



Rodney's Take

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Have U.S. Energy Companies Sent Thank You Cards to OPEC+, at Least?

Exxon Mobil (NYSE: XOM) was all but left for dead in the early days of the pandemic, with shares trading around \$32.50. After the company reported the best earnings in its history on Friday, its shares reached the highest level in history, more than \$110 per share. Chevron posted the second-highest earnings in history last week and also saw its shares jump higher. There's no question that those two firms, along with other U.S. energy companies, are benefiting after OPEC+ just gave us the cold shoulder. The question is whether it will last.

For some reason, politicians seem to forget that OPEC+ is an acronym that refers to a group of petroleum-exporting countries, it's not the name of an American firm on the other side of the world that does our bidding. Like JFK's public stand against Russian missiles in Cuba, during which said missiles were removed only after we agreed to remove missiles out of Turkey, OPEC (without the plus back then) agreed to work with us on energy supplies only after we agreed to provide them with weapons and protection. I'm not saying that this was wrong, it just was the deal we struck. After almost 50 years, that agreement appears to be dead, which leaves OPEC+ free either to strike a new deal or to go it alone. So far, it looks like the U.S. and OPEC+ are moving different directions, with OPEC+ interested in establishing a new, higher support level for oil.

If this is the case, U.S. energy companies will pull in bumper profits for years to come. Don't expect them to share the wealth beyond their shareholders.

As I've written before, politicians, central bankers, and financiers have painted U.S. and other Western energy companies as the bad guys. People ignore the plus column when considering the incredible gains in living standards attributable to hydrocarbons and hypocritically rail against fossil fuel while traveling on their private jets and using myriad products made with plastic. Energy company executives have every reason to read the critiques of such people through jaded eyes. Our energy mix likely will look much different in 2050 or 2075 and will include a lot of renewable sources, but casting energy companies as the villains won't do any good. In the case of OPEC+, it will push our former partners into the arms of our competitors and some of our enemies. In the case of U.S. energy companies, it will rebuild these firms into the formidable stock market players they used to be and make them into cash machines, as has happened with cigarette-maker Altria (NYSE: MO). They'll spend on capital projects, but not like they did in the past, with most of their cash flow dedicated to debt reduction, stock dividends, and stock buybacks.

Unlike with cigarettes, people who dislike energy companies use their products anyway, even if they drive EVs. The components of an EV that are made out of plastic, along with the food we eat and products we use or wear that are delivered using petroleum, are too numerous to count. The best way for people who dislike energy companies to get back at them is a bit counterintuitive. Instead of avoiding energy company shares when investing, they should make sure to buy them. That way, if the energy companies make oodles of cash because OPEC+ is pushing prices higher, they'll make gains. If we somehow strike a new deal with OPEC+ or some breakthrough in battery technology brings about the quick demise of energy companies, well, that's what those who dislike such companies wanted anyway.

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Got a question or comment? You can contact us at info@hsdent.com.