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.

Hello. I am Tortoise Senior Portfolio Manager Rob Thummel with this week's TortoiseEcofin QuickTake podcast.

Some of you remember this joke that our dad or mom told us back in 1990s. Something like this: putting air in your tires used to be free now it costs a dollar… its called inflation. Last week the U.S. inflation rate hit a 30-year high with consumer prices rising by 6.2% over the past 12 months led by increases in energy costs specifically fuel oil and gasoline. This is the largest increase since September of 1990 back when Sam and Diane were the king and queen of American television.

The stock market represented by the S&P 500 index yawned at the rise in inflation declining by only 1% last week matching the performance of the Alerian Midstream Energy Index.

Rising gasoline prices linked to higher oil prices are drawing the attention of many in the U.S. government these days. OPEC+ has been unresponsive to calls by the U.S. to increase oil production. In its Monthly Oil Market Report released last week, OPEC highlighted an undersupplied global oil market. Global oil demand exceeded supply by 100,000 barrels per day in the first quarter of 2021, 1.5 million barrels per day in the second quarter, and 2.2 million barrels per day in the third quarter of 2021. Currently, OPEC is adding 400,000 barrels per day to the global supply each month. OPEC is reluctant to accelerate the pace of supply growth as it sees global oil markets shifting from being undersupplied to being oversupplied as early as the first quarter of 2022. The U.S. Energy Information Administration's Short-Term Energy Outlook supported OPEC's concern. In the release last week, global oil demand is forecasted to exceed 100 million barrels per day in 2022 which is higher than pre-COVID demand levels. However, global oil supply is expected to be higher than demand resulting in a global surplus. U.S. government officials seems to be split on whether to intervene. How could the U.S. reduce oil prices? First, the government could increase oil supply by releasing oil that is currently being stored in underground salt caverns along the Gulf Coast from the Strategic Petroleum Reserve. It is unlikely this would have a long term impact on reducing oil prices. Second, the administration could ban U.S. oil exports. This would likely lead to higher international oil prices which in turn would lead to higher U.S. gasoline prices not the desired outcome. Lastly, the U.S. government could reduce the volume of renewable fuels mandated to be blended into the gasoline mix. The cost to comply with the mandates increase the cost of gasoline. This is the most likely action that could achieve the U.S. governments desired goal of reducing gasoline prices.

To finish up, the third quarter earnings season for the midstream energy sector wrapped up last week with Western Midstream Partners or WES reporting results. WES continues to execute a capital allocation plan that we want many to emulate. WES has used its free cash flow to reduce debt to 3.7 times EBITDA as of September 30 as well as buyback over $100 million of stock or units in this case. WES uses the cash savings from lower interest expense and a lower unit count to increase dividends or distributions to remaining shareholders at an annualized rate of 5%.

Looking back at third quarter results, 100% of the stocks in the Alerian Midstream Energy Index maintained or increased cash dividends paid to shareholders which helps solidify the sustainability of the compelling 7% dividend yield on the index. 61% of the stocks in the midstream index posted earnings beats during the third quarter. And 9 stocks in the index bought back a total of $1.6 billion in units and/or stock during the quarter.

Of course, there were several energy transition related announcements from midstream energy companies as well. Just last week, natural gas pipeline and storage operator TC Energy announced an agreement to collaborate on hydrogen production hubs across North America with Hyzon Motors, a leading supplier of hydrogen-powered fuel cell electric vehicles. TC Energy will operate the hubs that will provide hydrogen to fuel cell electric vehicles and will focus on low-to-negative carbon intensity hydrogen from renewable natural gas, biogas, and other sustainable sources. This is another example of midstream energy investing in decarbonizing infrastructure.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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 basis (AMNA) and on a total-return basis (AMNAX).

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