The Outlook: May 11, 2020

"It's not really cheap until you hate it yourself."

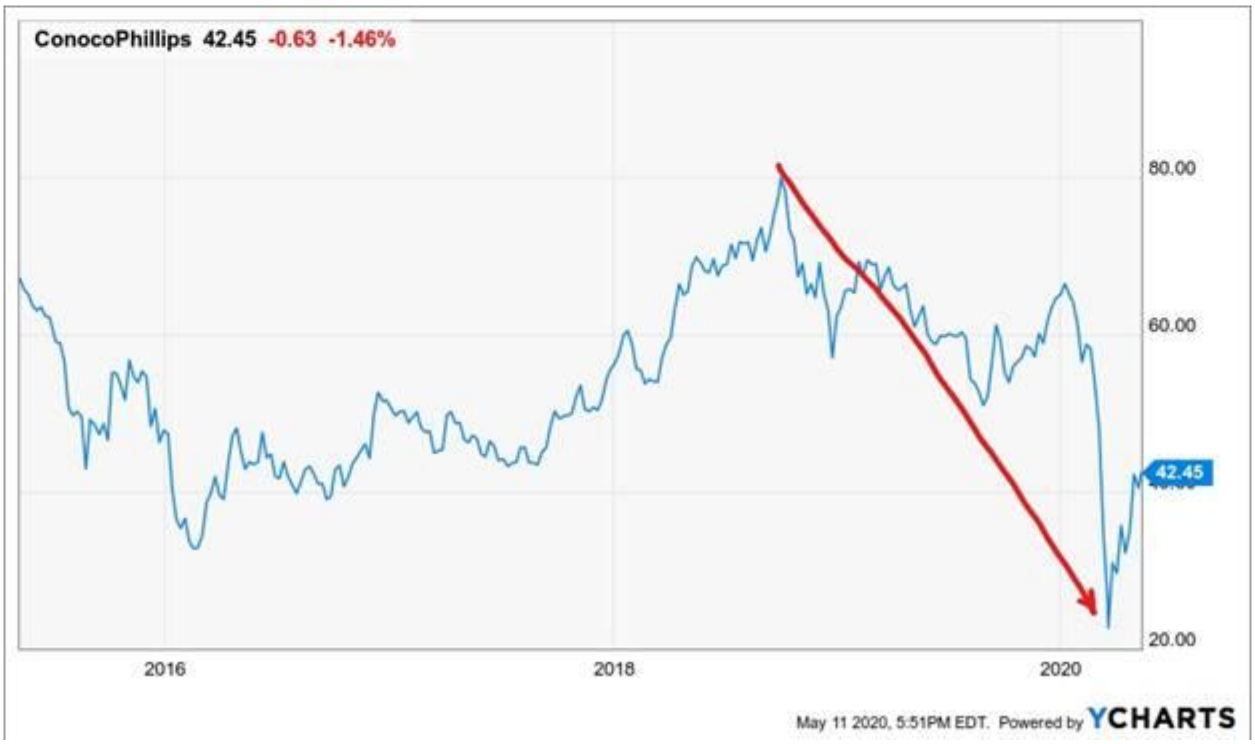
There is a saying among "value" investors (meaning investors, like Outlook, who like to buy strong companies when others are selling them.)

"Something isn't cheap until everyone else hates it, but it isn't really cheap until you hate it yourself."

That's where energy stocks are now.

(Energy investment firm's opinion . . . shared by Outlook.)

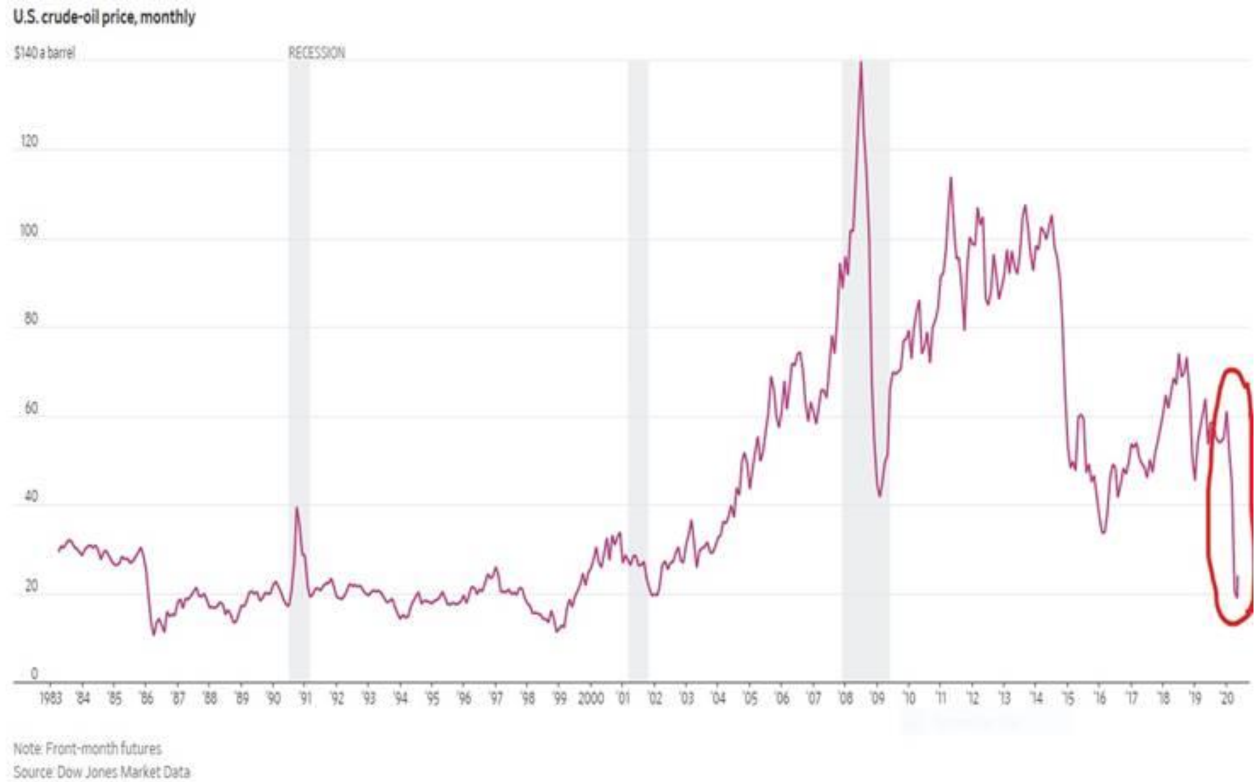
Let's glance at Conoco, for a feeling about the depths of all that hate.



