CAMBRIDGE INTERNATIONAL ADVISORY GROUP

NATURAL RESOURCES INDUSTRY ANALYSIS

AGENDA

The natural resources industry is wildly complex and multifaceted, with a variety of very different sub-sectors that are all affected by various economic, political, and environmental factors. The main sub-sectors of the natural resources industry are oil and gas, ore mining, lumber, and renewable energy. Each of these sub-sectors represents the start of a huge supply chain that affects almost all companies. If supply or demand for any of these commodities changes, it could have large rippling effects on the entire international market.

This report provides an in-depth examination of the natural resources industry, offering insights into its diverse components. The analysis is structured into six key sections, key players within the industry, the overall market performance, regulations that affect the industry, risks the industry faces, and our conclusion and market analysis. Each section is meant to give the reader a better understanding of the various complexities that affect the industry as a whole, and will help explain the essential role that the natural resources sector plays in the world.

KEY PLAYERS

Within the natural resources sector, there are many key players for each of the respective sub-sectors of natural resources, with most companies operating in multiple verticals within their respective sub-sectors. Some major players in the oil and gas sector are Texas Gulf Energy, ExxonMobil, Shell, Chevron, and BP. These are some of the major companies that are involved in the exploration, production, and extraction of crude oil and natural gas. Other key players are state-run oil and gas entities such as Mexico and Russia. Finally, the last organization to keep in mind is the Organization of the Petroleum Exporting Countries (OPEC), which involves Iraq, Iran, Kuwait, Saudi Arabia, Venezuela, and other oil-producing nations. OPEC regulates the global oil supply and sets prices to stabilize oil production and prices.

Some major ore mining companies are BHP Billiton (Copper, Iron Ore, and Coal), Anglo American (Diamonds, Copper, Platinum group metals and Nickel, and more), and Rio Tinto (Iron Ore, Aluminium, Copper, and Minerals Segments), Vale (iron ore, iron ore pellets, nickel, and copper in Brazil), Barrick Gold (Gold and Copper), Sibanye-Stillwater (Gold and Platinum group metals).

The renewable energy market is quite fragmented, with some of the major players being NextEra Energy, Duke Energy Corporation, and the Southern Company. NextEra Energy is one of the major generators of renewable energy from the sun and wind. Duke Energy Corporation is a leading electric power and gas holding company that contributes largely to solar energy and other resources. Finally, Southern Company is one of the largest owners of renewables in the United States, with solar, wind, and biomass facilities across the United States.

The lumber industry holds some large names such as West Fraser Timber Co. Ltd., Canfor Corporation, and Weyerhaeuser Company. West Fraser Timber Co. Ltd. is a wood products company with more than 60 manufacturing plants across Canada, the United States, the United Kingdom, and Europe. It processes lumber, OSB, LVL, MDF, plywood, and other wood products. Canfor Corporation is a Canada-based corporation that is the leading producer of pulp and paper. Weyerhaeuser Company is a leading timberland company with ownership of nearly 10.6 million acres of timberlands in the United States and an additional 14.1 million acres of timberlands in Canada under long-term licenses.

The United States government regulates many facets of the natural gas industry, with some important government agencies being the Department of Interior (DOI), the Bureau of Land Management (BLM), and the Environmental Protection Agency (EPA). The DOI is responsible for the management and conservation of natural resources within the United States. Likewise, the BLM controls public land. Finally, the EPA's main task is to oversee environmental protection within the United States.

As mentioned above, the International Energy Agency (IEA), International Renewable Energy Agency (IRENA), and OPEC, are international organizations regulating this space. The IEA provides policy recommendations, analysis, and data to the global energy sector. Similarly, the IRENA facilitates cooperation, advances knowledge, and promotes the adoption of sustainable use of renewable energies.

MARKET PERFORMANCE

The natural resources industry is vulnerable to changes in factors such as energy and commodity prices, demand distributions, and more. According to the Head of Global Natural Resources, Daniel Sullivan, investors should consider a strategic allocation approach when considering investments in this sector to manage risk while capitalizing on potential returns.

As of January 17, 2025, the 1-year return for the S&P North American Natural Resources Sector Index was 19.09%. While this marks solid growth for the sector, it lags behind the broader market, as the S&P 500 Index returned 25.43% during that same period. This divergence suggests that while the natural resources sector has experienced positive growth, it has underperformed relative to the overall market.

