DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

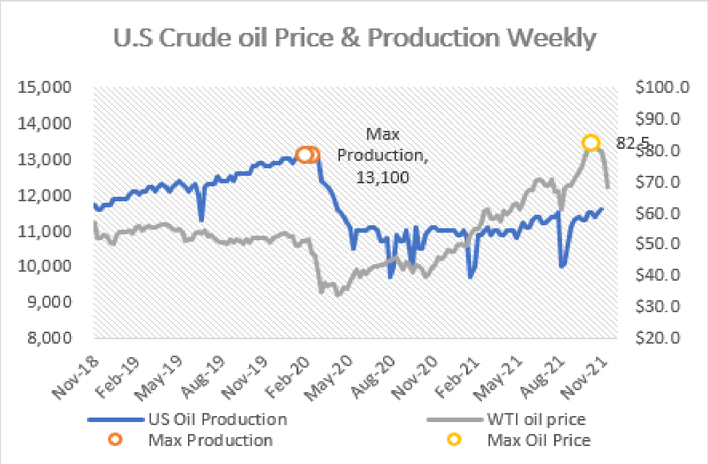
Energy Investor Monthly: November 2021

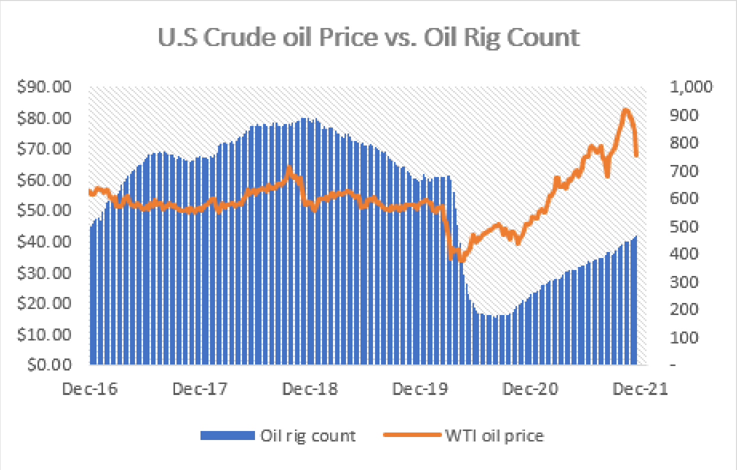
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

DAC produces the *Energy Investor Monthly* to be a one-stop information resource on domestic supply/demand factors and global trends in the energy market for your reference.

U.S. Total Crude Oil Production and U.S. Crude Rotary Rig Count:

1. The West Texas Intermediary (WTI) oil price was $68.15 per barrel for the week ended Nov. 26, 2021, dropping by over 16% since the beginning of the month. Thanksgiving-driven refined product demand was overshadowed by variant concerns, shifting the focus on the December 2nd OPEC+ meeting.
2. U.S. oil production increased by 100k bbl./d week over week, averaging 11.6 million bbl./d. The highest level since May 2020 but still short of the highs before the pandemic.
3. According to Baker Hughes, the U.S. oil rig count increased 6 from the previous week, a total of 23 more rigs from the last month to 467. Oil rigs doubled from the month-end a year ago but remained below pre-COVID levels.

