November 14, 2022

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

Let me start by celebrating Veteran's Day and saying thank you to all those that have served our country. On a personal front, my boys wrapped up their high school soccer season with a 2nd place finish in the state. They lost a tough championship game, yet still had a great season and for me, it was amazing to see them both play together, something I'll never forget. The Jayhawks became bowl eligible, and the Chiefs continue to push forward as Mahomes stakes his claim as a mid-season MVP candidate. Let's hope he can keep that up! Here's to also hoping energy stocks can keep up their MVP candidacy for 2022 as well.

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

On the commodity front, crude oil was down, with futures falling 3.9%, while
Natural gas was also in the red, dropping 8.1% on futures pricing,
Shifting to equities, the broader S&P Energy Select Sector Index® was positive, rising 2%
Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were slightly better, up 2.3%
Utilities, per the Dow Jones Utility Index, tried to keep pace, moving higher by 1.8%
And finally, MLPs, as represented by the Tortoise MLP Index® were actually slightly negative, declining 45 bps

Wow, what a week. Oftentimes we lament how the macro is overshadowing the company specific information, which is more fundamentally driven. This was certainly one of those weeks. Two primary forces are driving the macro right now, the Fed and China. Yet this week we witnessed yet another market-changing event, mid-term elections. So, let's discuss each of these and how they impacted the markets this past week, with a specific emphasis on energy.

First up, the elections on Tuesday did not produce the expected red wave. Instead, it may end up being either a continued entirely Democrat controlled government, or at best a Republican controlled House. The initial reaction by the market was one of surprise and it sold off. Some of this can be chalked up to uncertainty as the market always hates surprises. In addition, we will likely have to wait as votes are still being counted. Again, more uncertainty is never a good thing for markets. I will say, from an energy standpoint, we anticipate very little change either way. The Inflation Reduction Act, which is primarily an energy bill, is already in effect. So, it's unlikely much new happens on the energy front, regardless of who controls Congress.

The next market-moving event was the CPI release on Thursday. A better-than-expected print, in this case lower than consensus, had markets ripping higher. The story is that slower inflation will yield a more dovish Fed and per several pundits, should result in only a 50-bps hike in December. I would say many are questioning the market reaction, stating that we are still printing pretty massive y/y and higher sequential increases, so no reason to celebrate. And the terminal rate is still likely going to be higher, but in the end, investors cheered a story of a more accommodative Fed, even if it only means rates rise by 50 bps instead of 75 bps in December. In terms of energy stocks, this was viewed somewhat negatively, mainly due to a rotation into tech companies and long-duration asset classes. Frankly that seems a bit premature, since this was a relatively small change, yet we will see what happens as earnings across other sectors likely fall in 2023.

The final piece of news moving markets last week was from China, where the government announced a series of 20 measures with intent to improve Covid control. That's code for lightening up on the zero Covid policy that continues to gyrate supply and demand and disrupt supply chains. Notably, crude oil jumped on the news, as China's actual decline in demand in 2022 is helping to keep prices lower and simultaneously help with worldwide inflation. The program is generally pretty modest in actual changes, yet this clearly foreshadows the government's plan to introduce policy to help facilitate the reintroduction of movement in and out of the country. Many of the commentators we follow stressed, while this is notable, expect a methodical reopening that would likely occur throughout 2023. In terms of energy impact, this is a big deal. China is obviously a material player in the demand for energy and will help drive markets in 2023.

Finally, just a couple of other notable events from a company perspective.

Phillips 66 held an analyst day with the main takeaway being they intend to return a lot of cash to shareholders. Cheniere Energy announced about half of their turbines at Sabine Pass, which would equate to roughly one-third of their total turbines, will require retrofitting. The company reiterated this will not have a material impact on operations nor financials.

Next week we have two conferences going, the annual EEI conference for utilities in Florida and the RBC energy conference in Dallas. Should be some good updates for energy.

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 **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 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.

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