

XLE Inflows Continue As Oil Nears Yearly Highs

Energy Select SPDR ETF (NYSE Arca: XLE) saw another strong week of flows totaling \$922.80 million as investors sought to benefit from the rising oil prices. It was the best performing out of SPDRs (“spiders”) sector ETFs.

WTI Crude oil closed on a solid note this Friday as supply remains constrained. The price gained 2.37% for the day and 4.57% for the week. The final print of \$120.34 per barrel also marks the highest weekly close in 2022.

Oil’s latest move comes on the back of Thursday’s large decline in inventories. U.S. crude oil and fuel stockpiles fell by 5.1 million barrels, far more than the analysts’ expectations of a 1.3 million drop. Despite the strategic reserves entering the market, demand continues to outstrip supply. The peak driving season ahead of us could further exacerbate this dynamic.

Earlier in the week, the bullish narrative revolved around OPEC+’s limited ability to increase production quotas, Shanghai ending a 2-month COVID lockdown, and the EU’s decision to block 90% of Russian oil imports.

Oil has been enjoying strong momentum recently. The price has closed the week in green six times in the last eight weeks and has risen by 23.09%. It now sits only 6.95% from the yearly highs reached on March 8.

In 2022, the price of oil shot up by 59.70%. Russia’s invasion of Ukraine has been the primary reason for this. However, the supply situation in the oil market has been deteriorating for a while. Following the 2015 crash in prices and a new focus on ESG, the global oil and gas industry slashed its capex spending and has kept it low since. While this strategy helped corporate profits, underinvesting in E&P activities created an environment prone to supply shocks.

Today’s elevated crude prices come at an inopportune time. The world is struggling to keep inflation under control, and the high energy cost is a part of it. The Fed and other central banks are raising interest rates to curtail consumer demand which could provide a headwind for oil from becoming even more expensive.

While high prices at the pump are hurting the consumers’ wallets, energy ETFs are seeing some of the best returns in years. There are 54 energy ETFs, dominated by the behemoth Energy Select SPDR ETF (NYSE Arca: XLE) with \$43.67B in assets. XLE is up by 61.28% in 2022, its best start of the year ever.