Historically, after two consecutive years of strong bull markets, the third year tends to be more moderate. On average, the third year of a bull market yields an average gain of just 0.50%. Given the strong economic indicators and strong consumer demand currently seen in the economy, there is a possibility that market volatility could increase, raising the standard deviation of annualized returns in the natural resources sector. This environment presents both challenges and opportunities for investors, as heightened volatility could signal either a short-term market correction or the potential for attractive investment opportunities to arise.

It is also important to note that the natural resources industry is not limited to public companies. Privately held companies within this sector include energy exploration firms, mining companies, and renewable resource developers and they may offer alternative avenues for investment. These private companies can offer higher growth potential but often come with increased risks and less liquidity compared to their public counterparts. Privately held companies often can pursue more specialized projects, innovate at a faster pace, and sometimes avoid the pressures of quarterly earnings reports. However, investing in such firms typically requires more expertise and a longer-term outlook.

Currently, the M&A market for the natural resources market is headed towards a trend of consolidation. Many oil and gas companies have had large acquisitions in the past year, notably ExxonMobil's acquisition of Pioneer Natural Resources for $60 billion. Moving forward, we expect more companies to invest more in renewable and sustainable energy sources. Similarly, the mining and metals industry is headed towards more consolidation. One notable example in the past year for the mining industry was the Rio Tinto Group's proposed acquisition of Arcadium Lithium.

Overall, while the natural resources sector has shown solid growth, it remains highly sensitive to market fluctuations and external variables. For investors, balancing this risk with potential reward through strategic allocation—especially by considering both public and private opportunities—can help navigate the inherent volatility of the sector.

REGULATIONS

Governmental regulations and outlook on the natural resources sector have huge impacts on its direction. Policy-making decisions have proven to impact investment flows, supply chains, and environmental impacts. While this is influenced by the chosen direction of policymakers, there are plenty of non-partisan regulatory frameworks that ensure energy security, sustainability, and stability in the economy overall.

One key example is the National Energy Emergency Executive Order, which outlines some of the policies that the United States government may use to address the growing energy demand. It responds to the effects of the policies of the previous administration, which contributed to a national emergency by creating an inadequate and unstable energy supply. Without immediate action, there will be a high demand for energy and natural resources to power the next generation of technology. To facilitate the Nation's energy supply, agencies shall identify and use all relevant lawful emergency and other authorities available to them to expedite the completion of all authorized and appropriated infrastructure, energy, environmental, and natural resources projects.

While partisan debates often lead the discussions in terms of our environment, non-partisan regulations steer the conversation as well. For example, the Energy Policy Act of 2005 aimed to improve energy efficiency, promote renewable energy, and reduce climate change, while also promoting and expediting oil and natural gas development. Similarly, the Energy Independence and Security Act of 2007 sought to make the U.S. more energy-independent and secure, pushing more aggressive requirements. Both of these pieces of legislation encourage investment into alternative energy sources and gain support from multiple parties, especially due to the emphasis on job creation and economic growth with the plus of energy security.

RISKS/CHALLENGES

The ability to navigate risks that could affect operations, sustainability in the long term, and profitability is growing in importance in this industry due to multiple factors. The current landscape in this industry is reliant on mining, energy production, and possible upcoming legislative changes that could hinder flexibility in operations.

A growing concern is the scarcity of resources. According to Newton Investment Management, in 2025 resources such as metals, energy resources, or other raw materials are projected to outpace the supply. While this can create investment opportunities, as technological and economic growth occur, the demand will continue to increase which may cause supply chains to be restricted. According to McKinsey & Company, those restrictions also include a shortage of labor as the demand for skilled workers in construction, mining, and energy is increasing. This may delay project times and continue to escalate costs.

Another risk is climate change and natural disasters, with the increasing environmental risks and the shortage of resources needed for recovery could show concern, as highlighted in the International Journal of Disaster Risk Reduction. Events like earthquakes, floods, or landslides are often exacerbated by climate change which can lead to delays in activities while increasing the vulnerability of crucial infrastructure within the industry.

As temperatures rise due to climate change, companies will face increased scrutiny over their carbon footprint and sustainable practices. This could drive up costs as they invest in sustainability initiatives and comply with stricter regulatory measures.

Water scarcity in the last couple of decades has also created several problems as populations have increased, industrialization has intensified, and the climate has changed over time. According to Water.org, low water levels in rivers and canals can cause issues for waterborne transportation of goods. This can therefore cause conflict over water rights between countries, industries, and subnational governments, such as states and municipalities. By investing in advanced water infrastructure, more businesses can protect certain water sources from adverse environmental changes. To influence consumers to use water responsibly and adequately, implementing local guides and sustainable water infrastructure can be useful for companies to release their water consumption reports, risk assessments, and water pollution reduction reports, which are beneficial to the economy.

