The Group that Outperformed the Market... Quietly

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Key Takeaways

- Energy has quietly been one of 2026's strongest trades, with higher crude prices, tight refined-product supply, and exceptional refining margins supporting the sector.

- The biggest opportunities are not always the most crowded ones. While AI dominated investor attention, energy benefited from improving fundamentals without the same level of hype or positioning.

- Canada presents a different opportunity set, as producers benefit from strong oil prices but still face a widening WCS discount and limited export capacity.

- Integrated Canadian energy companies may be especially interesting because downstream refining exposure can help offset some of the pressure created by discounted Canadian heavy crude.

With so many advancements in AI throughout the year, and memory names like Micron ($MU) completing the fastest transition from $500B to $1T market cap in history, all media and investment attention has been on this group. Anthropic is also filing for an initial public offering (IPO), which puts even more eyes on the sector into year end

But what if there is a group that has outpaced the performance of all groups related to technology, semiconductors, and AI with an even smoother, stress free trend. And the best part is, it was right in front of us the entire time!

This trade is none other than oil and gas refiners, which correlates with the extremely high gas prices we have all experienced (unless you drive a Tesla)

The chart below shows $XLE, which is a broad representation of the United States energy sector, covering miners, producers, refiners, and all other major players involved. To date, this group has surged 55%, making it the best performing broader industry of the year.



Chart 1: State Street Energy Select Sector SPDR ETF. Source: tradingview.com

Why Has Energy Performed So Well?

The move in energy has not come from one factor. The sector has benefited from a combination of higher crude prices, tighter refined-product supply and some of the strongest refining economics seen in years.

The first part is straightforward. Geopolitical disruptions in the Middle East, including the conflict involving Iran and continued risks surrounding major shipping routes, have restricted global supply and pushed benchmark oil prices higher. At the same time, attacks on Russian refining infrastructure have further tightened the availability of finished fuels. Crude oil futures have traded near or above US$100 per barrel at points this year, giving oil producers significantly stronger economics on every barrel they sell.

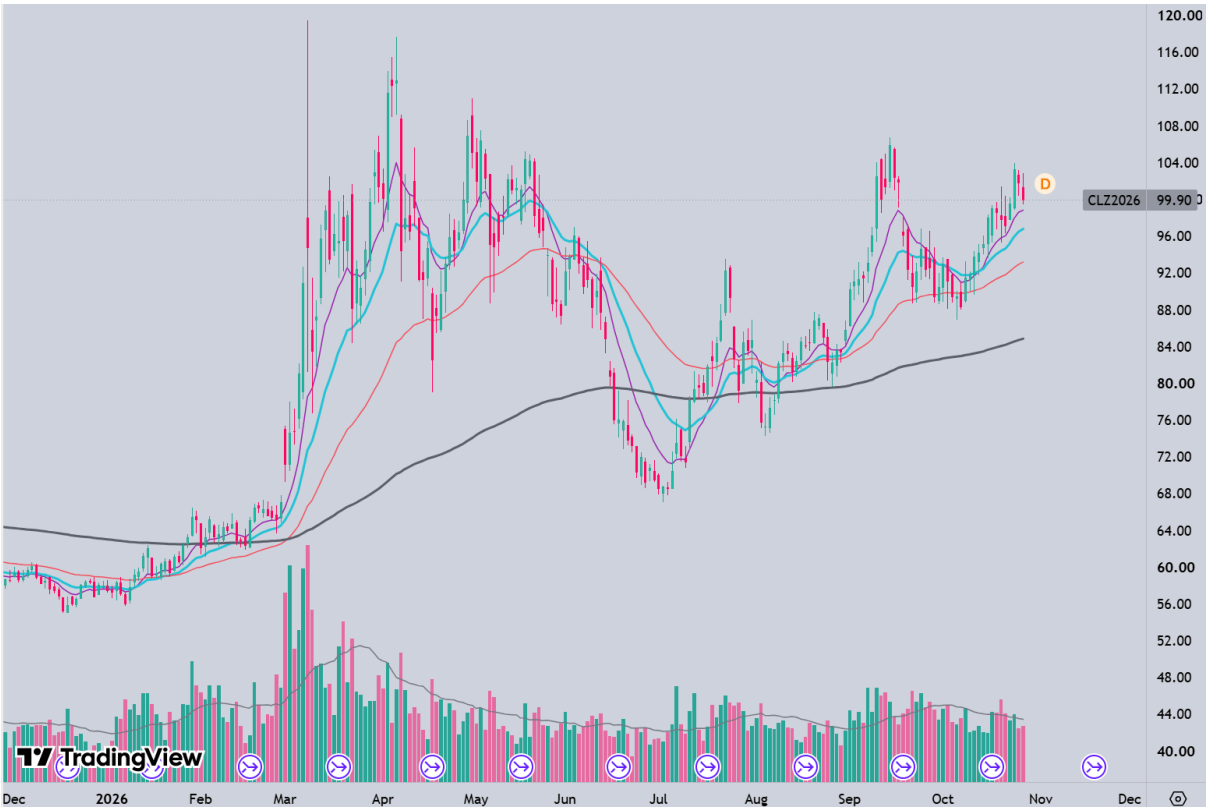


Chart 2: Price per crude oil barrel. 1 barrel = 159L. Source: tradingview.com

The more interesting part of the story, however, has been oil refining.

