TortoiseEcofin QuickTake Podcast

January 10, 2022

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.

I get to kick off the new year of podcasts with many recurring themes from 2021. Apparently, just flipping the calendar does not change what is happening across the world, but it does bring about our 8th year of providing you weekly energy podcasts. We are closer to the NFL playoffs as an extended regular season wrapped up. Nice to see the Kansas City Chiefs once again AFC West winners and playoff bound. It appears wide open this year for the Super Bowl, so I will not be surprised if really any playoff team gets there. Maybe the Chiefs can make it three in a row, and put the nightmare of last year in the rearview mirror.

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

- On the commodity front, crude oil was off to a fast start, rising 4.9%, while
- Natural gas also moved higher on colder weather, trending up 5%,
- Shifting to equities, the broader S&P Energy Select Sector Index® surged, up 10.6%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index jumped as well, rising 9.3%
- Utilities, per the Dow Jones Utility Index, went the opposite direction, down 1.3%
- And finally MLPs, as represented by the Tortoise MLP Index® tracked broader energy, moving higher by 6.9% for the week

First and foremost, let's talk about energy equities and their continued rally. Coming off a fantastic 2021, energy started the year with a bang. This was helped along by the Federal Reserve commentary from its previous meeting driving a spike in interest rates as expectations of faster and potentially more rate hikes were the main areas of focus for markets. As an example, the 10-year treasury went from 1.51% at the end of last week and the end of 2021, to 1.76% in just 5 days. The increase in rates led to a rotation out of growth securities and those with cash flows that are more speculative and into value plays and those with excellent cash flow prospects, i.e. energy.

Of course crude oil and natural gas both rising did not hurt energy stocks either. Crude oil marched higher on several items. Some geopolitical, such as Libya and attacks on pipeline systems there impacting supply, as well as unrest in Kazakhstan putting more supply at risk. OPEC plus had its first meeting of the year and it was quickly determined they would yet again increase production by 400,000 barrels per day for the coming month.

Many oil market pundits however continue to throw shade on OPEC+ and its ability to increase production. We have spoken about this before on this podcast, yet while the group touts 400,000 bpd increases, they have yet to achieve any of those and are continually falling more and more behind. The market is becoming increasingly worried about OPEC plus's spare capacity. Yes, they are theoretically putting more barrels on the market, but every month that spare capacity erodes and many believe that capacity is much less than those countries would want you to believe. Hence the rise in prices despite more supply on the market.

On the natural gas front, international prices remain exceptionally high. Rob touched on this during the last podcast of 2021, yet not much has changed. It has been a bit warmer in Europe, but the big difference has been an extended supply of U.S. LNG heading to European shores. In fact, it was reported by Reuters that the U.S. became the world's largest exporter of LNG in December, a title that it is likely to retain throughout 2022.

Speaking of natural gas, the European Union may opt for an about face and label both nuclear and natural gas as "green" investments according to their taxonomy. This would allow natural gas to remain part of the solution for Europe, which it so desperately needs.

Finally, we had several members of the investment team attend the first energy conference of the year, hosted virtually by Goldman Sachs. For the most part, it was business as usual and my main takeaway was capital discipline within the energy sector is here to stay. There is little desire to go back to the days of growth at any cost, nor would investors tolerate such an outcome. Rather companies talked about capital allocation, maximizing return on invested capital and a laser focus on controlling costs.

There is still plenty of room to go for energy stocks to matriculate higher. So come on in, the water is warm!

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.

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).

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.

S&P Oil & Gas Exploration & Production Select Industry Index comprises stocks in the S&P Total Market Index that are classified in the GICS oil & gas exploration & production sub-industry.

The Dow Jones Utility Index is a stock index from S&P Dow Jones Indices that tracks the performance of 15 prominent utility companies traded in the United States.

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.

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