TortoiseEcofin QuickTake Podcast

February 14, 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.

Happy Valentine's Day to all listeners. Hopefully you were able to find the perfect gift for your significant other. For energy investors, the start of 2022 has been a great gift as the sector has continued its move higher; originally kick started in late 2020 and built further upon in 2021. Of course the Super Bowl was bittersweet for Chiefs fans as we had to lament a lost opportunity on the heels of an epic meltdown two weeks ago. That said the game was entertaining as always. I thought this could be a wild playoffs, but for two number 4 seeds to make the Super Bowl was a bit more unusual than I expected. Regardless, congrats to the Rams on a big victory.

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

- On the commodity front, crude oil was marginally higher, rising 86 bps, while
- Natural gas moved substantially lower on warmer weather, falling 27% on spot pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® increased, up 2.1%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were up as well, rising 1.9%
- Utilities, per the Dow Jones Utility Index, went the opposite direction, down 1.7%
- And finally MLPs, as represented by the Tortoise MLP Index® tracked broader energy, moving higher by 52 bps for the week

Unfortunately, the biggest news of the week is the potential escalation of the Ukrainian situation with Russia. Recall, we have had mentions of this possibility in the podcast a few times in the last month. Late in the week, the State Department issued a release that all U.S. citizens should leave Ukraine immediately and some high-ranking U.S. officials proffered that a Russian invasion was imminent. Presidents Biden and Putin held a call over the weekend, yet reports are sparse on any type of progress. The White House has been crystal clear it will impose sanctions on Russia if an invasion does take place and the extent of those sanctions could be severe, with the effect of limiting Russia's ability to operate on the international stage from a trading and financial perspective.

Putting aside for the moment the potentially tragic loss of life that could occur, we are energy analysts, so we will focus on perceived impacts to commodities. First and foremost, a lot will depend on whether or not sanctions impact Russian exports or not. This could be two-fold, with one aspect being a blow dealt by the U.S. to limit exports of Russian commodities through sanctions. The other could be Russia refusing to ship any commodities with the prospect of dramatically reduced supply causing hardships in various geographic regions and within various aspects, including both energy and agriculture related. Think of it as Russia withholding the supply as a weapon so to speak.

Our view is rather obvious, that crude oil would likely go higher. Arguably, there is already a geopolitical risk premium embedded within the market, yet it is never fully priced in. Perhaps the larger move would be natural gas prices. As Quinn noted a month ago, Europe would bear the brunt of the surge in prices. To note, the Biden administration has been furiously working to find excess supply that might be able to make its way to Europe in the event supply from Russia is cut off with winter still on the calendar.

A lot remains to be determined here, but clearly the markets are laser focused on the risk. That risk was also borne out in credit markets as the 10-year treasury actually receded from recent peaks of over 2% as a result of the Ukrainian situation and treasuries being viewed as a safe haven. This was an offset from just a day earlier when CPI data was released and St.

Louis Fed President James Bullard offered up some very hawkish comments on rates, implying much faster and larger hikes are needed to tame inflation.

The macro is clearly dominating right now, but here are a few other quick hit items that caught my attention this past week:

- JP Morgan commodity analysts reiterated calls for $125+ crude oil prices in 2022 as a result of OPEC's inability to hit monthly increases in quotas. Per JP Morgan, the latest January data showed OPEC+ approximately 1.2 million barrels per day below quota
- On the other hand, negotiations with Iran are apparently progressing, albeit we have heard this song and dance before
    - Assuming something does get done, it would definitely help crude oil supply as Iran would likely bring barrels out of storage and return them to the market quickly
    - All that said, as Rob mentioned last week, inventories are low and it simply takes time to rebuild
- Natural gas producer Southwestern Energy announced expansion of its responsibly sourced natural gas program to its newly acquired Haynesville Shale assets, bringing the total amount to over 5 bcf/d of its gas
    - The independent certification provides a ton of data for buyers of Southwestern's nat gas, with the ability to have much more clarity on the emissions profile
- Enbridge and Clean Energy Fuels announced an agreement to power Canadian UPS trucks at a depot in Ontario with compressed natural gas
- Oil producer Denbury announced it has entered into an agreement with Natural Resource Partners for CO2 sequestration on Alabama's Gulf Coast
- Finally, BP reported this past week and updated the market on its energy transition plans
    - Notably, it will spend a lot of capital to achieve its net zero ambition, including bioenergy, renewables and hydrogen
    - Yet, interestingly, management still expects over 75% of EBITDA by 2030 to come from hydrocarbons
    - Bottom line, the energy transition is taking place, but will also take time

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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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).

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℠
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