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.

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and I am happy to host this week's QuickTake Podcast. There was a lot of noise in the energy markets last week. Over Memorial Day weekend we learned that the European Union was set to eliminate imports of Russian crude oil by marine vessels. Apparently pipeline imports would still be permitted in a bid to get Hungary to approve the new sanctions. Crude oil moved higher on this news. We learned later in the week that there was not a firm agreement as Hungary still had reservations about the ban. Eventually, the EU announced an agreement on Friday to limit marine imports of Russian crude and to disallow EU countries providing maritime insurance to vessels carrying Russian crude. This effectively limits Russian marine exports to vessels that are seller or buyer insured, the outcome is likely fewer vessels transporting Russian crude to global markets. Additionally, there was rumors that Saudi Arabia might lead an effort to remove Russia from OPEC+. This did not happened and the group announced it would increase its output quota by 648,000 barrels in both July and August. This brings forward expected increases from September and effectively ends the group's production cuts one moth earlier than planned. The change from monthly increases of 400,000 barrels seems to be a result of diplomatic efforts by the Biden administration and the reality that the group's production has fallen this year due to Russian sanctions. The news should have been a negative for prices, but WTI finished the week over 3% higher. The upward move likely reflects the fact that the group is producing over one million barrels less than its current quota and there is little, if any, spare production capacity among the group of producing nations.

Market reactions last week were mixed:

- The Alerian MLP Index gained 1.9%, and the Index now sits up 30.6% for the year
- Other energy stocks, represented by the Energy Select Sector Index, were up 1.1% for the week
- In broader markets, the S&P 500 was down -1.2%, and the ten year treasury was higher finishing at 2.9% yields.

On the macro front we had some important updates last week. Counter to an early indication from ADP, non-farm payrolls increased by 390,000 jobs in May, better than the expected 318,000. While this is the smallest job growth number since April of 2021, it is still a strong number and better than expected. Unemployment stayed at 3.6% but the participation rate moved higher to 62.3%. Finally, in what is perhaps an encouraging inflation indicator, wage growth slowed to 0.3% month over month, which translates to a year over year rate of 5.3%. On the legislative front, it appears that the Build Back Better plan may have risen from the ashes in recent days. Apparently Senator Manchin and Majority Leader Shumer have reached a deal that includes renewable energy funding, offset by increased taxes. Initial indications suggest that Manchin did not get his request for improved pipeline permitting processes. We suspect he will continue to press this topic as the successful completion of the Mountain Valley Pipeline is incrementally positive for his constituents.

Company specific news was light last week. There were some encouraging announcements from the debt capital markets. Kinetick Holdings successfully raised one billion dollars from a new issue of sustainability-linked bonds. The interest rate will be dictated by the company's ability to meet greenhouse gas emission reduction targets. The better the company performs relative to its targets the lower the coupon on the bonds. Equitrans Midstream issued new five and seven year bonds to fund maturities over the coming three years. Terming out these borrowings is a positive, but it does come at a higher coupon rate for the company.

Kinder Morgan was out with news that it was increasing its 2022 capital budget guidance by $300 million. The market had been punishing companies for increased spending, but Kinder traded well last week. The shift may be an acknowledgment by the market than new infrastructure is needed to reduce long-term inflation due to higher commodity prices. Or it may be a signal that spending on natural gas infrastructure and CO^2 sequestration is what the market wants as it looks to a realistic energy transition strategy.

Magellan Midstream Partners announced that it will close its sale of refined products terminals to Buckeye for $435 million. The sale proceeds will be used to repurchase equity units. In our view, this is an example of the actions more energy companies should be taking to support equity valuations, which remain stubbornly low. It was reported that in order to complete this transaction Magellan, the seller, was forced to divest five more terminals by the Federal Trade Commission. In my memory, this is the first time an energy company selling assets has been forced to sell additional assets to get regulatory approval. We know the FTC under the Biden administration has been more aggressive, especially related to big tech, but this feels like government overreach to me.

There was also an interesting announcement from Ohio utility AEP. The company plans to spend $2.2 billion to build one gigawatt of new wind and solar power plants across the south. This announcement comes from a company that bought the town of Chesire, OH twenty years ago to avoid liabilities associated with a coal-fired power plant. That is quite a turn of events and yet another example of traditional energy and power companies participating in the energy transition.

Next week there are several energy companies with annual shareholder meetings, which might generate some news. We'll look out for that, and until next week thanks for listening and stay safe.

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 basis (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.

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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