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.

If you are a sports fan, this is a great time of year. Thanksgiving brings about all kinds of great early season college basketball matchups. Unlike college football, teams can play each other in big games as a loss in November or December is hardly damaging to the chances of making a 68-team field at the end of the year. So it was the last two national champions met on Friday night as the Jayhawks of Kansas hosted the Huskies of UConn in the best venue in all of sports, Allen Fieldhouse. Thankfully my Jayhawks came away with the victory, but it really won't matter by season's end. Not so much with college football as the ridiculous College Football Playoff rolls on to once again leave out worthy teams as the committee can only select four to participate. What a shame. Basketball once again proving the NCAA tournament is the ultimate sporting event.

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

- On the commodity front, crude oil was weak, with futures falling 6.3%, while
- Natural gas was significantly lower, dropping 21.7% on futures pricing, due to warmer weather
- Shifting to equities, the broader S&P Energy Select Sector Index® was down marginally, declining 1.0%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index did not fare as well, lower by 5.0%
- Utilities, per the Dow Jones Utility Index, caught a bid, higher by 6.0%
- And finally MLPs, as represented by the Tortoise MLP Index® were very solid, outperforming other energy indices, up about 6.0%

What would a podcast in 2023 be without yet another update on Fed policy and interest rates. This past week had some real divergences in views, yet the market seemed to downplay the more restrictive perspectives while latching onto the more dovish takes. For example, Fed Governor Waller noted on Tuesday that he felt the current rate level was sufficient to squash inflation and went as far as saying that a cut in rates could be on the table by the Spring. Wow.

Meanwhile, Chairman Powell seemed to try to downplay those remarks on Friday by stating the Fed may still have work to do to defeat inflation and it was too soon to speculate on when rates may be cut. Investors chose to side with Waller. Bloomberg has a great screen available that displays the market's perception of future Fed hikes or cuts. It's titled WIRP, which stands for World Interest Rate Projections. One month ago, the market ascribed a 19% chance of a hike in December and a 20% chance of a rate cut in March of 2024. Just one week ago, those odds had moved to 5% of a December hike and 35% of a March 2024 cut. Today the odds are essentially of no hike in December and a whopping 60% chance of a cut in March.

The Fed has achieved some victories on inflation to be sure, yet are we really to the point where 125 bps of cuts will occur in 2024 as per the market expectations? That remains to be seen. What I would point out is that this data point, the WIRP screen, moves around a TON. But it is clear it had a big impact on market movements in November of 2023 as I outlined above regarding surging Utility values and the S&P 500 that was up over 9%, benefitting from expectations of no more Fed hikes and early 2024 rate cuts.

On the energy front, natural gas was weak, primarily due to warmer weather. Withdrawals out of storage have been below normal, driving a rise in inventory, leading to a declining price. Weather can turn quickly, but the start of the heating season has been less than impressive for the natural gas market.

Crude oil had some OPEC+ drama with a delay in the November meeting due to conflicting views, notably by Saudi and a few select African nations. Once generally rectified, the outcome was an additional round of production cuts for some and an extension of existing cuts for Saudi and Russia. Notably, Saudi will continue with its previous unilateral 1 million bpd cut. Additionally, Russia is responsible for 500,000 bpd of cuts, with about 60% of that tied to crude exports and the other 40% tied to product exports. The remaining cuts of approximately 700,000 bpd are mainly from Iraq, the UAE and Kuwait, bringing total cuts to 2.2M bpd, but off the June 2023 baseline not current levels.

Interestingly, crude prices actually traded off after the announcement. The reasons were generally two-fold: 1) the new cuts are in effect for only the 1st quarter of 2024, which is a seasonally weak period for crude, but the market believed they would be extended for a longer period of time. Note, they still could be if necessary. Two, the cuts are voluntary, although most countries, outside of Russia and the UAE, will likely comply. Russia seems to notoriously have a hard time complying with any of these cuts.

One other potential major geopolitical concern for oil markets centers around Venezuela and whether or not it chooses to invade neighboring Guyana. Apparently, the public voted on Sunday, approving the idea that an area representing approximately two-thirds of Guyana's land belongs to Venezuela. This is an area that has long been disputed by Venezuela and remains so in the eyes of Maduro and his government. Note, Venezuela has seen a major decline in crude oil production due to a multitude of factors. Meanwhile, Guyana is home to one of the most exciting offshore discoveries of crude oil in some time, receiving a nice royalty fee, and currently produces almost as much crude oil as Venezuela. Not surprisingly, Venezuela's territorial dispute includes the offshore waters rich in petroleum. Complicating matters, US companies own a significant portion of those offshore oil fields, including ExxonMobil and Hess, along with Chinese company CNOOC. What would the international community, including the U.S. government, do if Venezuela does invade? This harkens back to the early 1990's when Iraq invaded Kuwait. Time will tell as we await what happens from here.

Finally, some quick news on the company front, both Enbridge and TC Energy held analyst days in the last week of November. The two massive Canadian midstream companies provided updated guidance for 2024. Notably, Enbridge sees 4% year-over-year growth in EBITDA and is targeting leverage in the high 4's by year-end 2024. TC Energy is a bit higher, with 2024 guidance of 5-7% EBITDA growth, yet similar leverage levels of approximately 4.75x by year-end 2024.

Both companies have excellent asset footprints and high-quality cash flows, but in our view are a bit behind US peers when it comes to capex spend and leverage levels. That said, progress is being made by both, which is encouraging.

As we get closer to 2024, it's been another excellent year for midstream and we believe the focus on free cash flow and the proper allocation of excess cash remains a boon for investors.

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.

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

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