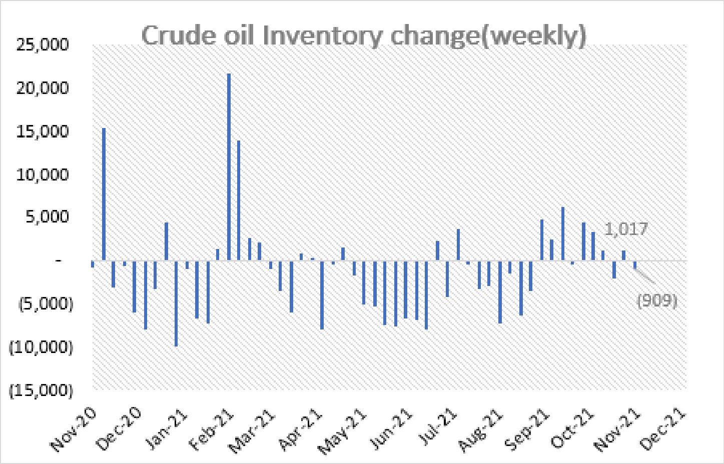


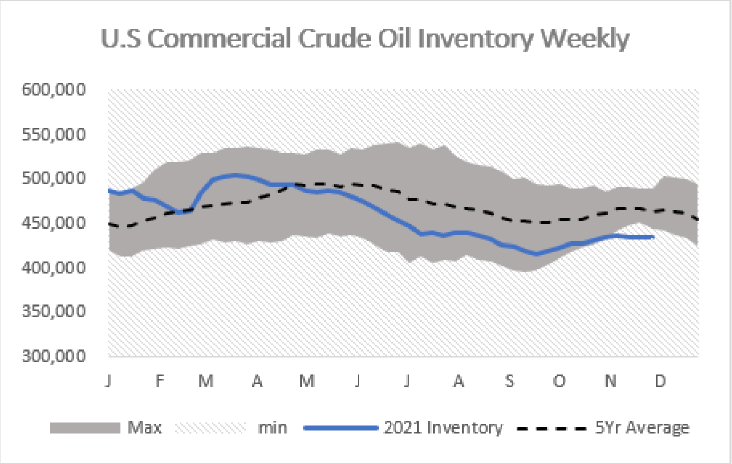


Source: Bloomberg, Dividend Assets Capital LLC

The U.S. Commercial Crude Oil Inventories (excluding those in the Strategic Petroleum Reserve) and Inventory Changes:

1. U.S. commercial crude oil inventories were 433.1 million barrels at month-end. This inventory level is also about 6% below the five-year average for this time of year.
2. U.S. commercial crude oil inventories fell 0.9 million barrels from the previous week as refineries complete seasonal maintenance and raise utilization rates for the sixth consecutive week.

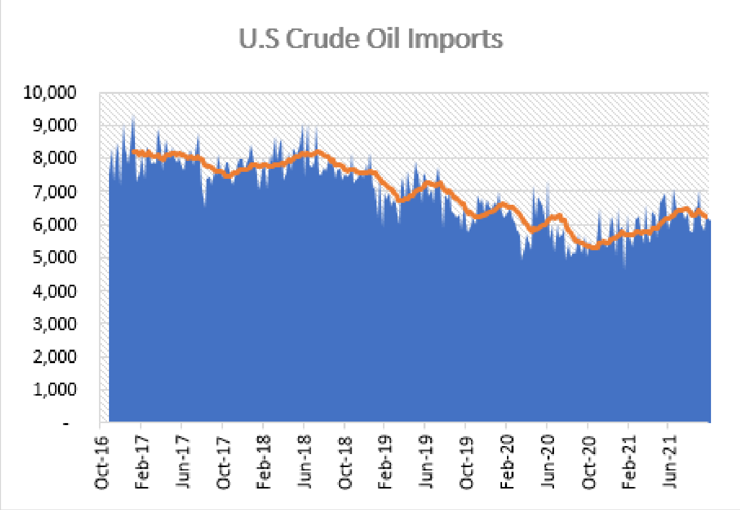


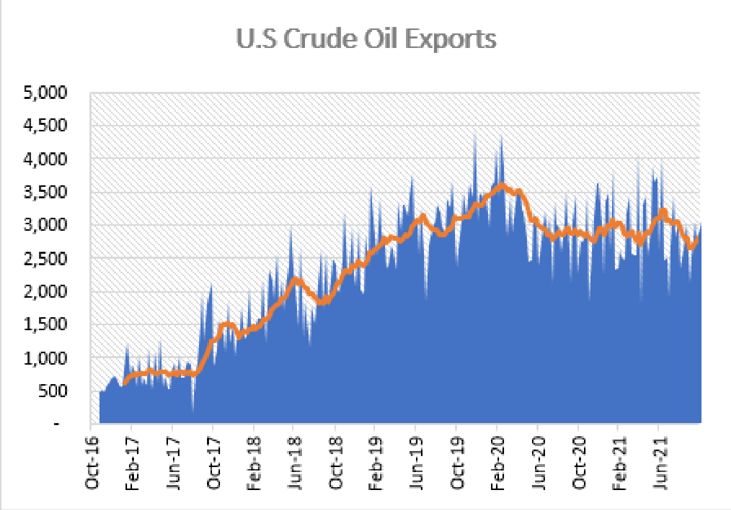


Source: Bloomberg, Dividend Assets Capital LLC

U.S. Imports and Exports:

1. U.S. crude exports rose 99k bbl./d to 2.7 million bbl./d from the previous week. Over the past four weeks, crude oil exports averaged about 2.997 million bbl./d, 1.6% more than a year ago. The narrower spread between the Brent and West Texas Intermediate (WTI) oil prices muted exports.
2. U.S. crude oil imports rose to the highest level in over a month, averaging 6.6 million bbl./d the last week of November. Over the past four weeks, crude oil imports averaged about 6.3 million bbl./d, 18.5% above the same four-week period last year.
3. The U.S. remained a net importer of crude and refined products last week, after a brief switch to net exporter status around the start of November.

