TortoiseEcofin QuickTake Podcast

June 7, 2021

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 I am happy to host this week's QuickTake Podcast. After a short week in the markets we have a quick update for you today. As we continue to highlight, the economic recovery remains on track. In the U.S. we saw jobless claims at the lowest weekly level in many months. New jobs created in May were over 559,000, more than double the number added to payrolls in April but lower than market expectations for 675,000. Expectations for drivers on the road over the Memorial Day weekend was 34 million, reports suggest the actual number topped 37 million. Finally, TSA reported over 2 million flyers per day, a number we haven't seen since March of 2020. These numbers are all influenced by the long weekend, but they are encouraging. With that high level overview, let's look at market performance for the week.

Markets were positive:
- The Alerian MLP Index finished up 5.0%, and is up 46.3% year to date
- Other energy stocks, represented by the Energy Select Sector Index, were up 6.8% for the week
- In broader markets, the S&P 500 gained 0.6% and the ten-year treasury yields fell four basis points to finish at 1.55%

After an eventful earnings season we are now seeing company news on merger and acquisition activity. Last week Kinder Morgan announced the acquisition of Stagecoach natural gas storage assets from Crestwood Equity Partners and ConEdison. The assets are attractive as they sit just outside the huge natural demand center in the Northeast. Kinder will pay over $1.2 billion in consideration. In other news, a bidding war has developed for Inter Pipeline, a Canadian midstream company. Initially Brookfield Infrastructure had a tender offer expiring today to buy in the company, but last week Pembina Pipeline, another Canadian midstream company, announced an agreement with a 18% higher purchase price to merge the two companies. Only a few days later Brookfield came back with an increased offer 4% above Pembina's. We'll see how this plays out as Pembina's offer is stock for stock and Brookfield's is primarily cash. It is worth noting that the premium Brookfield is offering is approximately equal to the breakup fee Inter Pipeline would owe Pembina if their merger agreement is not completed. Southwestern Energy announced it had agreed to buy private gas producer Indigo Natural Resources in the Haynesville shale. Southwestern will pay $2.7 billion for the company, a producer of 1.1 billion cubic feet per day of natural gas. Finally, British Petroleum announced a deal to buy nine gigawatts of solar development projects as it continues to execute on its mandate to own 50 gigawatts of renewable power capacity as part of its energy transition plan. Each of these deals has their own merits, but we think there are three takeaways from these transactions: 1) Strategic buyers see value in energy infrastructure assets at prices above current publicly traded multiples, 2) Natural gas is going to be an important part of energy consumption long into the future, and 3) traditional energy companies are and will continue to play a leading role as the world moves toward an energy diet based more on natural gas and renewables and less on coal and crude oil.

We have mentioned in past podcasts that energy securities are cheap and under-owned by generalist investors. As a result, there is more room for the group to re-rate higher despite great year-to-date total returns so far. We had a specific example of this on Friday last week when it was announced that Targa Resources would be added to the S&P 400 Mid-Cap index. Targa traded up over 12% on the news with the anticipation that passive and active managers will be buying the name. Index inclusion is a very specific catalyst, but we think generalists will need to at least get equal weight energy as the economy continues to recover. As this occurs it could serve as a tailwind for the group.

Last week the EIA reported that refineries are running at almost 89% of capacity. Crude oil inventories dropped by 5 million barrels and remain below the five-year average. Additionally, there was news that Iran has not provided adequate access to inspectors from the International Atomic Energy Agency, which could delay the return of Iranian barrels to global markets. On the natural gas front inventories around the world continue to fill, but storage in the U.S. remains below five-year averages. These low storage levels for both oil and gas suggest a bullish set up for their respective commodity prices, and indeed both commodities were up last week.

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

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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).

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.

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.

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