TortoiseEcofin QuickTake Podcast

January 11, 2021

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

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

Welcome to 2021. As Rob kicked off last week with our first podcast for the New Year, I get the pleasure of providing the first update for 2021 in terms of performance, national and international drama, and of course some sports. In regards to the latter, the Chiefs nabbed the top seed in the AFC playoffs so were able to watch from the couch an unprecedented wild card weekend of 6 NFL games. I use the newly crowned champion of words from 2020, "unprecedented", because the NFL expanded their playoffs to include 7 teams, so wild card weekend was grander than ever. Here's to hoping the Chiefs kick the habit of letting teams back into games and repeat as Super Bowl champs!

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

- On the commodity front, crude oil was up nicely, with spot prices rising just shy of 8%, while
- Natural gas was materially higher, as spot prices increased almost 16%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was a leader, higher by 9%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ exceeded that, rising over 13%
- Utilities, per the Dow Jones Utility Index, faltered, down 1.6%
- And finally MLPs started the year off right as the Tortoise MLP Index® moved higher by 7.3%

So how was energy the top performing S&P 500 sector and how was it so broad based? A confluence of events, many of which we have been talking about for a while continue to push the sector in the right direction in our view. Let's dive in.

First and foremost, on Tuesday, the Democrats swept the Georgia senate runoff election, pushing the Senate count to 50 Democrats and 50 Republicans. Of course, with a tie, the Vice President, soon to be VP Harris, will be the deciding vote. This gave the Dems the blue wave they were seeking. Or did it? While losing seats in the House and being essentially tied in the Senate, it would portend a picture of perhaps more of a ripple as opposed to a wave. The market seemed to like that outcome.

Key factors in favor of the market were a substantial increase in the odds of additional stimulus, with promises of the recent $600 checks to citizens increasing to $2,000. Additionally, the odds of an infrastructure bill also increased, boding well for the market and obviously infrastructure stocks. Maybe even better, the inevitable tax hikes that are sure to come seem to be more of a 2022 or beyond event at this point, which means the market can melt higher from here.

Add in the secondary impacts of a weaker dollar, potentially higher inflation and a steepening yield curve and the reflation / rotation trade was alive and well to start the year. As Rob mentioned last week, it doesn't hurt that energy companies are reigning in spending and instead, boosting free cash flow and returning that to shareholders.

On the international front, OPEC and the members of the OPEC plus alliance met as well earlier in the week for their first 2021 get together. Recall, they are meeting monthly now to gauge the crude oil supply/demand picture and determine the course of action. It was decided in December to increase January production by 500,000 bpd. Most pundits expected a similar outcome at this meeting or for production to be held flat.

Rather, both Russia and Kazakhstan will be allowed to increase production by a combined 75,000 bpd, while others will hold flat. Or so we thought that was it. Saudi Arabia then announced it was going to cut production unilaterally by 1 million bpd for both February and March, to help retain balance in the market. If you are keeping score at home, the 7.2 million bpd cuts we entered the month at will go to 7.125 million bpd before Saudi's move is taken into account.

Lots of drama around this, but the bottom line in our view is that Russia is more accepting of a lower crude oil price and wants to retain some pressure on U.S. shale to not gain back market share lost in the pandemic. Saudi and others within OPEC really need higher prices and must have a view that U.S. producers will exercise more restraint and not just spend in the name of growth.

All of that is a great segue into the year's first energy conference, hosted by Goldman Sachs. We had several individuals attend the virtual conference and the key takeaway we had was the reiteration that production growth out of U.S. E&Ps would not resume anytime soon as the focus remains on free cash flow. This is important for a variety of reasons, but beyond restoring some investor confidence and generating competitive free cash flow, it provides a window for OPEC+ to lower the current excess spare capacity due to production cuts as demand returns in 2021. That's supportive for prices of crude oil as well as stock prices of the respective companies.

The last item to touch on has been the recent strength in Asian prices for LNG or liquefied natural gas. After witnessing several cargoes of LNG canceled during the height of the pandemic in summer 2020, cold weather in Asia, along with downtime at international LNG export facilities, has led to sharply higher prices. In fact, the JKM pricing point in Asia recently touched all-time highs in excess of $15 per mmbtu and we actually saw a cargo trade at over $30 per several banks. As a result, exports of U.S. LNG have been exceptionally strong and we would anticipate that continuing through the remainder of the winter and likely into the spring.

With that, 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 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. 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 basas (AMNA) and on a total-return basis (AMNAX).

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 TIS Advisors, 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 TIS Advisors 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 we believe 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. Through our family of registered investment advisers, we provide investment advice to related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, we stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*