Tortoise Energy Podcast

June 8, 2020

Welcome to the Tortoise podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

If you follow the sports world, it was great to see the NBA come to terms to resume its season, albeit a truncated version, set to start on July 31st in Orlando. They will apparently take several precautions, most notably no fans will be in attendance. Even still, it will be a welcome sight to watch basketball again on TV. Closer to home, my youngest son resumed baseball this weekend, with a Saturday scrimmage. Interesting in that each team used their own baseballs, umpires were behind the pitcher, not behind home plate, and of course no shaking of hands after the game, only a hat tip to the other team from the base paths. Again, it's a changed world, but I applaud those attempting to restart and do so in safe ways to get back to some level of normalcy.

Moving to the financial markets, let's start things off with performance for the week that was:

- On the commodity front, crude oil shot higher, up approximately 11%, while
- Natural gas was also positive with spot prices increasing almost 6%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was on fire, up a whopping 15%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ led the party, higher by 26%
- Utilities, per the Dow Jones Utility Index, not surprisingly couldn't keep pace, but were still in positive territory, plus 2.6%
- And finally MLPs posted yet another strong week as the Tortoise MLP Index® improved by 12.7%

All those numbers in the green beg the question, what happened?

Jobs, jobs, jobs. The payroll report showed a dramatic variance from expectations with a 2.5M increase compared to an anticipated 7.5M decline. The unemployment rate also fell, as opposed to increasing, furthering the bullish view. Lots of questions surrounding the data, but the bottom line is, the economy is reopening and that is leading to people getting their jobs back, which is great for everyone, including demand for energy.

Speaking of energy and improving stats, let's jump to crude oil. The week began with talks of extending the OPEC+ agreement, specifically relating to the 9.7M bpd of cuts for the months of May and June. On the table was discussion to extend the 9.7 target for another 1-3 months, delaying the step down to 7.7M bpd that was originally set to occur on July 1. That quickly escalated to the scheduled meeting the week of June 8th potentially being brought forward to this past week. The goal being to set a plan before establishing official selling prices for the following month. All seemed well and pretty bullish. Then the drama started with the threat of the meeting being canceled due to countries failing to comply with the original agreement, notably Iraq and Nigeria.

These two perpetual under compliers came up with the normal excuses, but with Russia actually now complying, it made enforcement talk by Saudi more impactful.

So on Saturday, the delayed, moved up meeting, finally take took place and the agreement was made to extend the cuts for one month, although Mexico dropped out, making the new amount 9.6M bpd as opposed to 9.7. Additionally, the agreement could be extended another month after the monitoring committee meets in mid-June to assess the market.

One other big item, apparently the countries that have failed to fully comply will need to make up for their lack of compliance in May/June by over-complying in the third quarter. Good luck with that.

As is typically the case for OPEC and its allies, compliance will remain the biggest issue and sticking point to the ongoing agreement.

One other crude oil note, Libya is potentially getting closer to seeing some production return as General Haftar's army has suffered another defeat, paving the way for some crude to start flowing again.

I'll wrap up with a look at midstream. This past week's 12.7% move was the third straight positive week for the Tortoise MLP Index and the 9th out of the last 10 weeks, which by the way has included three double digit occurrences. The second quarter is on pace to obliterate the best quarter in the history of MLP markets, which was ~23%, set in the 2nd quarter of 2016.

If you are a regular listener to these podcasts, you are probably quite familiar with our take that the most notable reason why midstream has rebounded and can continue to go up is that the downturn in stock prices far exceeded the expected decline in cash flows of the companies.

But what else positive can help support? We believe there are several things, notably:

- Massive amounts of stimulus have been pumped into the economy
- Interest rates remain historically low
- Yields are compelling relative to other asset classes
- Inflation, if it presents itself, leads to higher cash flows through tariff escalators, notably for liquids pipelines
- Leverage profiles will move lower due to targeted debt pay down after some companies reduced distributions, which should lead to inherently less risk within the sector
- And finally, positive free cash flow yields provide optionality for returning capital to shareholders

It's not an exhaustive list, but certainly can help drive stock prices higher.

Midstream has come a long way off the bottom, but there is still plenty of room to run for these stocks.

Have a great week, stay safe, and we look forward to speaking with you again soon.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

The S&P 500® Index is a market-value weighted index of equity securities.

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow

Jones Indices. “Calculated by S&P Dow Jones Indices” and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include “forward-looking statements.” All statements, other than statements of historical fact, included herein are “forward-looking statements.” Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*