



### Will Energy Ever Outperform Again?

The S&P 500 Energy sector has been absolutely decimated over the last two years, falling 9.99% in 2014 and another 23.84% this year. What makes the performance so bad is that it didn't come at a time when the broad stock market was falling with it — it was a complete negative outlier as the broad market trended higher (in 2014) and then sideways (in 2015). In fact, in both 2014 and 2015, the Energy sector has underperformed the S&P 500 by more than 20 percentage points (-21.38% in 2014 and -22.05% in 2015).

Using our sector data going back to 1940, we analyzed annual returns for the ten S&P 500 sectors to find all years in which a sector underperformed the S&P 500 by more than 20%. Since 1940, we've seen a sector underperform the S&P 500 by more than 20% in a given year 48 times. Note that some years see more than one sector underperform by more than 20%, like in 1980 when five of ten sectors actually underperformed by 20%+. This year only the Energy sector is underperforming by more than 20%. Also note that there are a lot of instances in which the S&P 500 was up sharply or down sharply and the sector either lagged on the upside or the downside. This year for Energy is quite different as well since the S&P is flat and the Energy sector is down 23.84%.

While 20%+ underperformance in a year is rare in and of itself, it's obviously much more rare for a sector to see 20%+ underperformance two years in a row. In fact, it has only happened five prior times since 1940, and these instances are shown below. It happened to Consumer Staples in 1950 and 1951, Utilities in 1954 and 1955, Health Care in 1975 and 1976, Telecom in 1979 and 1980, and Materials in 1997 and 1998.

The question most investors have right now is whether Energy stocks are going to continue going down or whether it's time to load up on them. At least based on prior instances of back-to-back 20%+ underperformance years, the Energy sector has a good chance of having a decent 2016, and also versus the S&P 500. If you look at the gray shaded years for the sectors below, you can see how they did in the year after the second year of 20%+ underperformance. The median next-year return is +13.51% with positive returns four out of five times. Versus the S&P 500, the median next-year return is +1.73%.

#### Sectors Underperform S&P 500 20%+ Two Years in a Row

Sector	Year	S&P 500 (%)	Sector (%)	Sector vs. S&P (%)	Sector Next Year (%)	Sector Next Year vs. S&P (%)
Cons. Staples	1950	21.68	-5.74	-27.42	-6.34	-22.69
Cons. Staples	1951	16.35	-6.34	-22.69	13.51	1.73
Utilities	1954	45.02	18.83	-26.19	6.41	-20.00
Utilities	1955	26.40	6.41	-20.00	0.15	-2.46
Health Care	1975	31.55	2.78	-28.77	-6.90	-26.05
Health Care	1976	19.15	-6.90	-26.05	-11.66	-0.16
Telecom	1979	12.31	-11.46	-23.77	-9.39	-35.16
Telecom	1980	25.77	-9.39	-35.16	22.71	32.44
Materials	1997	31.01	6.30	-24.71	-7.98	-34.65
Materials	1998	26.67	-7.98	-34.65	22.96	3.43
Energy	2014	11.39	-9.99	-21.38	-23.84	-22.05
Energy	2015	-1.80	-23.84	-22.05	?	?

<b>Average</b>	9.54	7.00
<b>Median</b>	13.51	1.73