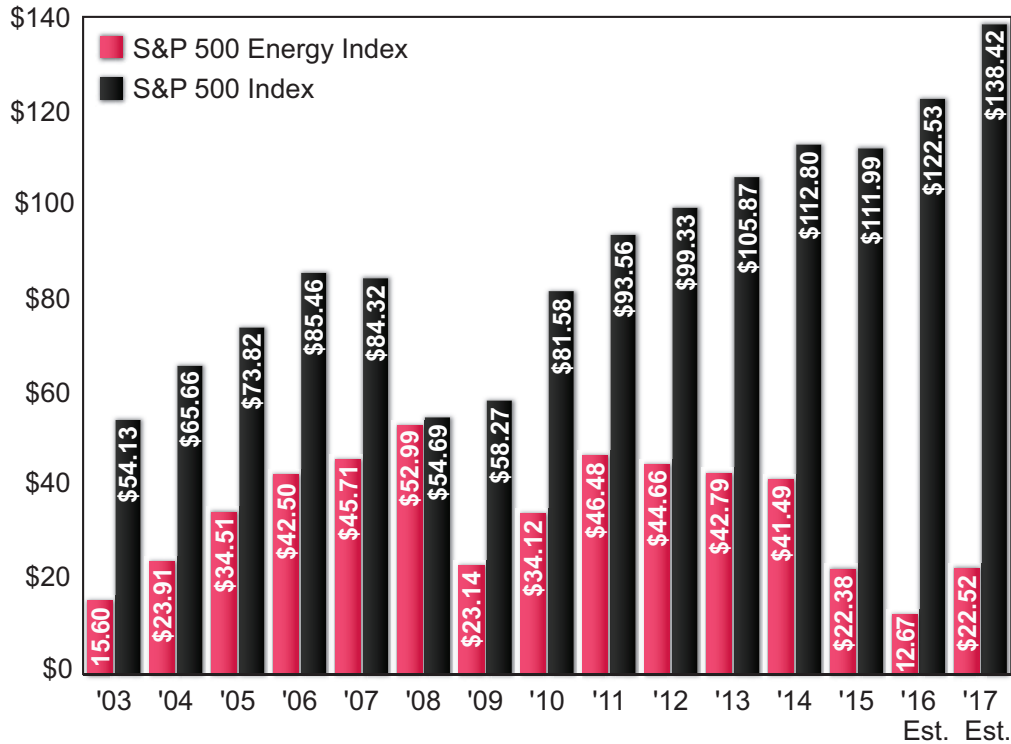


The Energy Sector's Influence On S&P 500 Index Earnings Is Waning

Energy Earnings Relative To S&P 500 Index Earnings (2003-2017)



Source: Bloomberg. Consensus estimates for 2016 and 2017 as of 1/20/16.

View from the Observation Deck

1. Even the strongest of themes run their course in due time. Like the exceptional showing posted by technology stocks during the Internet Revolution, energy stocks have succumbed to gravity after rewarding shareholders for over a decade.
2. The price of crude oil closed trading at \$26.55 per barrel on 1/20/16, significantly below its 2014-high of \$107.26 per barrel (6/20/14) and its all-time closing high of \$145.29 per barrel (7/3/08), according to Bloomberg. It was even below its closing price of \$31.20 per barrel on 12/31/02, just a little over two-and-a-half months before the U.S. invaded Iraq on March 19, 2003.
3. From 6/30/04-6/30/14, the S&P 500 Energy Index posted a cumulative total return of 254.41%, the best showing of any of the 10 sectors that comprise the index, according to Bloomberg. Utilities took second place, up 176.37%.
4. With both crude oil and natural gas prices at relatively low levels, energy companies are not nearly as profitable today as they have been throughout most of this millennium.
5. From 6/30/14-1/20/16, the S&P 500 Energy Index posted a cumulative total return of -44.20%, the worst showing of any sector in the index, according to Bloomberg. Materials had the second worst showing, down 22.00%.
6. The earnings generated by the energy companies in the S&P 500 Index have come full circle. The \$12.67 consensus estimate for 2016 (see chart) is actually lower than the \$15.60 in actual earnings posted in 2003.
7. We are by no means saying that energy prices have to remain this low. There are some geopolitical influences at work that are subject to change, in our opinion. Perhaps the most noteworthy, in our opinion, being OPEC's (Organization of the Petroleum Exporting Countries) decision to wage a market share battle by increasing their production levels of crude oil in an effort to drive the price of oil lower, thereby squeezing the profitability of its competitors.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment. The index performance data excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance. The S&P 500 Energy Sector Index is capitalization-weighted and comprised of S&P 500 constituents representing the energy sector.