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.

On my last podcast I started by talking about March Madness and how much I loved the event. Well, as a proud Jayhawk, I want to congratulate the University of Kansas for winning the 2022 NCAA men's national basketball championship! Even though it was a few weeks ago, a couple of my fellow podcasters graduated from Kansas State and Missouri, so no way they were saying anything about it. Hence, my need to fill the gap, despite the time lapse. Celebrate and then turn to the next year. Speaking of next, it's earnings season for energy and it kicked off this past week with some notable energy stalwarts. We'll cover those earnings as well as other topics from the past week.

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

- On the commodity front, crude oil was weak, falling 3.6%, while
- Natural gas was also under pressure, down 4.5% on spot pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® declined 4.6%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index fell as well, dropping 6.8%
- Utilities, per the Dow Jones Utility Index, followed suit, down 1.8%
- And finally MLPs, as represented by the Tortoise MLP Index® tracked broader energy, yet with lower beta, declining 1.9% for the week

A pretty brutal energy tape really, but it was not reserved for just energy, with most of the market lower on the week, driven by Fed Chair Powell's Thursday comments. In case you missed it, Powell told an IMF audience essentially the Fed may have to move more aggressively to tame inflation. So while many felt financial conditions were tightening at a reasonable pace and a soft landing could be engineered, the comments threw markets for a loop and sent sentiment, and stocks, lower. Markets are now pricing in 10 rate hikes for the year and as Powell noted, a 50 bps hike in May is not only on the table, but also likely.

In many ways, the irony is that the economy is too strong. Jobs, travel, etc remain robust. In fact, one analyst noted that American Express said March was the first time travel and entertainment spending rose above pre-pandemic levels. Powell wants to slow inflation, so rates are going higher and it was more than the market had prepared for, at least based on the reaction of the equity markets.

We have spent considerable time on these podcasts discussing crude oil fundamentals, but I thought it was worth pointing out the latest from Morgan Stanley. Lead commodity analyst Martjin Rats raised his Brent crude forecast to $130 from $120 by 3Q 2022. Essentially, he feels supply issues are greater than demand issues. Most interesting to me, he noted that current Russian production has already fallen by 900,000 bpd in the first half of April. This was faster than they anticipated and Morgan Stanley now estimates Russian production will fall 2 million bpd from May onwards to 9 million bpd.

It's hard not to be alarmed here. We firmly believed it would be difficult to replace the 5 million bpd of Russian exports, as Rob mentioned last week. However, we assumed their production would stay at or near current levels. If that is not the case, this could be even more difficult as it may not result in enough barrels being available for even China and India to buy. Bottom line, prices are likely going to be higher.

As for earnings, it was a relatively busy week. Some good prints, especially from midstreamer Kinder Morgan. I could go through all of them, but instead, I thought I would change things up a bit and give you some quotes from a few of the most notable calls.

First up, Schlumberger and its CEO from the oil field services sector. In discussing energy industry dynamics, he stated, "the elevation of energy security as a priority will drive further capacity expansion and optionality to deliver a more diverse oil and gas supply. This will support additional long-cycle development projects, exploration activity, and brownfield rejuvenation programs."

Next up, Halliburton CEO Jeff Miller noted, "we expect oil and gas demand will grow over the near and medium-term, driven by economic expansion, energy security concerns, and population growth." Mr. Miller also astutely pointed out that the world has shifted to more short-cycle barrels, notably US shale. In doing so, he states, "the pivot to short-cycle barrels creates the opposite effect, a perpetual threat of under-supply that is supportive to commodity price."

Finally, a couple of comments from Kinder Morgan Chairman, Rich Kinder. In relation to the current environment and what it means for America, Kinder stated, "In my judgment the crisis plays to our strengths. The U.S. is a reliable supplier with the ability to grow its production modestly in the near-term and more robustly in the intermediate term."

He also noted in terms of what the U.S. brings to the table, "we operate under a transparent legal system and we have technical expertise from the wellhead to the burner tip that is unmatched anywhere in the world. For all of these reasons, the United States will be a major part of the solution to adequately supply the world with the oil and natural gas it needs to surmount the present problem."

Earnings pick up considerably here in the next few weeks, but the messaging will remain pretty consistent. Demand is exceeding supply, leading to strong commodity prices. Supply will eventually rise to meet that demand, but will take some time. Energy security is the new mantra for countries. And with those key points, oil and gas will be around for a long time to help bridge the gap to renewables.

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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