TortoiseEcofin QuickTake Podcast

August 1, 2022

Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Hello. I am Tortoise Senior Portfolio Manager Rob Thummel with this week's TortoiseEcofin QuickTake podcast.

Last week, investors brushed aside a 75 basis point increase in interest rates and confirmation of a second consecutive quarterly decline in U.S. GDP as the S&P 500 Index rose by 4% closing out the best month of returns since November 2020. Energy infrastructure as represented by the Alerian Midstream Energy Index continued its outperformance rising over 6% last week and 10% for the month of July.

In macro-related news impacting the energy sector, Senator Schumer and Manchin proposed the Inflation Reduction Act of 2022. How would this impact energy companies? If passed, the Act highlights broader acceptance amongst U.S. politicians of an all-of-the-above solution to decarbonization and growing interest in energy security. Wind and solar related stocks could benefit from tax credit extensions. In addition, the Act offers new investment tax credits for emerging energy technologies such as energy storage, renewable natural gas, green hydrogen, sustainable aviation fuel and carbon capture. The Act also supports oil and gas along with nuclear power as well. As my friend Tim Puko reported in the Wall Street Journal, oil and gas leasing on federal lands could increase and separate legislation could accelerate timelines for building new pipelines and terminals to increase U.S. production and exports of natural gas. Politicians supporting the act noted that energy independence is key for the U.S. to maintain its status as a global superpower. Whether this Act passes or not, the focus of energy companies remains the same - generate significant free cash flow returning that cash to shareholders through higher dividends, increased buybacks and/or debt reduction.

The second quarter earnings season is off to a great start. Here is what we learned last week. Exxon noted that global energy demand is recovering to pre-COVID levels while global supply is not keeping up due to insufficient capital investment for several years in a row. U.S. oil production is growing as Exxon and Chevron expect 2022 Permian oil production growth of 25% and 15%, respectively. Chevron advanced its higher returns and less carbon motto through an acquisition of a leading renewable fuels provider and agreements to export liquefied natural gas (LNG) off the Gulf Coast. We also learned last week that gasoline demand is back after a short period of slightly lower demand in early July. Leading refiner Valero indicated that it was not seeing demand destruction. One the largest gasoline pipeline operators, Magellan Midstream indicated no signs of notable demand destruction due to higher fuel prices but did acknowledge a little weakness in early July. With the daily national average of gasoline prices falling every day over the past 47 days, we expect gasoline demand will remain strong for the remainder of the year. Declining global refining capacity is partially responsible for higher gasoline and diesel prices but help could be on the way. Exxon expects one million barrels per day of global refining capacity additions through 2023 which should provide some relief to consumers.

What else have we learned for the earnings season so far? European demand for U.S. LNG remains robust. European natural gas prices rose by over 25% last week after Russia reduced natural gas volumes exported into Europe from the Nord Stream 1 pipeline. Natural gas prices in Europe are 7.5 times higher than in the U.S. Last week, U.S. LNG infrastructure operators Cheniere and NextDecade each announced additional agreements to export U.S. LNG for the next 20-years. This extends the record setting year for U.S. LNG export contracts bringing the year-to-date total to 31 agreements totaling 6.5 bcf per day almost doubling last year's record. U.S. LNG export capacity has grown by 53% annually between 2016 – 2021 outpacing growth in solar and wind capacity. Looking forward, LNG export capacity is forecasted to grow by at least 10% per year for the next five years.

The potential for LNG exports is coming Canada as well. Enbridge, the largest energy infrastructure operator in North America announced last week a 30% investment in Woodfibre LNG, an LNG export facility located in British Columbia that has the customer and regulatory commitments to likely move forward. The project is forecasted to export LNG in 2027. This LNG facility could be the cleanest LNG facility in North America as the facility will use hydro-electric power to operate electric generators. North American LNG remains one of the best ways to enhance global energy security and decrease global carbon emissions.

Before ending, free cash flow allocated to stock buybacks is a growing theme in the energy sector. Just last week, stock repurchased during the second quarter by Exxon, Chevron, Shell, Valero, Hess, Magellan Midstream and Enbridge added up to over $12 billion.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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 **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 **S&P 500® Index** is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Through our family of registered investment advisers, we provide investment advice to related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, we stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*