

Energy Sector: Contrarian View Yields Opportunities

In the July webinar, Portfolio Managers Stan Majcher and Hunter Doble discussed how Hotchkis & Wiley's view of the unloved Energy sector differs from consensus view. The following summarizes their discussion:



Stan Majcher, CFA
Portfolio Manager



Hunter Doble, CFA
Portfolio Manager

Top Takeaways

- The Energy sector currently trades at a low valuation relative to history and most other sectors.
- Oil production is projected to eventually lag behind oil demand as international rig counts have declined significantly and demand continues to grow.
- We believe after the recent OPEC production cuts expire, global production will be at full capacity.
- Increased efficiencies in U.S. shale operations have been greatly exaggerated; the "efficiencies" are more a reflection of reduced service and drilling costs than of technological advances. These efficiencies will reverse when costs revert to normal levels.
- To rapidly grow U.S. production, we believe oil services companies need higher levels of profitability to add capacity and exploration and production (E&P) companies require higher returns on investment and operating cash flow.
- The market does not appear to have priced in any supply disruptions due to geopolitical tensions, wars, natural disasters, etc. We view this as shortsighted.
- At Hotchkis & Wiley, we prefer U.S. E&P companies with high quality acreage, underlevered U.S. service companies trading below replacement cost, and international explorers with solid balance sheets and hidden assets.

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Investing in specific sectors such as energy involves unique risks related to that sector.

Mutual fund investing involves risk. Principal loss is possible.

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