

January 6th, 2020
Weekly Bulletin

Between a Reform and a Hard Place -XOP

The Lead

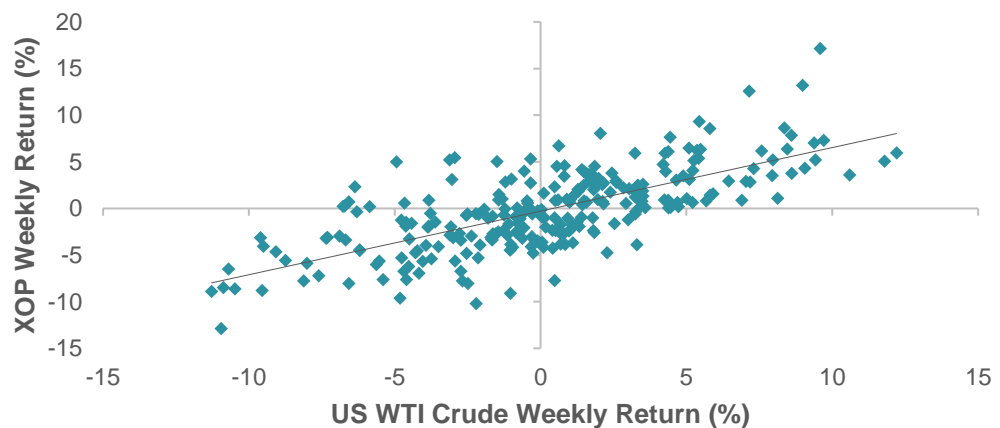
- Acting as a tailwind to American oil producers cash flows and margins, alongside this increased demand, oil prices are likely to remain elevated given the continuation of OPEC supply cuts as well as the recent increased tensions in the Middle East
- On January 1, the International Maritime Organization (IMO) enacted a sweeping reform on shipping emissions, mandating the use of a higher quality, but more expensive, fuel¹
- This change in policy should increase the demand for American oil, as most of the US production comes from shale formations that yield the low sulfur, less dense oil that could meet these new standards²

The Takeaway

With a high correlation to crude oil³, and a modified equal weighted approach that provides comprehensive coverage (48% in mid-and-small-cap firms⁴) to the US oil production industry beyond the mega-cap heavyweights, the SPDR S&P Oil & Gas Exploration & Production ETF [XOP] may be able to capture this sea change gripping the oil market. Additionally, weak performance in 2019⁵ has led to lower absolute and relative valuations⁶, potentially providing an attractive entry point.

Chart of the Week

*XOP Correlation with
WTI Crude Oil*



Source: Bloomberg Finance, L.P., as of 12/31/2019. Correlation measured for the period 12/31/2014 – 12/31/2019 based on weekly returns. Crude Oil Price is WTI Crude Price. **Performance quoted represents past performance, which is no guarantee of future results.**

Footnotes

¹ "New rules on ship emissions herald sea change for oil market", Reuters May, 2019. The global shipping fleet now consumes about 4 million barrels per day (bpd) of high sulfur fuel oil, but about 3 million bpd of that demand will "disappear overnight"

² <https://www.eia.gov/todayinenergy/detail.php?id=33012>

³ Source: Bloomberg Finance, L.P., as of 12/31/2019. Correlation of 0.71 measured from 12/31/2014 – 12/31/2019. Crude Oil is WTI Crude Price.

⁴ Source: Bloomberg Finance, L.P., as of 12/31/2019

⁵ Source: Bloomberg Finance, L.P., as of 12/31/2019, XOP underperformed the S&P 500 by 41% in 2019

⁶ Source: FactSet as of 12/31/2019

Standard Performance

Ticker	Name	YTD (%)	1 Year (%)	Annualized				Inception Date	Gross Expense Ratio (%)
				3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)		
XOP (NAV)	SPDR S&P Oil & Gas Exploration & Production ETF	-9.32	-9.32	-16.13	-12.10	-4.39	-1.71	6/19/2006	0.35
XOP (MKT)	SPDR S&P Oil & Gas Exploration & Production ETF	-9.41	-9.41	-16.15	-12.13	-4.40	-1.72	-	-

Source: www.ssga.com, as of 12/31/2019. Performance quoted represents past performance, which is no guarantee of future results.

ssga.com

spdrs.com

For Investment Professional Use Only

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent. The views expressed in this material are the views of the SPDR Research and Strategy team and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Information represented in this piece does not constitute legal, tax, or investment advice. Investors should consult their legal, tax, and financial advisors before making any financial decisions.

Important Risk Information

Investing involves risk including the risk of loss of principal.

Funds investing in a single **sector** may be subject to more volatility than funds investing in a diverse group of sectors. Because of their narrow focus, sector funds tend to be more volatile than broadly diversified funds and generally result in greater price fluctuations than the overall market.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole. While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

Passively managed funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index. While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

Intellectual Property Information:

Standard & Poor's®, S&P® and SPDR® are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJL) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

Distributor: State Street Global Advisors Funds Distributors, LLC, member FINRA, SIPC, an indirect wholly owned subsidiary of State Street Corporation. References to State Street may include State Street Corporation and its affiliates. Certain State Street affiliates provide services and receive fees from the SPDR ETFs.

Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 1-866-787-2257 or visit www.spdrs.com. Read it carefully.

Not FDIC Insured • No Bank Guarantee • May Lose Value

State Street Global Advisors, One Iron Street, Boston, MA 02210-1641 ©2019 State Street Corporation. All Rights Reserved.

Expiration Date: 4/30/2020 1973422.84.1.AM.INST