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.

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

Momentum can be a funny thing. In the sports world, teams can get hot for a game, a week or even longer. The St. Louis Cardinals baseball team won 17 games in a row and 19 out of 20 near the end of the season propelling them to the playoffs. Of course they got beat in the wild card game and their season was over. The Chiefs have certainly been on the wrong side of the momentum swing for this NFL season, meandering to a 3 and 4 record. Momentum from a win in Washington was not able to be carried over to the next week against the Titans where they were throttled. The funny thing is, it doesn't take much to flip that switch and go on a winning streak. Many will claim momentum in sports is not a real thing, but having played several sports growing up, I would strongly disagree. There aren't many feelings that compare to when every shot you take seems like it's going to go in. Confidence is a wonderful thing. We'll come back to momentum shortly, but first, some numbers.

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

- On the commodity front, crude oil broke a long streak, falling 1.2%, while
- Natural gas was higher based on changing weather outlooks, trending up by 6.7%,
- Shifting to equities, the broader S&P Energy Select Sector Index® finished in the red, lower by 63 bps
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were also lower, down 1.5%
- Utilities, per the Dow Jones Utility Index, underperformed as well, declining 60 bps
- And finally MLPs, as represented by the Tortoise MLP Index® were worse still, falling 3.3% for the week

Let's circle back to momentum. MLPs had six consecutive weeks of positive returns before last week, averaging just shy of 2% returns per week. The last time they were negative, the first week of September, incidentally when I last did the podcast. Maybe there's a correlation here, not sure. Anyway, broad energy has been on a roll, so something had to give. That something was several things, so let's dive into some potential causes.

First and foremost, the momentum switch from more fossil fuel based energy to companies focused on energy transition was all about Washington D.C. and what Congress was working on. In widely circulated news, there is broad agreement from the White House and the House of Reps on the partisan reconciliation package. Negotiations with the Senate will still need to occur, but it's likely the general framework is in place. As the initial bill was scaled down from $3.5T to something closer to half that, what's interesting is that the green energy side of the bill stayed pretty close to the original amount, by some accounts retaining about 80% of the original $600B or so of spending. In reality, not much of this should have been surprising. Biden wanted to make a splash ahead of COP26 that began on Sunday, hence some of the desire to get the framework of the bill out there.

In support of this view, a major solar ETF climbed over 12% last week while one of the main clean energy ETFs was up over 7%. One of the banks tracks flows into various products related to energy and North American clean energy ETF and open end fund flows were a whopping $386M on Thursday alone, the day the agreement was announced and averaged $200M per day for the last three days of the week. That compares to the 30 day average of $30M and the 2021 average of $44M. The surge felt like it was at the expense of more traditional energy. Of course the ironic thing about all this is that the bill also contains several positives for midstream companies, including hydrogen credits, increases in carbon capture credits and further spurs renewable fuels, all of which are areas that midstream companies are not only participating, but could potentially thrive.

Two other quick points on this potential legislation, the MLP status would appear to be not only kept as is, but extended to include renewables. A nice positive. On the flip side, the taxing of swap income as dividend income is also still in the bill, which could hinder the ability of hedge funds and foreign investors to own MLPs. This feels pretty minor in the grand scheme, but clearly could have had an impact this past week on performance. I would note, it would not be scheduled to take effect until 2023.

Moving along, a few other things seemed to turn the tide for energy in the wrong direction. Inflation fears appear to be slowing a bit with supply chain issues showing signs of easing. That led to a decline in the 10 year yield. Crude oil was negative last week for the first time in nine weeks, due to a report out of OPEC projecting less of a supply shortfall in 4Q and slightly more of an excess supply trend in 2022 as well as the on again, off again Iran nuke talks apparently being back on. Hard to say where that one goes, but the U.S. reportedly just hit Iran with new sanctions over the weekend. Finally, a storage build in the U.S. was the headline, but another draw in inventories at Cushing, Oklahoma has the main pricing hub for West Texas Intermediate crude oil at dramatically low levels, moving from 65M barrels during the pandemic peak to 27M barrels, approaching perceived operational minimum levels of 20M barrels. The result could be a narrowing of the Brent – WTI spread to incentivize barrels to stay home and build back up inventories.

There were too many earnings to recount effectively, so I'll go over a few other quick hit items of interest.

- Midstream M&A picked up this past week with two separate deals:
  - The first involved Crestwood Equity Partners announcing a deal to buy Oasis Midstream Partners for stock and cash
  - Parent company Phillips 66 made a bid to bring back in MLP Phillips 66 partners on Wednesday
- European giant Shell faced pressure from Third Point to break up the business to create value
- Plains All American Pipeline announced the formation of a new internal group, called the Emerging Energy team to evaluate energy evolution opportunities, yet another midstream company to do so
- Highlighting a continuation of Brian and Quinn's commentary on global LNG markets from the last few weeks, Cheniere Energy took back the mic, announcing a 13 year agreement with Glencore for supplying LNG that will begin in 2023

We covered a lot, so we'll wrap up. Look for news out of COP 26 in Glasgow over the next few weeks, as well as an OPEC+ meeting this coming week. Finally, a whole bunch of earnings!

With that, have a great week 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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