CONCLUSION

The Natural Resources Sector is highly complex, with major players influencing various aspects of each sub-industry. In this conclusion, we split up each sub industry and give a final analysis of each sector. As these companies prepare to navigate the complex natural resources sector landscape, it is important to understand how dependent these sub-sectors are on their supply chains, ensuring there are buyers, and how government regulations can either assist or hinder their future growth.

Firstly, the oil and gas industry will likely continue navigating complex problems. The first aspect is how OPEC controls supply and variable demand for a majority of oil and gas countries. This combined with President Trump's shaky relationship with OPEC may create added geopolitical tensions. Additionally, the growing transitional focus towards renewable energy is a large risk for the oil and gas industry.

Next, the ore mining industry has diminished in the past few years. Currently, the United States produces nearly half the quantity of gold and silver as it did in 2000. Gold and silver exploration activities have dropped overall. On the bright side, ores like copper, iron ore, and lithium are considered critical minerals for various technologies, including electronics and renewable energy. This means the supply chain dynamics that stem from these ores will have large effects in the future.

The renewable energy industry is driven by high demand, as demand for renewables, especially solar, has continued to stay high. Many cleantech, data center, and direct air capture (DAC) operators are looking to make infrastructural growth changes and are looking to incorporate renewable energy sources.

Low water levels in rivers and canals can make it difficult to transport commodities by water. As a result, disputes over water rights may arise between nations, businesses, and subnational governments. More companies can shield certain water sources from unfavorable environmental changes by investing in cutting-edge water infrastructure. Installing sustainable water infrastructure and local guides can help encourage customers to use water appropriately and sustainably. The economic advantages of businesses disclosing their water usage records, risk assessments, and pollution reduction efforts include increased investor confidence, regulatory compliance, and improved corporate reputation.

The lumber industry in the U.S. sends mixed signals to potential investors. The overall number of establishments in the sector has dropped by 9% over the past 5 years and is projected to drop another 6% through 2027. This is largely due to increasing foreign competition and the appreciating dollar, making exports less competitive. Despite this, revenue in this sector has grown by 7% in the past 5 years, although projected to decline by 9% through 2027. On the supply chain side, the lumber industry has strong intra-industry linkages, ensuring suppliers and buyers for every industry product.

REFERENCES

https://www.aon.com/en/insights/reports/global-risk-management-survey/top-risks-facing organizations natural-resources-

https://www.whitehouse.gov/presidential-actions/2025/01/declaring-a-national-energyemergency/

https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/ https://www.newtonim.com/us-institutional/insights/blog/global-natural-resources-outlook2025-navigating-the- multi-year-commodities-cycle/

https://www.mckinsey.com/capabilities/peopleandorganizationalperformance/ourinsights/tradespeoplewanted-the-need-for-critical-trade-skills-in-the-us https://www.sciencedirect.com/science/article/pii/S2212420921002338

https://www2.deloitte.com/us/en/insights/industry/oil-and-gas/oil-and-gas-industryoutlook.html

https://www.ibisworld.com/united-states/industry/gold-silver-ore-mining/114/

https://www.nationwide.com/financialprofessionals/blog/marketseconomy/articles/whatshouldinvestorsexpect-in-the-bull-markets-third-ye

https://go.woodmac.com/l/131501/2024-09-29/3354ln/131501/1727666911wcoL6cya/Trump_Impact_Insight.pdf

https://www.worldwildlife.org/threats/water-scarcity https://water.org/our-impact/water-crisis/economic-crisis/ 10308-6 https://www.epa.gov/laws-regulations/summary-energy-independence-and-security-act

https://www.doi.gov/ocl/hearings/112/390CX_090911#:~:text=The%20Energy%20Policy%20Act%20of%202005%20was%2 0enacted%20in%20part,(CEQ's)%20NEPA%20implementing%20regulations.

https://docs.google.com/document/d/1JzoS248HJA8XkMELxlTI_p6xrLoUjeVTw-CHxBr5yZY/edit?u sp=sharing

https://link.springer.com/article/10.1007/s11053-024-

For questions and concerns,
reach out to us!

info@cambridgeintladvisory.com
415.574.0263

CIAG