

The Outlook: March 25, 2024

The trade winds . . . and Conoco.

When a rocket goes up in front of us, it's very easy to miss all sorts of other interesting things happening in the same sky. Let's glance at what Conoco has been up to, while Micron's rocket has been hogging all the attention lately.

Conoco: the Roller Coaster Finally Tilts Up Again



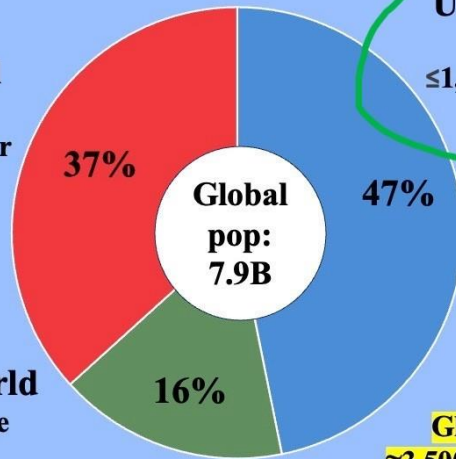
The 20-year red arrow (from 2000 to 2020) is a roller coaster doing what it does, but not tilting up over time. But the 4-year green arrow restores the balance of nature, sort of: strong companies, managed well, selling products the world must have more of, always tilt up over time, no matter the hair-raising coaster-ride along the way. Conoco fits that bill as perfectly as any company in the world . . . hence the arrival of the tilting green arrow, finally.

The 20-year “going nowhere, on balance” phase happened because the market’s betting crowd was shown endless impressions—along with the usual expert opinions accompanying the impressions—that maybe the world would not “need more of” the oil and gas Conoco produces. But from the time Outlook began buying Conoco around 2015, that impression has been a real puzzle . . . to Outlook, anyway. Now it’s finally looking more clearly as if it was a false impression . . . like so many other things the betting crowd embraces for a good while—until it drops them like hot potatoes. Some pictures from long-time energy analyst Robert Bryce:

Electricity Use Defines The World

High-Watt World
2.9 billion people
>4,000 kWh/capita/year

Low-Watt World
1.3 billion people
1,200 to
4,000 kWh/capita/year



Unplugged World
3.7 billion people
≤1,200 kWh/capita/year



Large U.S. kitchen refrigerator =
1,200 kWh/yr

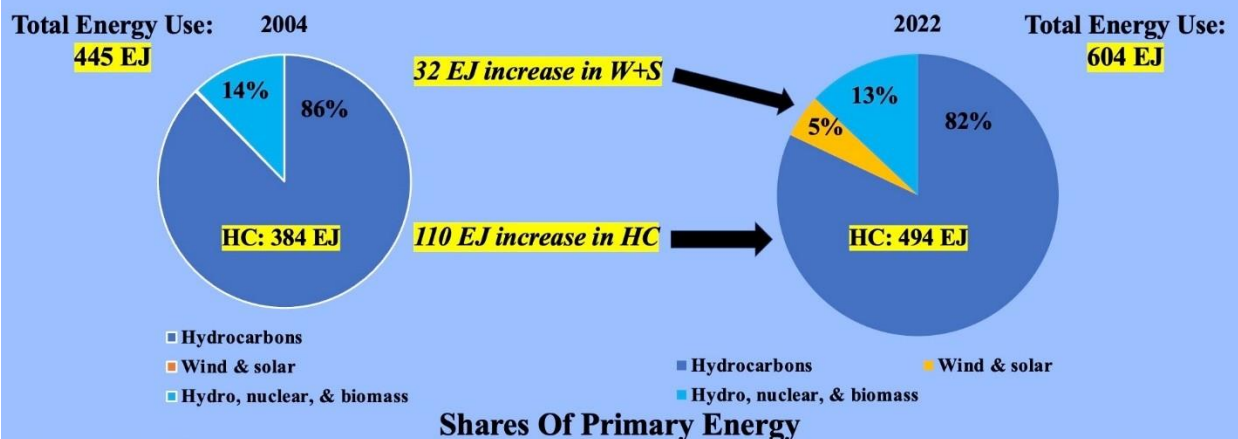
Global average:
≈3,500 kWh/capita/year

Source: Our World In Data, author calculations

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The picture lets us know that two-thirds of the world's people make do without much electricity. Almost half of them cannot get as much power, each year, as one American refrigerator requires. As Mr. Bryce observes: the only way so many poor and struggling people will better themselves is by getting access to more electricity. That isn't an opinion or a moral judgment of any kind: simply an observation of how things work in the modern world. Here's the last picture:

What Energy Transition? From 2004 to 2022, Global Spending On Wind + Solar Totaled \$4.1 Trillion, Yet Hydrocarbon Use Increased 3.4x Faster



Source: Statistical Review, BNEF

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The facts listed above are overwhelming, when it comes to understanding where the massive increases in electricity usage demanded by most of the world's people must come from: fossil fuels. They're the only power source which has any chance of supplying that demand, over the next decade or two . . . simply because every other possibility is much, much too small to take their place in that time frame. Sometimes the difference between what we'd like and what's possible isn't too big. Sometimes the difference is as overwhelming as a tidal wave hitting a beach. The world's need for oil and gas is that tidal wave, for a while yet to come.

We investors call that "a tailwind." All winds ebb and flow. None are constant. But a genuine investment tailwind is kind of like the Trade Winds which blow west across the southern Atlantic: weaker at times; the wrong direction at times; but if we simply wait, as sure to swing back, blowing west, as the sunrise. That's what our investment in Conoco is all about.

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