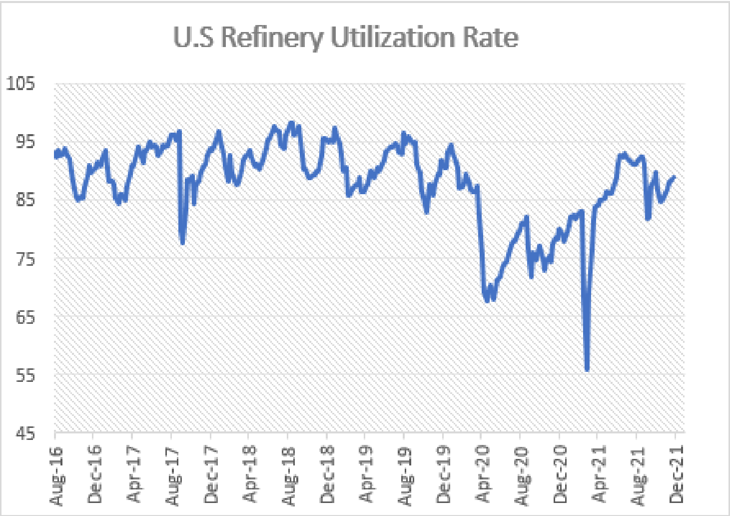


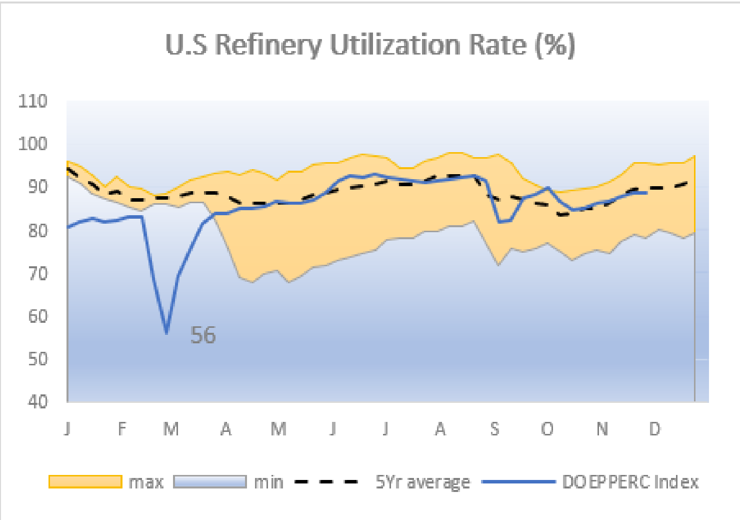


Source: Bloomberg, Dividend Assets Capital LLC

U.S. Refinery Inputs and Utilization Rates:

1. U.S. crude oil refinery inputs averaged 15.6 million bbl./d for the week ending Nov. 26, 2021. Four-week inputs averaged 15.5 million bbl/d and were 11.6% higher than the same time a year ago.
2. Refinery Utilization rose for the sixth consecutive week to 88.8% countrywide, with runs rising in all PADD regions except for the Midwest.
3. Gasoline inventories rose for the first time in eight weeks as demand historically wanes during the winter. Gasoline stockpiles remain just under the 5-year seasonal low despite the largest weekly build in six months. It's unclear how the omicron variant may impact demand moving forward. Exports of gasoline rose to the highest since mid-August.



