

Mapping the energy sector

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Energy is becoming more relevant in portfolios again. Middle East disruption has revived the role of energy as a geopolitical and inflation hedge, while Venezuela shows how the global supply map can also evolve.

Energy is not one trade. Oil producers, refiners, pipelines, LNG, power generators and grid companies sit at different points of the value chain and respond to very different drivers.

The longer-term opportunity is broadening beyond traditional hydrocarbons. EVs challenge road-fuel demand, but AI, electrification, LNG, nuclear and grid investment are creating another energy investment cycle.

Energy is back on investors' radar for two very different reasons.

The first is geopolitics. Renewed tensions in the Middle East and disruption around the Strait of Hormuz have brought energy security and inflation risks back into portfolio discussions. Supply shocks can push oil higher even when underlying global demand is mediocre.

But there is another side to that story. Venezuela is reopening to more foreign investment and could gradually increase production. It will not replace disrupted Middle Eastern barrels overnight — infrastructure, heavy crude and execution remain constraints — but it shows how higher prices and changing geopolitics can eventually bring new supply back to market.

The second force is structural. The world is consuming energy differently.

EVs are reducing demand for petrol and diesel, but they also increase electricity consumption. AI data centres, manufacturing and cooling are adding another layer of power demand just as electricity grids in many economies are already struggling to keep up.

This creates an unusual backdrop: the long-term outlook for oil demand is becoming less certain at exactly the same time that investment needs across the broader energy system are rising.

For investors, the important question is therefore not simply whether oil goes up or down. It is where scarcity is developing across the energy value chain.

A \$10 move in crude does not affect every energy company in the same way. Understanding where a company sits in the value chain is critical.

Upstream companies explore for and produce oil and natural gas. ConocoPhillips, EOG Resources and Occidental Petroleum are examples.

They provide some of the most direct equity sensitivity to commodity prices. Once production costs are covered, higher prices can translate into disproportionately stronger cash flows.

The main drivers are oil and gas prices, production costs, reserve quality and capital discipline.

ExxonMobil, Chevron, Shell and TotalEnergies combine upstream production with refining, LNG,

chemicals and trading.

That diversification generally makes earnings less sensitive to a single commodity than pure producers and can provide greater cash-flow resilience across different market environments.

SLB, Halliburton and Baker Hughes supply drilling technology, equipment and services to producers.

Their key driver is not today's oil price but producer capital expenditure.

A temporary geopolitical spike may change very little. But if prices remain high enough for long enough to encourage new fields and additional drilling, oilfield services can become a major second-order beneficiary.

Williams, Kinder Morgan and Enbridge own pipelines, processing plants and storage infrastructure.

Their revenues tend to depend more on volumes and long-term contracts than on the daily commodity price, giving them more infrastructure- and income-like characteristics.

LNG extends this chain. Liquefying natural gas allows it to be shipped globally, linking regional gas markets and making LNG infrastructure increasingly important for energy security.

Valero, Marathon Petroleum and Phillips 66 buy crude and convert it into petrol, diesel and jet fuel.

Their main driver is the refining margin — the difference between crude input costs and the price of finished products.

That means higher oil prices are not automatically positive. A crude shortage can raise input costs, while shortages of diesel or jet fuel can widen refining margins significantly.

A crude shortage and a refined-product shortage are therefore different investment calls.

Electricity creates a second energy value chain.

Regulated utilities such as Duke Energy, Southern Company and American Electric Power invest in generation and networks and typically earn regulated returns on those assets.

Merchant power producers such as Constellation Energy and Vistra have greater exposure to wholesale electricity and capacity prices. Existing nuclear and gas plants can become particularly valuable when electricity supply is constrained.

Renewables sit within this generation mix too. Rising power demand does not necessarily require one source of generation to eliminate the others.

Generation is only useful if electricity can reach consumers.

Transmission lines, transformers, substations, switchgear and distribution networks are therefore becoming critical infrastructure.

Companies such as GE Vernova, Eaton, Schneider Electric and Siemens Energy supply the equipment, while companies such as Quanta Services help build and maintain the networks.

This is an important structural feature of the theme because it is relatively agnostic about the ultimate generation mix.

Gas, nuclear and renewables all require substantial grid investment, while data centres add another source of demand for that infrastructure.