Crude oil still needs to be converted into gasoline, diesel, jet fuel and other products before consumers can use it. When supplies of those finished products tighten faster than crude itself, the difference between the cost of crude and the value of the products produced from it can expand dramatically.

That is exactly what has happened in 2026.

The U.S. 3-2-1 crack spread, a commonly used measure of refining profitability, increased more than 150% year over year during the third quarter. Valero ($VLO), one of the largest U.S. refiners, reported that its refining margin per barrel nearly tripled to $39.24, helping the company post its highest quarterly profit on record. U.S. refineries have also been operating close to maximum capacity while export demand for diesel and gasoline remains extremely strong.

This helps explain why the energy trade has been much broader than simply betting on the price of crude oil. Producers benefit from higher commodity prices, while integrated energy companies and refiners can also benefit from unusually strong margins on the products created from that crude.

It also explains part of what consumers are seeing at the pump. High gasoline and diesel prices are not solely a crude-oil story. Limited global refining capacity and disruptions to refined-product supply have become an important part of the equation.

Now in Canada, we have one of the largest oil reserves and refineries in the world due to our mass amount of natural resources. Canadian producers are also benefiting from high global oil prices, but they are not receiving the full benefit of those prices.

The Globe and Mail recently reported that the discount on Western Canadian Select (WCS), Canada's main heavy-oil benchmark, widened to roughly US$28 per barrel below WTI, about US$15 wider than one year earlier. Rising oil-sands production and a faster-than-expected return of Venezuelan heavy crude into the U.S. market have created more competition for Canadian barrels. Canada still sends roughly 90% of its oil exports to the United States, while the Trans Mountain system has already reached full capacity. [The Globe and Mail]

Global oil prices are extremely strong, yet Canadian producers are simultaneously being forced to sell some of their barrels at a growing discount.

This is where I think a second part of the trade becomes worth watching: Canadian integrated producers with refining operations.

A company that only produces heavy Canadian crude is more directly exposed to the widening WCS discount. An integrated company, however, can operate on both sides of the equation. Its upstream business produces the oil, while its downstream refineries can potentially purchase discounted heavy crude and convert it into gasoline, diesel and other products at today's unusually high refining margins.

In other words, what hurts one part of the business can partly benefit another.

This is not only my interpretation. Scotiabank recently said it prefers Canadian oil-weighted companies with downstream exposure because of the combination of strong oil prices and exceptionally strong refining margins, highlighting names including Suncor ($SU) and Cenovus ($CVE) [The Globe and Mail]

There is also a longer-term issue underneath all of this: Canada still needs more ways to get its oil to markets outside the United States.

The Trans Mountain expansion already changed the Canadian oil market by giving Alberta producers greater access to the Pacific, but the pipeline reached full capacity for the first time this year. Plans are now underway to increase capacity further, while additional Pacific pipeline proposals are being discussed as Canada looks to sell more crude directly into Asia.

That matters because the Canadian oil thesis is no longer simply "oil prices are high."

The more important questions may be: Which companies are best positioned to manage the WCS discount, which ones benefit from refining margins, and whether Canada can create enough export capacity to reduce its dependence on U.S. buyers. And in addition, which companies are looking to get acquired.

For me, that makes Canadian integrated oil companies an area worth monitoring as a separate trade from the broader U.S. energy rally.

The Consensus is not Always the Best Alternative

One of the more important lessons from this year is that the most popular investment idea is not always the one that produces the best return.

When a theme becomes crowded, a lot of optimism can already be reflected in the price. Expectations rise, positioning builds, and the investment starts to depend on increasingly strong results just to meet what the market has already priced in. At that point, even good news may not be enough to drive the same level of upside, while any disappointment can create a much sharper reaction.

That has been part of the story with artificial intelligence. AI has dominated investor attention throughout 2026. Semiconductors, data centres, memory, and other AI-linked companies have attracted enormous amounts of capital, media coverage, and speculation. Many of these businesses have still performed exceptionally well, but the trade has also become increasingly crowded and expectations have moved higher with it.

Energy was almost the opposite. Oil, gas, and refining were not the areas receiving the same level of attention, yet the underlying fundamentals were improving. Higher oil prices, stronger refining margins, constrained supply, and increased demand for refined products created a favourable environment while investor attention remained focused elsewhere.
The best opportunities are often found where fundamentals are improving faster than expectations. When everyone already agrees on a story, there is less room for the market to be surprised positively. When a sector is under-owned or overlooked, however, improving earnings or changing fundamentals can force investors to reassess it, creating both multiple expansion and stronger price momentum.

That is what makes the energy trade particularly interesting this year.

AI was the obvious trade. Energy was also obvious, but was the less discussed one.

Yet $XLE has outperformed many of the technology and AI-related groups that received far more attention. The lesson is not that crowded trades always fail or that overlooked sectors

always outperform. It is that returns are often driven by the gap between expectations and reality, not simply by how exciting the story sounds.

For me, that is the more useful takeaway: instead of asking what everyone is talking about, it can be more valuable to ask where fundamentals are improving before the market fully recognizes it.

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