March 22, 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 Senior Portfolio Manager with TortoiseEcofin.

We had quite the week last week, with spring breaks starting for schools across the country, quadruple witching on Friday, the start of March Madness, and over the weekend the first day of Spring. The NCAA tournament kicked off with an overtime game, and after some big upsets, there is not a single perfect bracket amongst the almost 15 million filled out on ESPN's website. Luckily my Jayhawks escaped with a first round win to survive and advance. With the weather starting to warm up, it's been great to get outside again and enjoy some better weather. On a similar note, baseball season is right around the corner as the boys of summer get ready in spring training. As they say in baseball, hope springs eternal, just maybe not for the Royals this year, yet again in rebuild mode. Putting it in financial terms, I think you would call the Royals a value stock at this point, just hopefully not a value trap.

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

- On the commodity front, crude oil was hit hard, with spot prices falling over 6%, while
- Natural gas was also lower, as spot prices declined 5%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was a laggard, dropping 7.7%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM also moved down, declining 6.7%
- Utilities, per the Dow Jones Utility Index, held up relatively well, up 32 bps
- And finally MLPs, as represented by the Tortoise MLP Index® fell a shade over 4%

The big story in the market continues to be about interest rates. As a proxy, the 10 year government bond yield increased about 10 bps for the week, but is up more than 30 bps for the month of March and has almost doubled since the start of the year. Entering 2021, the 10 year stood at .92%, but closed Friday at 1.72%, the high for the year.

At issue is the debate regarding potential GDP and actual GDP, otherwise referred to as the output gap. In short, the market and the Fed are in disagreement about how fast the output gap is closing. When the market operates above potential GDP, i.e. the output gap is fully closed and exceeded, inflation usually occurs. The Fed still doesn't see a need to raise rates until the end of 2023, while the market seems to indicate it will be much sooner, potentially even in 2022, portending a faster closing of the output gap. Hence the pressures on the bond market and concerns about inflation.

What doesn't seem to be in debate is that the market is recovering nicely as we continue down the reopening path. However, with a $1.9T stimulus package and likely more on the way later in the year, is it too much too fast that may overheat the market? The Fed says no. Time will tell.

For the record, most banks appear to now be in the camp of a 10 year yield of 2.0 to 2.25% by year-end 2021.

On the global front, it was all about Covid 19 case growth in Europe and what another wave of lockdowns would do to global markets, including crude oil. The AstraZeneca vaccine faced some issues in Europe as well, but in general the rollout has been much slower than in the United States and the United Kingdom. Per a Bloomberg article on Friday, the U.S. has administered about 34 vaccine doses per 100 people and the U.K. about 39. Contrast that with the European Union's average of just 12. Hopefully that changes quickly as the article points out the EU can still achieve their targeted goal of 70% adult vaccination by summer.

The impact in Europe, along with rumors of Iran shipping out barrels to China well beyond what sanctions would dictate is acceptable, were generally believed responsible for rattling crude oil markets this past week. That said, a little pullback is probably healthy and doesn't change the trajectory most predict for the crude markets in 2021.

Macro-wise, the heavy drop in crude played out in stocks with general energy markets feeling the pain of the commodity, down in similar fashion, as noted earlier. That said, energy still remains the best performing S&P sector for the year and we remain firmly in the camp of the reopening trade benefitting energy and value stocks over the course of the year.

As for energy specific content for the week, here are some things that stood out:

- The aftermath of winter storm Uri continues to play out in Texas as questions remain regarding potential repricing of energy markets towards the end of the impact period from the storm
    - In addition, the last of the 3 members of the Texas Public Utility Commission resigned on Tuesday, as Arthur D'Andrea, appointed a mere 13 days ago, stepped down
- Utility PPL Corp announced an agreement to sell its U.K. utility business to National Grid for a total transaction value of $19.4B dollars, including assumed debt
    - Additionally, PPL will acquire from National Grid for $5.3B dollars, its US based utility in Rhode Island
    - Excess cash proceeds will be used to pay down debt and finance growth
- We have talked a lot about the activity of existing energy companies in the energy transition space and this week was yet another announcement as Valero and Blackrock are partnering with Navigator Energy to build an approximate 1,200 mile carbon capture pipeline system across 5 Midwestern states
    - Carbon capture is picking up lots of momentum of late and we see that trend continuing
    - Midstream operators are well positioned to benefit as a result
- On the regulatory front, Michigan's governor continues to push against Enbridge's line 5 with a goal to shut it down
    - Line 5 delivers approximately 55% of the propane to the state
    - If not delivered via pipeline, the plan is to rail and truck in supplies, which is incredibly inefficient, more costly and not nearly as safe
- Finally, on a positive note, legendary investor Bill Gross continues to buy midstream companies
    - Gross started buying last year, when he noted he was encouraged Warren Buffet was making a similar bet
    - Needless to say, I like being on the same side of the bet as those two investors

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.

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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).

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.

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