TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. I'm Brian Kessens, senior portfolio manager and managing director. Thank you for joining us as we provide timely updates on the market.

The first full month of spring offered a blanket of green shoots. The S&P 500 improved 1.6% with broad energy (as measured by the S&P Energy Select Sector Index) and midstream energy (as measured by the Alerian Midstream Energy Index) stretching a bit further, higher by 3.3% and 2.4% respectively. West Texas Intermediate (WTI) crude oil also inched to the better by 1.3%.

After the banking crisis raised contagion and recession concerns in March, those weeds largely stayed contained in April. Though fearing a potential global economic slowdown and lower energy demand later this year or next, OPEC+ made a surprising, proactive decision to reduce crude oil production by 1.6 million bpd starting in May and lasting through year-end. It is now clear that OPEC wants to control prices and they desire prices north of $80 per barrel. The move scared the shorts and led to a positive bias for crude oil prices, yet Brent prices actually ended the month just shy of $80 per barrel and 23 cents lower than where March ended. A part of the neutral price reaction may be that Russian production remains resilient and there is no sign of their announced 500,000 bpd cut impacting their production, yet.

Natural gas prices remain subdued at just over $2 / mmbtu following the mild winter that left inventories near their five-year seasonal high. Freeport LNG is now back on-line though, and US exports are pushing record highs of around 14 Bcf/d. That said, natural gas rig count growth stalled as demand catches up to supply.

That slowdown is resulting in a moderation in oilfield service cost inflation. Demand for rigs, crews, trucks and other materials is softening. Fair to say that service cost inflation of 10% to 15% has peaked and that adding rigs in the future may be easier, the message from some of the larger service providers during earnings.

Yet producers are remaining disciplined. For example, the largest independent Permian producer Pioneer Natural Resources stated unchanged 2023 guidance. On returns, Pioneer grew its base dividend 14% and repurchased $500 million in shares in 1Q while refreshing its program with a new $4 billion authorization as the company expects to return at least 75% of its free cash flow to shareholders. The largest natural gas producer EQT, also reaffirmed 2023 production and capex guidance. EQT reduced leverage to 0.9x EBITDA, down from 1.2x at year-end, and bought back $200 million in stock for the quarter. Look for other producers to tout similar outlooks and return of capital frameworks.

Moving to midstream, Kinder Morgan beat by 2% on EBITDA thanks to stronger natural gas transport volumes of 3% and gathering volumes of 4%. Refined product volumes were flat year over year. Kinder increased its capex backlog by $400 million, finding projects tied to increasing capacity on its natural gas pipelines, which by nature are low risk, high return projects completed in a short time period. Further, the company grew the dividend 2%, reduced leverage to 4.1x debt to EBITDA (versus a 4.5x target) and repurchased $113 million in shares. Notable that the stock only traded at or below the average purchase price for only 6 days during the quarter, suggesting that buybacks were aggressive during the March banking crisis. We expect other midstream companies used March's stock market volatility as an opportunity for accelerated buybacks.

In downstream, Valero beat expectations thanks to high refinery utilization and elevated margins. Buybacks amounted to $1.5 billion. Management noted they are not seeing weakness in diesel demand. Maybe that recession is not forthcoming. With utilities, Entergy missed due to warmer weather, though reaffirmed its 2023 outlook. That weather in 1Q is likely to hurt most utilities except out West, yet we expect no change to outlooks for now.

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In Washington, the EPA released a set of rules targeting emission standards that would, in their view, drive an increase in the uptake of new electric vehicle sales to 67% by 2032. Note this is almost certain to be litigated and is not dramatically different than what many analysts were expecting already. Achieving that desired sale penetration will center around the resource and mineral constraints already here and likely to get worse should electric vehicle uptake increase. Also, the Strategic Petroleum Reserve remains a source of let's call it uncertainty. If you remember, last year the Biden Administration made strong comments that it would look to refill the SPR at prices between $67 and $72. Secretary Granholm then made contradictory comments in March that it might be difficult to refill some of the SPR this year, despite prices at the time hovering around $65. This did not sit well with the Saudis and was perhaps part of the rationale for the coordinated cut mentioned earlier. Then in April, she walked back those comments, this time claiming the US might refill some in 2023, further muddying the Administration's message. Generally, energy policy remains stuck in neutral.

Looking at the month ahead, the Fed will meet on interest rates this week with expectations they're not yet at neutral. Another 25-bps hike is expected, and the focus will likely be on the narrative about the course of rates for the rest of the year. Further, earnings will continue to take center stage too. Generally, we expect constructive results, a focus on returning growing free cash flow to shareholders, with outlooks tempered by conservatism and a potential slowing economy. Thanks for listening.

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 companies. 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).

Liquefied Natural Gas (LNG) is natural gas that has been cooled to a liquid state for shipping and storage - the volume in this state is about 600 times smaller than in it's gaseous state, able to transport for much longer distances when pipeline transport is not feasible.

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. The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships, but excludes U.S. royalty trusts.

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.

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.

West Texas Intermediate (**WTI**) is light, sweet crude oil commonly referred to as "oil" in the Western world. West Texas Intermediate is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

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