Yes, it is pretty deep. The red arrow shows a 71% drop in Conoco's stock price, since late 2018. That was around 18 months. But in a mere 7 weeks from January to March this year, the market's haters knocked it down 65%.

They seem to feel pretty strongly about it, didn't they?

"Anything that can go wrong, will go wrong," says Murphy's Law. Conoco's CEO Ryan Lance could offer his company as Exhibit One. First Saudi Arabia thought it was time to punish Russia (and many other OPEC price-control "cheaters") with a ferocious price war; then—moments later, pretty much—the Virus Shutdowns eliminated oil demand and the global economy together, and here was the result. (Red circle.)



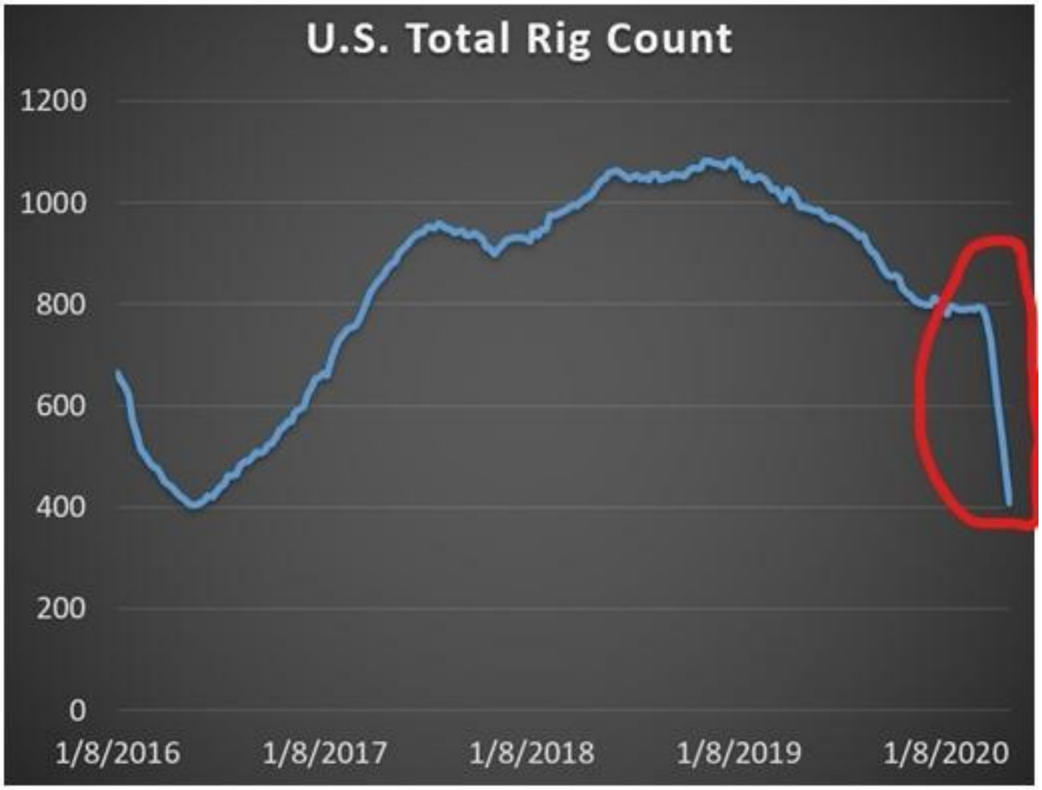
Murphy's Law indeed. Those two charts, though, did have one good effect. They almost fulfilled the Old Saying: "It's not cheap until everyone hates it, but it's not *really* cheap until you hate it yourself."

