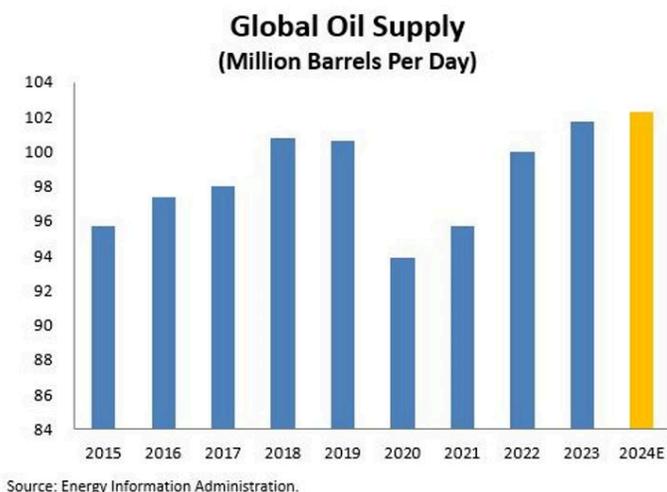


Source: Canadian Association of Petroleum Producers and Edward Jones Equity Research.

To address the issue of oil production exceeding pipeline capacity, the government of Alberta mandated a reduction in oil production to improve the price of Western Canadian Select (WCS). Beginning in 2019, Alberta reduced production by 325,000 barrels per day, or approximately 9%. These curtailments were put on hold by the government of Alberta in December 2020 due to the narrowing gap between US and Canadian oil prices. However, if increasing transportation costs for Canadian oil begin to widen the spread between

WCS and WTI, it's possible the government of Alberta will act again to reduce production in the province.

Figure 5



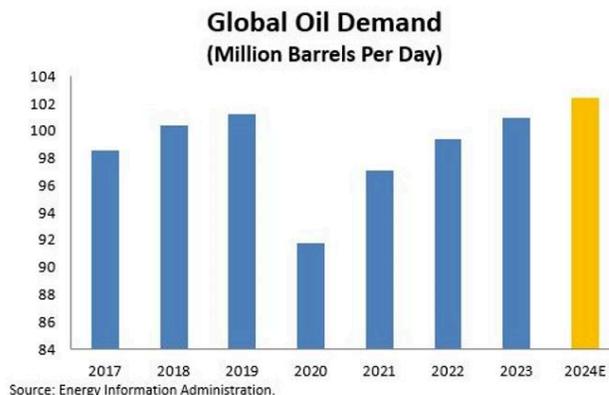
What Is the Status of Global Oil Demand?

Global oil demand was roughly 100 million barrels per day in 2019, according to the Energy Information Administration (EIA). The majority of demand growth comes from China and India, with China alone accounting for nearly 50% of global demand growth over the past five years. Significant disruptions to travel and trade from the COVID-19 pandemic reduced global oil demand to 92 million barrels of oil per day in 2020. This was the largest decline in annual oil demand and the first negative-demand-growth year in over a decade. Global oil demand is projected to grow at a modest pace (roughly 1%) in 2024 (see **Figure 6**).

In the long term, we think oil demand will continue to grow, reflecting rising needs in the developing world from a growing middle class offsetting declining or flat demand in developed economies. In addition, demand for byproducts like chemicals and plastics will likely continue to grow with the global economy. However, we expect global oil demand to eventually peak, potentially in the next two decades. While electric vehicles (EVs) get most of the headlines for reducing oil demand in the future, it will likely be more from improved internal combustion engines (ICEs). ICEs will outnumber EVs for the foreseeable future, but will use less fuel in the future. EVs will likely see significant growth, but face several barriers to widespread acceptance despite growing interest and government incentives. These barriers include strong competition from more efficient and cheaper ICEs, the need for government subsidies and mandates

to incentivize buyers, and limited battery lives and expensive replacement.

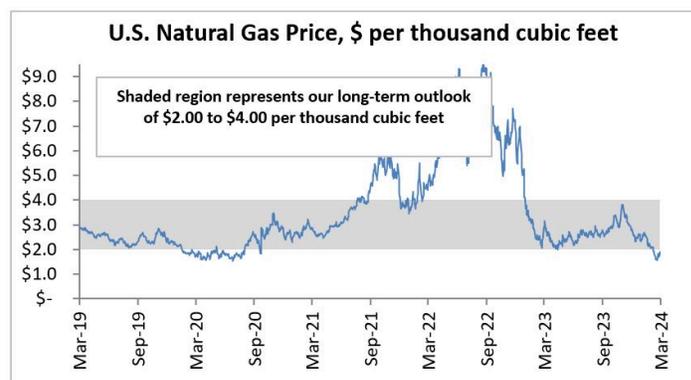
Figure 6



What About Natural Gas Prices?

We see U.S. natural gas prices ranging from \$2.00 to \$4.00 per thousand cubic feet over the long term. Natural gas prices can swing significantly based on changes in weather. Demand growth has been strong, driven by liquefied natural gas (LNG) exports and increasing usage for power generation. Hotter summers and colder winters tend to drive higher demand and prices in the shorter term. In coming years, we expect that growing LNG exports and further usage growth for power generation should help support prices.

Figure 7



Source: FactSet and Edward Jones Securities Research, data as of 02/28/2024.

How Do Energy Stocks Fit Into a Diversified Portfolio?

Negative sentiment towards the energy sector is likely to remain a headwind given the global economy's transition towards a lower-carbon future. We expect oil prices in the U.S. to range between \$55 to \$75 per barrel over the long term, reflecting the volatile

nature of oil prices. Energy stocks can be very volatile given the commodity-sensitive nature of cash flows. In looking through these short-term movements, we see long-term upside potential in our Buy-rated stocks. We prefer energy stocks in the integrated oil & gas, storage & transportation, and refining & marketing subsectors, where companies have strong financial positions that allow them to weather commodity-price volatility and support dividends. See the list on page 1 for all of our Buy-recommended energy stocks.

Valuation -- We believe the current valuation of the energy stocks listed on page 1 are attractive. Methods used to evaluate the attractiveness of energy stocks include the price-to-operating cash flow (P/CF) ratio; enterprise value (market capitalization plus debt) to earnings before interest, taxes, depreciation and amortization (EV/EBITDA); along with a discounted cash flow analysis in certain situations. Some traditional measures like price-to-earnings (P/E), price-to-book value (P/B), and price-to-earnings to earnings plus growth (PEGY) are not applicable to the energy sector.

Risks -- Some primary risks of the energy sector: volatile commodity prices, which are cyclical and will affect earnings and the stock price; reduced company growth expectations; cash liquidity; demand being difficult to predict and which could change at unexpected rates; foreign operations being affected by political uncertainties and currency fluctuations; regulatory changes affecting company operations; and adverse legal decisions.

Please see the individual research reports for additional information, including disclosures, analyst certifications, valuation and risks specific to each company.

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I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Faisal Hersi, CFA; Nick Hummel, CFA

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