May 31, 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 wanted to start by recognizing Memorial Day and honoring all those who gave the ultimate sacrifice so that we may enjoy the freedoms they helped protect. On a lighter note, the unofficial start of summer also kicked off. My boys had their last day of school this past week and summer is definitely underway. We have state cup soccer matches, baseball tournaments and a summer road trip planned. It seems to fly by faster every year and before you know it, school will be starting up again, so enjoy while it lasts.

Let's start things off with performance for the week that was:

- On the commodity front, crude oil was up modestly, rising 1.6%, while
- Natural gas was also in the green, climbing 3.5% on spot pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® improved 8.2%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index surged, increasing 14.8%
- Utilities, per the Dow Jones Utility Index, were higher as well, up 4.5%
- And finally MLPs, as represented by the Tortoise MLP Index® also participated in the upside, rising 6.4% for the week

When I last had the podcast a little over a month ago, it was a pretty brutal energy and broader market tape, driven mostly by Fed Chair Powell's negative comments. Funny enough, the risk on environment for equities this past week was once again driven by the Fed, this time the release of the meeting minutes. In those minutes, many investors took away from it the idea that the Fed would not be robotic in simply raising rates every month, but rather, in the Fall, would perhaps take a pause and evaluate the impact of the moves already made, and importantly assess the data to see if the desired outcomes were being achieved. Some economists feel we could see inflation in the 2-3% range by 4th quarter of this year. If that is the case, investors would welcome a Fed that evaluates the data and perhaps pauses or stops raising rates, determining whether its goals have been achieved. Of course, that is just one view of how to read the minutes, but was likely the catalyst for the past week's strong returns.

We have continually noted in these podcasts that energy has outperformed for a variety of reasons, yet mostly due to strong fundamentals driving solid earnings. In addition, sentiment has benefited from higher earnings revisions. This is in stark contrast to most other parts of the market. Matt asked the question a couple of weeks ago, why is energy doing well, and hit on the fundamentals. I am going to ask a slightly different question, what drives energy stocks higher from here?

Trying not to get too wordy, which I am prone to do; I will try to keep it concise.

I think it boils down to several factors:

- One, recognition the energy transition will take longer than originally anticipated, therefore oil and gas will be utilized for a longer period of time
  - An extension of this thought is that oil and gas can play a longer term role as both are enhanced, if you will, by technologies such as carbon capture, lowering their environmental impact
  - One more point on this thought, natural gas is not only a bridge fuel, but likely a vital component in helping decarbonize the world while retaining reliability and energy security
- Two, energy security matters and has moved to the forefront of the energy priorities of cheap, clean and reliable
- Three, the U.S. is likely to be a predominant beneficiary and energy supplier to the world, buoyed by the fact that Russia's energy exports need to be replaced to a vast portion of the world and the U.S. is likely the best and one of the only options to do so

- Four, back to fundamentals. Inventories are low across the board and there is no white knight coming in to save supply. Years of underinvestment have put us in this situation. Simply put, demand is exceeding supply and while new supply will emerge in the intermediate term, the near-term is more tenuous, meaning sustained higher prices.
- Finally, five, which is free cash flow. Some of the highest free cash flow yields you will find are in energy, with high payout ratios, stock buyback programs, ongoing debt reduction and effectively no need to access capital markets. That's a good setup for a sector still trading poorly on a relative basis, to pre-pandemic levels compared to other sectors of the market.

There are certainly more reasons, but I think that summarizes some of the main points.

It is possible you have read variations of these, including Goldman's view of a commodity super cycle for the next decade. Or perhaps you read the report from Barclays just last week asking, "What if Energy dominates for a decade?". Morgan Stanley also had a report that laid out the case for value to resume leadership for a new era of outperformance, similar to the period prior to the Great Financial Crisis. It was noted Energy would benefit nicely from this proposed trend. In short, we believe energy is well setup to outperform for an extended period of time and for a variety of reasons. We continue to emphasize an all of the above approach with natural gas and renewables as long-term winners, eliminating coal over time.

Before we wrap, here are a few quick hits from the week on the news front.

- Natural gas broke through the $9 per mmbtu range, the highest price level reached in over 14 years
- U.S. companies signed more LNG contracts and Venture Global reached final investment decision on its Plaquemines LNG facility
- Bloomberg noted for the first time in history, gasoline was above $4 per gallon in every U.S. state at the same time
- Crestwood Equity partners announced an acquisition and a sale concurrently, acquiring a private Delaware Basin gathering and processing company while selling Barnett Shale gathering and processing assets to fellow midstreamer Enlink

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 **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).

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Producers = Tortoise North American Oil & Gas Producers Index℠
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