At Outlook we strongly suspect that Old Saying will have proven itself again, as we look back at Conoco a couple of years from now. There it was in March at $23 per share, as hated as it could ever hope to be; and there it is today . . . up 87%. When we look back, we'll see it was only the beginning. Why?

Theresa has looked "Inside Conoco" quite a few times over the past year. The same thing has jumped out every time: the remarkable (even "astonishing") strengthening of Conoco's financial condition since 2016, by Mr. Lance and his team. Many American companies do amazingly good things under great pressure . . . but Conoco "wrote the book," pretty much, when it comes to performance under pressure. It was a treat to listen to Mr. Lance at the recent Earnings Call: concerned about this "once in ten lifetimes" Virus Shutdown event; ***but not all that concerned***. He had a right to sound that way, and most of the other Oil Kings, strong as they are, surely with they were in Mr. Lance's shoes at the moment.

What about future oil supply and demand, hence future oil prices—which are the sun around which all the Oil Kings revolve.

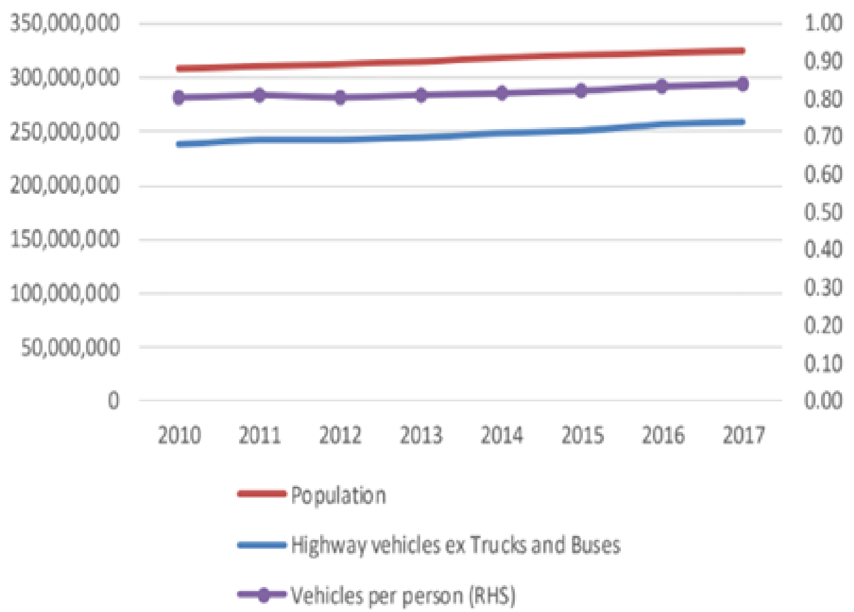
We could talk for a long time about both, but let's give them one picture apiece. First, supply.



That red-circled plunge in U.S. shale activity is already out of date, being possibly 100 rigs lower by now. Unlike 2016, this is the end of the line for shale. It will be a big oil producer for a long time, but it will never again be the "crazy, skyrocketing" producer it's been for a decade. Just this morning, one of the most famous old names in shale—Chesapeake Energy—gave its required preliminary signal that bankruptcy is on its mind. Another—Whiting Petroleum—is already setting up house there, making space for the armies of lawyers needed to divide up what's left. The U.S. shale sector wrecked OPEC's profitability plans all by itself, these last many years, by producing oil at a loss, essentially. Not anymore.

And here's a stand-in for oil demand:

Exhibit 30: No significant change in steadily rising intensity over time



Sources: Dept. of Transportation, MSUSA

This chart does end in 2017, but it's perfectly accurate through today. The top red line is U.S. population; the bottom blue line is total highway vehicles; and the dotted purple line is most interesting: vehicles per American. None of the lines change fast . . . but they do keep stubbornly rising, don't they?

One of the near-certain effects of the Virus and Shutdowns is this: America's long love affair with individually-owned and personally-driven vehicles is not over. Instead it just got a fresh tailwind—because personally-driven vehicles are the polar opposite of mass transit, when it comes to virus infection risk. In the same way, suburban living suddenly stands at the "safe" end of a spectrum compared to dense urban living, plus mass transit.

These 2 pictures, of course, are nothing but pieces of the "big pictures" for oil supply and demand. When it comes to those complete pictures, we can be pretty sure that oil supply will be choked back for a long time. Strength in oil demand, though, depends on the world putting the Virus Shutdown behind it—which means the world's political leaders putting it behind. We have a right to wonder about that, given the startling actions we've seen so far. But time is on the "return to normal" side. Every week and month which passes has made the catastrophic economic damage of the Shutdown more clear. Most political leaders—regardless of ideology—have been showing that it's clear enough, to them, and acting accordingly.

At Outlook we've often remarked about the nature of the market. It is often short-sighted to the point of blindness—but not always. It also "sees" the future pretty clearly, often enough. We suspect Conoco's behavior since late March will turn out to be a good example.

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