Rather than treating energy as a single sector allocation, investors can match exposure to the macro environment they expect.

Middle East disruption, sanctions or shipping constraints keep oil scarce

Oil and gas remain expensive long enough to encourage new investment

Producers initially; then oilfield services, pipelines and LNG infrastructure

3. Supply expands while oil demand softens

Venezuela/non-OPEC supply rises as EVs and slower demand challenge oil

Reduce high-beta upstream; favour contracted infrastructure and more diversified energy exposure

4. Electricity becomes the structural growth trade

AI, data centres, EVs and grid constraints drive sustained power investment

Power generators, nuclear, utilities, electrical equipment and grid construction

This is closest to the current Middle East environment.

If physical supply remains disrupted, upstream producers provide the clearest oil-price sensitivity, while integrated majors offer a more diversified way of expressing the same view.

But investors should not assume all energy companies benefit equally. Pipelines are primarily volume-driven, oilfield services need a sustained spending response, and refiners depend on product margins rather than simply higher crude.

The shorter and sharper the shock, the more important this distinction becomes.

The opportunity changes if high oil and gas prices persist.

Initially, producers capture the higher commodity price. But over time, stronger cash flows and greater confidence in future prices can encourage drilling, field development and infrastructure spending.

That broadens the opportunity towards oilfield services, pipelines and LNG infrastructure.

This is when energy moves from being simply a commodity-price trade to becoming an investment-cycle trade.

Venezuela illustrates this dynamic too. Bringing more production back online requires investment in fields, infrastructure and equipment even if those additional barrels eventually put downward pressure on global oil prices.

This is the key counterweight to the bullish oil story.

On the supply side, Venezuela and other non-OPEC producers can gradually add production. On the demand side, EV adoption, efficiency gains and potentially softer global growth can constrain oil consumption.

If additional supply arrives at the same time that demand growth disappoints, the greatest pressure is likely to fall on higher-cost and higher-beta upstream producers.

That does not make the broader energy theme unattractive. It instead argues for shifting exposure

towards businesses where earnings depend less on the spot oil price — including integrated majors, contracted pipelines and parts of the power infrastructure value chain.

Venezuela captures the nuance well: more Venezuelan production can be bearish for the commodity while still creating opportunities in the capital spending needed to bring those barrels to market.

This is the scenario we think deserves increasing attention over a multi-year horizon.

Electricity demand is entering a stronger growth phase as AI data centres, EVs, manufacturing and cooling requirements increase consumption. At the same time, generation and grid capacity cannot be expanded overnight.

The opportunity therefore runs across several parts of the value chain:

Power generators where electricity and capacity are scarce;

nuclear generation as demand grows for reliable baseload power;

regulated utilities investing in generation and transmission;

electrical-equipment suppliers providing transformers, turbines and switchgear;

grid construction and engineering as connection bottlenecks intensify.

Importantly, much of this opportunity does not sit inside traditional Energy indices. It is spread across Utilities and Industrials.

That means investors relying only on conventional oil-heavy energy ETFs may be underexposed to what could become the more durable part of the energy investment cycle.

Our preference is not to make one large directional call on crude.

Near-term geopolitical risks still justify exposure to traditional energy. Oil producers and integrated majors can provide useful sensitivity to supply shocks and inflation, particularly while Middle East risks remain elevated.

But we would be cautious about extrapolating today's high oil prices indefinitely. Higher prices encourage additional supply, Venezuela is gradually re-entering the investment landscape, and EV adoption is becoming a more meaningful constraint on long-term road-fuel demand.

For longer-term allocations, we see a stronger case for broadening energy exposure towards the infrastructure required to meet rising electricity demand.

Keep some traditional energy exposure for geopolitical and inflation sensitivity, with integrated majors offering broader exposure than pure commodity beta.

Use oilfield services and midstream selectively when there is evidence that high prices are translating into a sustained capex cycle rather than simply a short-lived oil spike.

Build structural exposure to power and grid infrastructure through power generation, nuclear, regulated utilities, electrical equipment and grid investment.

Our bias is therefore to treat traditional oil and gas as an important tactical and diversification allocation, while viewing power generation and infrastructure as the stronger multi-year structural opportunity.

That does not mean oil disappears from portfolios. It means the energy allocation should evolve with the

energy system itself.

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