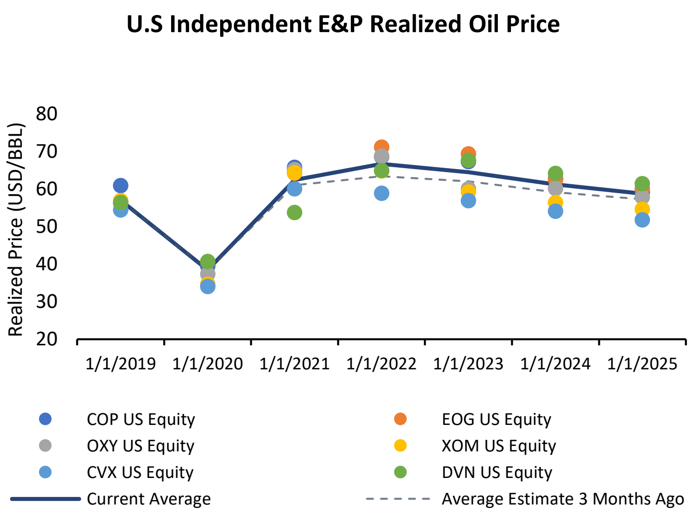


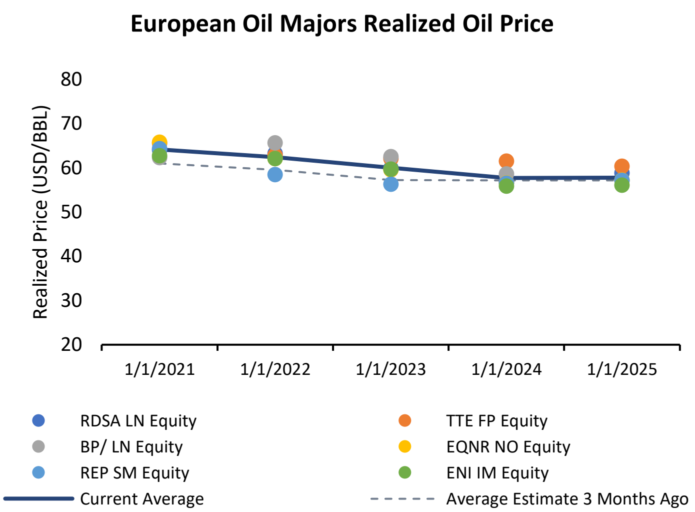
Source: Bloomberg, Dividend Assets Capital LLC

***Insights of the Month*... take out your calculator!**

For those of you that remember November 2018, WTI broke the record for the most down days in history with 12 straight down days with a downward move of about $13/bbl. That was largely because of derivative trading activities.

We saw the same magnitude on 11/26/2021, but in one day! The energy sector within the S&P 500 traded down over 4%. The individual energy stocks held relatively well at the week ended 12/03/2021 during a panic selling of stocks. Energy company valuations are only improving with strong operations, free cash flow, and shareholder focus. As companies guided, investors should expect more debt reduction, buybacks, and higher dividends to come in the coming year. When analyzing E&P realized oil prices for outer years, U.S. and E.U. oil majors could realize over $50/bbl liquids as they hedge production farther into the future. As a result, effective hedging programs can provide a cushion to underline cash flow and avoid the spot oil prices' volatilities.

