SPDR FUND ENERGY SELECTION SECTOR ETF (XLE) HOLDING ANALYSIS

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ETF OVERVIEW

Energy Select Sector SPDR Trust is an exchange-traded fund on the NYSE. Its objective is to provide the investment result that corresponds to the performance of the entire Energy Sector Market Index. The fund allocates more than 90% in Oil, Gas & Consumable Fuel, the other 10% is in Energy Equipment and Services. Their top three holdings are Exxon Mobil, 47.93%, 1092.64% and 1685.45%, Chevron 34.67%, 3052.17%, and 4378.5%, and EOG Resources 71.93%, 2678.47%, and 491.92% in one-year return, net income growth last quarter and earnings growth estimates, respectively. The energy industry market comprises five main energy sources: 46% is solar energy, 21% is natural gas, 17% is wind, 11% is batteries, 5% nuclear and the rest is other types of energy.

CURRENT CHINESE ENERGY MARKET

China is currently the world’s largest energy consumer, they are the largest producer and consumer of coal, and the largest emitter of CO2. Thus, what China is doing with their energy system will greatly impact the entire sector. The country’s falling manufacturing PMI and the market’s downgrade in its GDP forecasts is signaling a possible economic slowdown and a drop in oil demand because China and the US are the top two biggest oil consumers in the world. The country’s crude oil import in 2022 could fall by 9.5% due to a possible economic slowdown and the rectification of use of oil trading quotas, irregular oil trading of China’s state-owned oil giant PetroChina.

The government proposed to reduce greenhouse-gas emissions to net zero by 2050 which leads to a boost in solar panels demand in 2030, a 4-time increase in wind and solar capacity. China’s solar capacity is growing at 28% vs 20% in 2021 with an average growth in profit of 45%. Another trend in the Chinese energy market is hydrogen-energy development. These development plans could help the goal of carbon neutrality by 2060. The country’s energy output will reach $157 billions in 2025 and grow 12 times by 2050, and hydrogen-energy may supply 10% by 2050 and 20% in 2060 of it.

SOLAR ENERGY OUTLOOK

Global demand for solar panels could soar 15-30% in 2022. The solar panels industry has expanded more than 25% in 2021 and if this growth is sustainable, this could make the industry CAGR to 14% from 2022 to 2030. The growth for solar panels usage, it could increase sales for inverter manufacturers and equipment suppliers like SolarEdge by roughly 33%. However, the US solar industry would grow 25% less from 35-40% than the previous forecast for 2022 due to supply chain constraints and the rise in raw material costs. Because of these supply chain issues and an incident of a filed petition asking for tariffs to be extended to Thailand, Malaysia, and Vietnam, solar equipment has been disrupted for months but it was dismissed in November. Even though there were hurdles, US installed capacity jumped 33% year-over-year. Utility-scale solar energy equipment set a record, but commercial and community-scale equipment declined 10% and 21%, respectively. Moreover, the Build Back Better Act would be a major market stimulant for the industry, it would create a long-term certainty of growth that would triple the amount of solar energy output of over 300 GWs by 2026 if this act were signed into law.

WIND ENERGY OUTLOOK

The act would not only affect solar energy, but it would also affect the wind energy industry. Global market is expected to grow to $104.18 billion in 2022 at a CAGR of 16.2% and $184.97 billion at a CAGR of 15.4% in 2026 both offshore and onshore. Because the industry is heavily impacted by inflation, wind energy remains volatile in the short term and prosperous in the long term. African countries’ demand for clean sustainable energy is set to increase by 60% by the year 2040 and they are partnering with the United Kingdom to provide enough resources.

LIQUEFIED NATURAL GAS ENERGY OUTLOOK

The US is now set to become the world’s biggest LNG exporter in 2022, surpassing Australia and Qatar. Global LNG demand has always hit new record highs since 2015. So far until the end of 2021, most US exports went to Asia with about 13% going to South Korea, 13% to China and 10% to Japan. After years of avoiding buying US LNG, China has finally started to make their move. Many of the long-term buying contracts came from Chinese buyers. Chinese gas demand in 2022 will be mainly industrial users, power generation and chemical companies because they are starting to switch from coal to gas generated energy. The demand for natural gas increases by 7%, slower than 12.8% in 2021 due to higher global gas prices, so the state-owned oil giant PetroChina also increases the import from Russia via the Siberia pipeline to 43 million cu m/s in 2022, an increase of 54% from 2021.

HYDROGEN ENERGY OUTLOOK

There is a huge demand for hydrogen energy in metal treatments, petroleum refining, and food processing. Significant increase in the demand is expected to boost this industry growth. The hydrogen energy storage market size is expected to reach $19.84 billion in 2028, expanding at a CAGR of 4.4% from 2021 to 2028 due to growth of fuel cell technologies such as transportation, portable power, and stationary power. The market is majorly driven by the growing usage of hydrogen energy storage in the utility, commercial, and residential sectors. Russia plans to take a major stake of 20% in the global market by 2030. They would be producing hydrogen energy from nuclear and renewable sources. Nevertheless, there are vast gas reserves all around Russia, and analysts expect natural gas to play the biggest role in hydrogen production. There are some foreign deals like Russia and Germany on sustainable energy, western companies and Russia, Japan and Russia on lower carbon projects, and Russian officials held talks with their counterparts from UAE and Saudi Arabia.

OIL OUTLOOK

The Organization of the Petroleum Exporting Countries (OPEC) expects global oil demand to increase by an average of about 4.2 million barrels a day in 2022 vs 2021 driven by higher consumption expectations in China, other parts of Asia and Europe. The projected demand can reach over 100 million a day in the third quarter of 2022, above pre-pandemic level. The amount of crude oil the world needs OPEC member countries to produce could top 28 million barrels a day in 2022. The demand proves to be stronger by the fact that the estimated demand would be over the pre-pandemic level. Because of a persistent increase in demand, the world may need OPEC countries to produce more than 30 million barrels a day in 2030

RECOMMENDATION

Due to reasons mentioned above, I believe we should **HOLD XLE** in the UIndy Student Fund portfolio for the time being. The fund has holdings of leading companies in new sustainable energy markets. The demand and pricing for those markets is rebounding from its pre-pandemic levels. The fund is well-proportioned in both previous and upcoming industry trends. **That is why, I recommended a HOLD for XLB.**

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