TortoiseEcofin QuickTake Podcast

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Thanks for joining us today on the Quick Take Podcast. I'm James Mick, Managing Director and Senior Portfolio Manager with TortoiseEcofin.

Last month I wrote about the kickoff to football season. Who would have thought that five weeks later I could actually talk about Kansas University football being ranked in the top 25 for a few of those weeks. And no, this is not basketball season yet, at least for a little while, so it is legitimately football related. After a 5 and 0 start, hosting college football game day for the first time in school history, and selling out the stadium, it all seemed to come crashing down with a potential season ending loss of our star quarterback. At least the Chiefs still have their star quarterback and despite a loss to the Bills, are one of the top teams in the NFL. Energy remains perched as one of the top sectors in the market as well, which we will touch on more shortly.

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

- On the commodity front, crude oil was down materially, with futures falling 7.6%, while
- Natural gas was also in the red, dropping 4.4% on futures pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® was negative as well, declining 1.8%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were closer to commodities, lower by 3.5%
- Utilities, per the Dow Jones Utility Index, continued to struggle, moving lower by 1.9%
- And finally MLPs, as represented by the Tortoise MLP Index® were actually the best of the group, essentially flat at negative 9 bps

Once again, the markets were dominated by macro news. This time it was the CPI print on Thursday. Broad markets faded into the release and were seemingly justified in doing so as the numbers came in a bit hot yet again at 8.2% year over year. The higher print was perceived to result in higher Fed rate hikes at the next two meetings, putting 75 basis point hikes on the table for both before year-end. Of course, as we have discussed, this furthers the odds of a hard landing and a deeper recession as the Fed focuses exclusively on crushing inflation, leaving all other concerns aside.

And then something weird happened. The S&P reversed course with a massive swing to the positive, ending up 2.6% for Thursday. Short covering, maximum pessimism, algorithms, all the usual responses were invoked. Who knows what the market was feeling, but the bottom line is that it feels we are watching a slow motion train wreck and everyone knows what's coming, it's just a matter of when it happens. In some ways, that makes it difficult as we all know a pivot will occur, just not sure when and what data points will drive it.

Rates are going higher, but it does feel we are at a point of extreme pessimism. As part of the famous quote from Warren Buffett goes, "be greedy when others are fearful". That seems pretty applicable here.

For all the hoopla the Biden administration has made about the OPEC decision a couple of weeks ago, crude oil actually ended Friday below the price right before OPEC met. Just my opinion, but $85 to $90 crude oil is not going to push the US into recession. As a reminder, from 2011 to 2014, crude oil averaged $95 per barrel and the US had solid GDP growth and an annualized S&P 500 return of 15.5%.

On the company front, Diamondback completed an acquisition of private company FireBird Energy for $1.6 billion dollars. FireBird has acreage in the Midland Basin of the Permian and the acreage is contiguous to existing Diamondback drilling. Consistent with other acquisitions, the multiple paid was very attractive, with the company quoting 3x EBITDA and a 15% free cash flow yield at strip pricing. The transaction will be leverage neutral and extend the inventory life of Diamondback. Overall, a pretty solid acquisition.

In energy transition news, CF Industries entered into an agreement with ExxonMobil to capture and permanently store CO_2 from an industrial complex Exxon owns in Louisiana. Exxon has also signed an agreement with Enlink Midstream to use its transportation network to transport the CO_2. Enlink will use existing pipeline for a portion of the delivery and new pipeline for the remainder. This is just further proof of the repurposing of existing pipeline systems to take part in the energy transition.

The overall system of capture and storage will result in the equivalent of replacing 700,000 gasoline-powered cars with electric vehicles.

Earnings get started this week for 3Q and we are looking forward to yet another solid print from midstream companies and energy companies in general.

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 **Consumer Price Index** (**CPI**) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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

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.

The **S&P 500® Index** is a market-value weighted index of equity securities.

The **S&P Energy Select Sector Index** is a modified market capitalization-based index of S&P 500 companies in the energy sector that develop and produce crude oil and natural gas and provide drilling and other energy related services. Returns include reinvested dividends.

The **S&P Oil & Gas Exploration and Production Select Industry Index** is comprised of stocks in the S&P Total Market Index that are classified in the Global Industry Classification Standard oil & gas exploration & production sub-industry.

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