TortoiseEcofin QuickTake Podcast

July 5, 2023

Welcome to another TortoiseEcofin QuickTake podcast. Thank you for joining us. On this podcast, we highlight what happened in the energy sector during the month of June.

Hello, I am Tortoise Senior Portfolio Manager Rob Thummel.

I hope you enjoyed celebrating America's 247th birthday.

We are halfway through 2023 and the broad energy sector continues to underperform the S&P 500. Through June 30, the energy sector as represented by the S&P Energy Select Sector index has declined by 6% compared to a positive 17% return of the S&P 500. During the month of June, the energy sector started its comeback performing in line with the 6.6% return of the S&P 500. It gets a little more interesting when dissecting the sub-sector performance across the energy sector. Energy infrastructure, our favorite energy sub-sector at Tortoise, is a rare exception as the Alerian Midstream Energy index that is higher by 4.5% in 2023 (up 7% in June) while all other energy sub-sectors indices such as oil and gas producers, oil field services, refining, and utilities declined during the first half of 2023. Specific to the energy infrastructure sector, master limited partnerships or MLPs are outperforming infrastructure corporations although in June energy infrastructure corporations outperformed MLPs. Year-to-date, MLPs as represented by the Alerian MLP Index are up over 9% while the Alerian Midstream Energy Index has risen by almost 5%. Higher yields offered by many MLPs as well as recent MLP acquisition announcements are likely the primary reasons for their outperformance.

In the first half of 2023, oil prices declined by 12% and natural gas prices fell by over 30%. Are commodity prices telling us a recession is on the horizon or will lower commodity prices help to tame inflation? We believe the energy sector is poised to make a comeback in the second half of the year. Oil and natural gas demand remains robust and we expect demand to accelerate especially if prices stay low. The IEA (International Energy Agency) forecasts global oil demand to set a record in 2023 and then rise even higher in 2024. Oil demand in China is improving tied to increased transportation. A similar story in India with demand for refined products (gasoline and diesel) increasing at rates as high as 7%. Industrial demand for natural gas in Europe could return and increased use of natural gas for generating electricity will increase due to low prices. In response to lower commodity prices, U.S. oil and gas producers have reduced drilling activity and the impact of a lower rig count is resulting to lower U.S. production. The oil and natural gas rig count have fallen by 12% and 21%, respectively since the beginning of the year. In addition, OPEC+ is reducing production levels in 2023 and 2024 – more on that in a minute. Higher demand and lower supply reduces inventories and results in higher commodity prices which could be the catalyst for a second half comeback for the energy sector.

The most significant energy related events during June include the following:

At the beginning of June, OPEC+ reset quotas that lowered 2024 production levels by 1.4 million barrels per day to 40.46 million barrels per day when compared to the agreement announced in November 2022. In addition, Saudi Arabia elected to cut its current production by an additional 1 million barrels per day for the month of July and August and will re-evaluate this decision monthly. We agree with many oil market analysts that expect the OPEC+ actions along with limited supply growth in the U.S. will result in the global oil markets being undersupplied by as much as 2.5 million barrels per day during the third quarter. This will likely result in significant declines in global inventories in the second half of 2023 which could be a catalyst for higher prices.

ONEOK's potential acquisition of Magellan Midstream Partners (MMP) is a second event impacting the energy sector in June. The acquisition process advanced in June with the expiration of the Hart-Scott-Rodino Act period without any additional requests from the FTC or DOJ. The acquisition is set to be voted on in the third quarter. Some key questions that MMP shareholders will contemplate are: what is the value of MMP's steady free cash flow that has resulted in a current free cash flow yield of around 9%? AND what is the long-term strategic value of combining a refined products and crude oil pipeline network with a natural gas liquids infrastructure business? Also, will another bidder emerge? A highly esteemed Barron's writer Andrew Bary wrote on June 26 that Warren Buffet might consider an all-cash offer.

Finally, the global LNG market saw significant new contract activity during June as the U.S. and Qatar vie for the top spot as largest global exporter of LNG. Qatar signed a contract with China National Petroleum Corporation or CNPC to supply four million metric tons of LNG for 27 years. The U.S. inked over 11 million tons per year or 1.5 mcf/d of additional LNG export contracts with European and Asian counterparties with scheduled LNG deliveries starting in 2027 and lasting beyond 2040. After striking a deal with Total, it is expected that the Rio Grande LNG facility will be the latest U.S. LNG facility to reach a final investment decision to move forward. Venture Global booked new contracts with German counterparties that will make it the largest supplier of LNG to Germany. Not to be outdone, the largest exporter of LNG in the U.S., Cheniere Energy added to its contract backlog adding contracts with European and Asian buyers related to its potential expansion of Sabine Pass LNG. Needless to say, the U.S. is actively working to maintain its position as the world's largest LNG exporter for the next decade and beyond.

Thanks for listening and have a great day!

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 **Alerian MLP Index** is the leading gauge of energy infrastructure master limited partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX).

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 **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.

