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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.

We are truly in the dog days of summer as the calendar turns to August. Baseball is grinding along and with the US Women's national team's exit from the World Cup, I don't have much to watch at the moment. Luckily Messi and friends joined Inter Miami and are taking the continent by storm with a series of wins, of course led by Messi magic. And maybe most importantly, it's only about a month away from the kickoff of the NFL season, where the Kansas City Chiefs will host the opening Thursday night game and look to start defense of their Super Bowl title. Needless to say, we are more than a little excited in KC for another run! In similar fashion, energy hopefully kicked off another run with a strong July. We'll touch on that and much more as we dive into the monthly podcast.

Let's start things off with performance for the month of July:

- On the commodity front, crude oil was strong, with futures rising 15.7%, while
- Natural gas was significantly lower, dropping 13% on futures pricing, yet spot up 4%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was nicely positive, increasing 7.4%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were even better, higher by 11.1%
- Utilities, per the Dow Jones Utility Index, continued to lag, higher by 2.9%
- And finally, MLPs, as represented by the Tortoise MLP Index® were middle of the pack, yet still performed well, up about 6.3%

On the macro front, the Fed restarted interest rate hikes after a brief respite in June, yet only 25 bps. This was fully expected by the market and the more important moves are likely the coming meetings as everyone tries to digest what has been a resilient US consumer amid moderating inflation. The question is, can the Fed thread the needle for a soft landing? It appears more and more people are viewing that as potentially the case, hence that's likely responsible for the market rally we have witnessed. The jobs numbers remain some of the most important data sets and while they have been relatively strong, some cracks are starting to show, notably in payrolls.

Staying with the macro, but shifting to the energy markets, crude oil had an exceptionally strong month, with multiple weeks in a row of positive returns. In the United States, which has the best high frequency data, commercial crude oil stocks drew a little over 12 million barrels for July. While not massive, this is potentially the start of what Rob spoke about last month, a robust set of draws across the globe for the back half of 2023. I would also note that Saudi Arabia just recently updated their additional pledged cuts of 1 million bpd to extend for yet another month, now through September. It would seem that with incremental OPEC+ barrels off the market, there will be draws in the back half of the year, tightening an already low inventory situation.

Natural gas lagged crude oil during the month, yet spot prices were marginally higher. Inventories remain well above prior year levels but are within the 5-year range. The hot summer has driven a nice move higher in natural gas demand for power generation. We anticipate this to continue.

Shifting gears to the company level, July kicked off earnings season with several companies reporting. It would simply be too much to cover all that reported, so instead I'll give some high-level thoughts by sector.

To preface those thoughts, let me set the stage by noting that comparing 2Q 2022 to 2Q 2023, we witnessed crude oil prices down approximately 30%, natural gas prices down approximately 70% and natural gas liquids prices down approximately 50%. Of course, 2Q 2022 saw some elevated pricing due to the Russian invasion of Ukraine occurring late in the 1st quarter and the resulting uncertainty.

With that as a backdrop, E&P companies were absolutely lower year over year, in some cases pretty dramatically so given the steep drop in commodity prices, yet generally speaking most were in-line with analyst estimates. Efficiencies in drilling and expectations for lower service costs in the future were notable as some companies held production flat while lowering capex. To Rob's point last quarter, rig counts have come off in most cases, but it's basin specific.

On the downstream front, refiners have generally been very solid, beating expectations, yet also down quite a bit from last year's 2nd quarter as crack spreads have come off. Although last year's numbers were almost comically high. Importantly, demand as noted by refiners, remains solid across the US. In particular, we saw strong jet fuel demand, as anyone who has visited a US airport this summer can attest to!

Utilities have been mixed with weather impacting returns. The biggest concern comes from utilities that have missed expectations for both quarters yet reiterated full year guidance. Clearly a risk as investors assess if that is possible given the mild weather has not helped to this point.

Moving to oil field services, the theme remains one of bifurcation, with domestic activity weaker while international remains pretty robust.

Finally, on the midstream side of the world, it's been another solid quarter, although certainly less robust than the last several. While 1st quarter could be characterized as "beat and maintain", this quarter had some mixed results, with those companies with some commodity exposure feeling some pressure but reiterating full year guidance on the basis of a good 1st quarter and a strong start to July for areas like crude oil and natural gas liquids. Additionally, we did have companies actually take guidance higher.

Finally, a few guided to higher long-term annual outlays for capex, moving more to the high end of previously guided ranges. This can be viewed in multiple ways, yet the positive spin would be that more capex based on long-term signed contracts simply removes many of the terminal value questions that plagued the sector for the last few years. Of course, we have felt this way all along, but as AC/DC said, listen to the money!

With that, have a great month 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 **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 and 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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