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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.

If you have listened to my podcasts before, you can probably script out exactly what I'm going to say to lead off this one. It's the most wonderful time of year, the NCAA basketball tourney, affectionately known as March Madness. And we had quite the start, with upsets galore. It is my favorite sporting event and certainly captures the eyes of many sports fans. But we also have a delayed spring training for baseball, a crazy free agent offseason period for the NFL, and across the pond we have the UEFA Champions League quarterfinals. So a little something for everyone! Madness hasn't been reserved for just the sports world however, financial markets have felt their own dose of this, with volatility reigning supreme and not just in the energy markets, but all markets. We'll cover some drivers of that volatility as well as more events during the past week.

But first, let's start things off with performance for the week that was:

- On the commodity front, crude oil was weak, falling 4.2%, while
- Natural gas moved higher on lower inventories, up 3.8% on spot pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® declined 3.6%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index fell as well, dropping 89 bps
- Utilities, per the Dow Jones Utility Index, went the opposite direction, up 48 bps
- And finally MLPs, as represented by the Tortoise MLP Index® tracked broader energy, yet with lower beta, declining 2.4% for the week

Crude oil remains the most dominant topic in energy and of course, it is being driven by geopolitical events. The yo-yo price of crude oil is due to several factors, which took center stage again this week.

Bears are pointing to the following:

- Negotiations of cease-fire talks between Ukraine and Russia
- Potential deal between the U.S. and Iran to eliminate or reduce sanctions and allow barrels to come back online
- China and India might take Russian barrels, despite the Ukraine situation
- And maybe most importantly, a rise in Covid cases, particularly in China, which could crimp demand

Bulls are pointing to the following on the other side:

- Russian sanctions are not going away, even with a ceasefire, meaning a rerouting of crude supplies at best and a potential sanction induced, more permanent reduction, which JP Morgan estimates at 1M bpd over time
- Still strong demand coming out of the Covid induced lockdowns in most parts of the world
- And most importantly, an already tenuous supply/demand market

The last point is maybe the most relevant in my view, as before anything with Ukraine came about, supply was very tight, inventories were low and declining, and OPEC+ spare capacity was consistently called into question. So the premise remains, where is new supply going to come from? Yes, we could get another 1 to 1.2M bpd from Iran, but if the world loses 1M bpd or more from Russia, then what? As Rob mentioned last week, OPEC is waiting on the U.S. and Iran situation to unfold. And U.S. producers are waiting on OPEC to get back to their pre-Covid levels. The bottom line, as OPEC+ sticks to their pathway of bringing barrels back online ratably, already low spare capacity is only moving lower, as are inventories. That means a higher sustained level of prices, regardless of geopolitics.

Said another way, supply is tight and it's not likely to get much better anytime soon. So the factor to keep in mind is the demand side of the equation. Does another Covid surge crimp demand? Do central banks dealing with inflation and

consequently raising interest rates spur a recession? Do higher prices at the pump force demand destruction? These are the more relevant questions to me as supply is very likely to remain at lower levels. I would point out, beyond Covid, crude oil demand has essentially been up and to the right at varying levels for the last 40 years, with only a few periods of modest declines, such as 2008/2009, which saw an approximate 1.4 million bpd decline in global demand over a 2 year period. So our worst recession in decades saw barely a blip on crude demand worldwide. In other words, demand has been incredibly resilient and we would anticipate it remains so, even if we have a recession.

While crude oil and geopolitics are macro-driving forces impacting stocks, we did have some company specific news, albeit it was a light week. Two different companies continued the trend of consolidation within midstream.

First up was Williams, which announced the acquisition of the Haynesville gathering and processing assets of Trace Midstream from Quantum Energy Partners for \$950M. Per Williams, the transaction would represent a 6x EBITDA multiple and it comes with some agreements with Quantum affiliates that will support the eventual completion of the Louisiana Energy Gateway, or LEG project by Williams. This is a key project as Williams will eventually have not only substantial gathering in the Haynesville, but also intra-basin pipelines that will provide access to egress pipelines to get out of the basin, specifically Williams' Transco pipeline. All of this is very favorable in expanding the Williams goal of delivering responsibly sourced natural gas to America.

Finally, Targa Resources announced an acquisition as well of Southcross Energy, a former MLP that filed for bankruptcy some years ago. This was a small deal for \$200M and per the press release, will be executed at a very attractive 4.0x multiple for Targa. It mainly consists of South Texas gathering and processing assets. Interestingly, Targa noted the potential to move a currently idle 200 mmcf/d plant, which would fit in nicely in the Permian. In all this feels like a pretty low risk, bolt-on acquisition executed by Targa.

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

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**The Dow Jones Utility Average Index** is a price-weighted index composed of stocks of 15 utility companies listed on the New York Stock Exchange.

**Producers = Tortoise North American Oil & Gas Producers Index<sup>SM</sup>**

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