TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and this our weekly Quicktake Energy Podcast. In case you missed it, we had an election in the United States last week. Many market pundits discussed how investors were getting comfortable with a Biden win and a blue wave, and polls backed this view up. However, if you looked at betting markets there was a different story being told. Biden was the odds on favorite to win, but by a much smaller margin than the polls suggested. The most likely outcome for the Congress was a house divided with the Democrats keeping the House of Representatives and the Republicans holding the Senate. Perhaps the market was reflecting these outcomes, as divided government is what markets likes best. With that quick update, let's look at market performance for the week.

Markets were mixed:

- The Alerian MLP Index finished up 0.7%, and remains down over -41.1% year to date
- Other energy stocks, represented by the Energy Select Sector SPDR (XLE), were down -0.4% for the week
- In broader markets, the S&P 500 gained 7.4% for the week and the ten-year treasury was flat

Crude oil performed well last week, up 3.8%. While there was clearly a "risk on" trade in the broader markets, oil was also helped by some fundamental data points. In a surprise, the EIA announced an eight million barrel draw on crude inventories. This is compared to a consensus expectation for inventories to rise by 600,000 barrels. My colleague Rob Thummel spoke last week about the huge reductions in capital spending demonstrated at home and across the world and that we expect that to continue into next year. We suspect this will balance the oil markets over time. In fact, OPEC+ discussed extending or perhaps deepening production cuts into 2021 which might speed up this balancing act, and further support energy prices. If the market does balance in 2021, this could be very supportive of investor sentiment and the follow through could be higher energy equity prices.

Speaking of supporting energy equity prices, we continue to pound on the equity buy back theme with clients and with our portfolio companies. Pre-pandemic, energy infrastructure was a maturing industry with stable cash flows and an improving governance and leverage story. After the market disruption from the pandemic and the Saudi Arabia-led oil price war; the energy infrastructure story has changed somewhat. With reduced capital expenditures and improving economic activity, free cash flow after dividends or distributions for many energy infrastructure companies is high and expected to grow next year. With that set up, we think these companies should use some of that free cash flow to buy back their own equity. Last week we got several buy back announcements from our portfolio companies. Plains All-American, MPLX, EnLink Midstream, and Rattler Midstream, announced buy back plans totaling $1.7 billion; a positive sign.

We're still in earnings season, so let's update you on some important releases that came out last week. I mentioned Plain's buy back announcement, well that was just one part of a very strong report. PAA beat consensus by double digits and actually raised their 2020 guidance above their pre-pandemic guide, a commendable feat in uncertain times. Williams reported earnings last week that were generally in-line with expectations. Williams also guided towards $300 million of free cash flow after dividends for 2021. We were a little disappointed in the earnings call when the company downplayed the likelihood of share buy-backs when leverage is manageable and the stock is down about fifty percent over the last five years. Energy Transfer announced strong earnings with a double digit beat on EBITDA as a result of strong volumes and a revenue base that is 95% fee-based. ET expects 2020 to come in at the high end of its guidance range. Previously, ET had cut its distribution by half in an effort to reduce leverage, which is elevated compared to peers. Several other midstream players announced earnings, and generally the reports were positive for the quarter.

In addition to earnings, we saw some project level news as well. The Army Corp of Engineers announced that they will need more time to complete an environmental impact statement (EIS) for the Dakota Access Pipeline than previously thought. Additionally, the issue of whether an EIS is required saw its day in court last week. The initial read is that two of the three judges seem to lean in favor of an EIS being required. The Mountain Valley Pipeline, which is being built buy ETRN, announced its expected in service date will be delayed into the second half of 2021.

Last week saw the month of October wrap up and we thought it might be useful to sum up how energy faired during that month. On the commodity front, crude oil as measured by WTI, was down eleven percent while natural gas was up over 32 percent during the month. There was significant divergence among energy equities during the month as well. S&P energy equities, as represented by the XLE, were down more than four percent during the period; while the Alerian was up more than four percent. This was against a backdrop of broader indices coming off all-time highs as the S&P 500 lost almost three percent during the month. In retrospect, MLPs, and midstream more generally, were a bright spot in the markets for October.

Thanks for joining us and we will be back next week. Please stay safe.

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

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

The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return (AMNA), total-return (AMNAX), net total-return (AMNAN), and adjusted net total-return (AMNTR) basis.

The S&P Energy Select Sector Index is a modified market capitalization-based index of S&P 500 companies in the energy sector that develop and produce crude oil and natural gas and provide drilling and other energy related services. Returns include reinvested dividends.

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