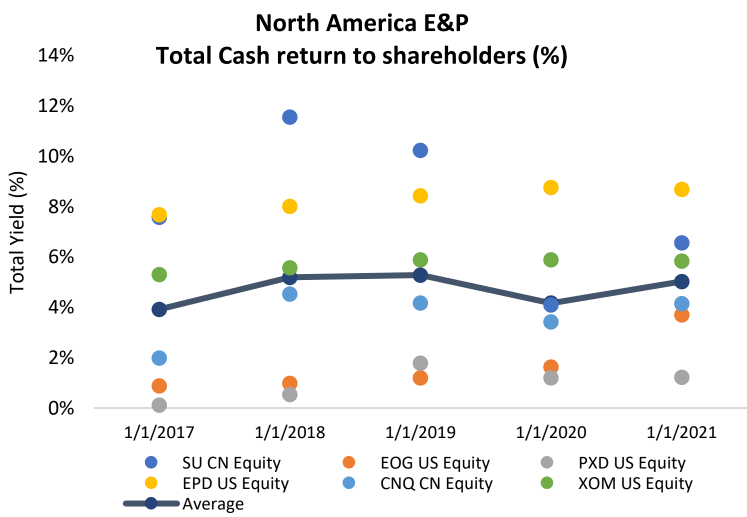


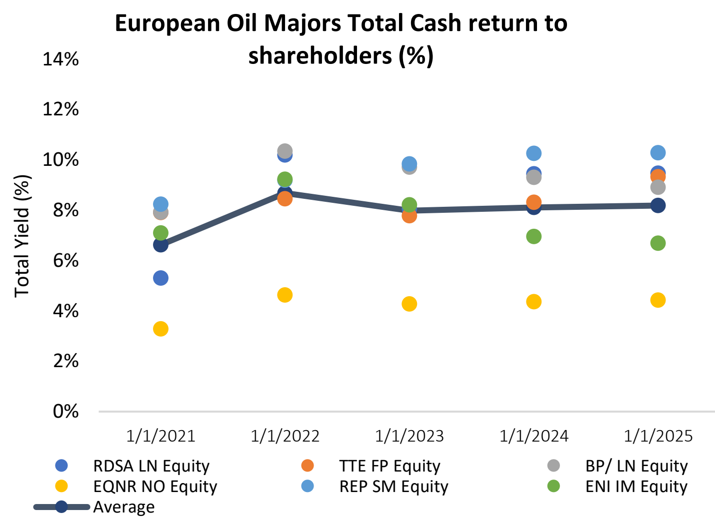


Source: Bloomberg, Dividend Assets Capital, LLC

Total cash return to shareholders:

Better benchmarks, tighter regional spreads, and controlled spending will likely drive up EBITDA and free cash generation for domestic upstream operators in 2022. Despite an improved fundamental setup, valuation multiples for E&Ps haven't shifted higher, and the sector's allocation in the S&P 500 remains at a multi-decade low. Total cash return to shareholders remain the highest among all other GICS sectors among the S&P 500.



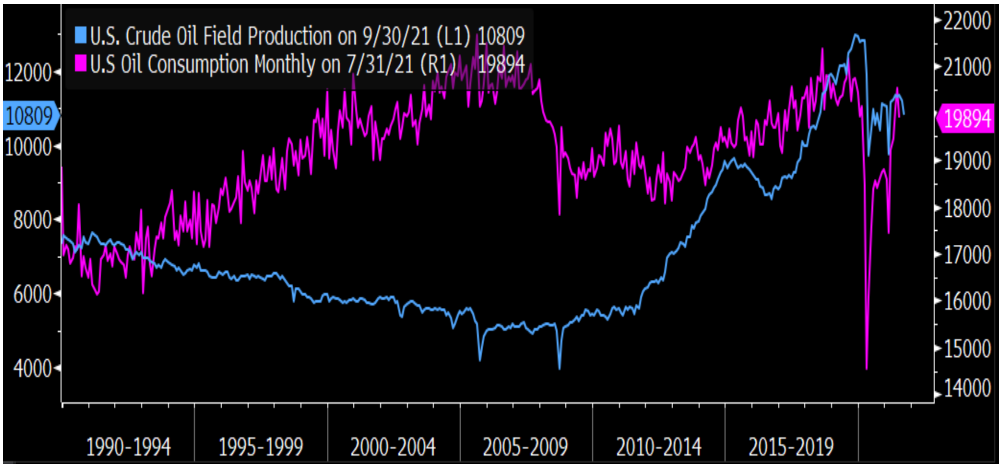


Source: Bloomberg, Dividend Assets Capital, LLC

Green Transition May Mean Higher-for-Longer Input Costs

Oil prices may stay high, with efforts to restrict crude supply and transition toward a green economy, improving the outlook for the largest U.S. oil and gas stocks but simultaneously keeping inflation and corporate input costs somewhat elevated. Ample supply, brought on by technological advancements in drilling and fracking, kept oil prices below $75 for more than five years prior to the pandemic. Still, policy efforts to restrain output may tip the scales in favor of higher prices until alternative-energy utilization improves. “A halt in investment in oil and gas is misguided,” according to OPEC Secretary-General Mohammad Barkindo. An estimate of $12 trillion in spending is needed between now and 2025 to ensure adequate crude and gas supplies. Or an aggregate $3-4 trillion of investment per year in developing clean energy and upgrading the infrastructure. Without which the world will see “ long-term scars on energy security, affecting not only producers but also consumers.”

Energy stocks have had a 0.5 correlation to oil prices since 1989, so high oil prices may result in better performance for the sector.



Source: Bloomberg

Produced By Susie Wang, Chief Investment Officer and Director of Investment Strategies (December 9, 2021)

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DAC-21-101

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Clarity: A transparent and understandable approach to portfolio management.

Simplicity: We believe dividends are the best indicator of the future price performance of a stock.

Devotion: We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.

58 RIVERWALK BOULEVARD | RIDGELAND, SC 29936
843.645.9700 | dacapitalsc.com