April 1, 2024

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

I'm presently recording this on April 1st, but I'll spare you any shenanigans as the stock market can cause enough indigestion if you have been in this game long enough. Tortoise actually has a long history of internal fun on April Fool's Day, although not to the delight of some of our leadership team! In the sports world, March Madness is coming down to the Final Four, major league baseball opened its season, and the NBA is approaching the playoffs. Lots to enjoy from a sports perspective. In Kansas City, we have been feverishly watching NFL free agency and preparing for the upcoming draft, which is now less than a month away. Hopefully the starting point for a Chiefs three-peat. And now, on to energy markets.

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

- On the commodity front, crude oil was solid, with futures rising 7.3%, while
- Natural gas was significantly lower, dropping 28.2% on futures pricing, due to warmer weather
- Shifting to equities, the broader S&P Energy Select Sector Index® had an exceptional month, increasing 10.6%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were even better, up 11.0%
- Utilities, per the Dow Jones Utility Index, actually bounced back, higher by 5.3%
- And finally MLPs, as represented by the Tortoise MLP Index® were very solid, rising 4.5%

The stock market remains fixated on interest rates. At present, the question revolves around sticky core inflation and what the Fed will do, if anything, to combat it. When we started 2024, the market anticipated approximately 6 rate cuts for the year. That has dwindled all the way down to one to two rate cuts. The first cut was supposed to come in March but has now been pushed out to June at the earliest based on expectations. Of course, driving all this is a resilient economy and employment numbers that certainly don't signal panic or recession. The timing and magnitude of the eventual rate cuts are clearly impacting sector rotations by investors as they try to perceive what the Fed will do and how that will impact the consumer.

For its part, corporate earnings have been pretty strong as well and not indicating a recession. In our view, energy is pretty well positioned here. In the event we have stickier inflation and perhaps even a Fed hike, energy serves as an inflationary hedge. In the event the Fed cuts, the premise is that will stimulate overall demand and specifically would be a nice benefit for crude oil, also providing a tailwind for energy.

On a related note, watch out for summer gasoline prices, which some predict may extend above $4 per gallon nationwide and put pressure on inflation.

Speaking of gasoline prices, the crude oil markets have been rising over the last month as we have seen a continued escalation of geopolitical tensions, along with better than expected demand worldwide. Ukraine has launched several successful drone attacks on Russian refineries, leading to some shutdowns of those facilities. Additionally, Houthi rebel attacks of tankers transporting crude oil and petroleum products continues to lead to excess shipping costs. JP Morgan even predicted Brent will crack $100 per barrel this summer.

Natural gas has had a far different month. Inventories have continued to grow, and prices have continued to drop on warmer weather and some downtime at a large US LNG facility. That said, demand is strong, with natural gas utilized for power demand at exceptional levels.

We continued to see some M&A activity on select assets, but not as much on a company level basis, save for EQT Corp buying midstream company EQT Midstream in an all-stock transaction. Recall, EQT once owned EQT Midstream before spinning out the assets into an MLP. We have come full circle on this one. EQT called it transformational and the vertical integration should unlock a variety of synergies.

Finally, March also contained an eventful CERAweek, hosted in Houston mid-month. Front and center, Energy Secretary Jennifer Granholm stated the LNG pause will wrap up within a year and “be well in the rearview mirror” at this time next year. Some other noteworthy items from the conference included lots of discussion on AI and its role in energy. Maybe surprising to some, but AI is already having an impact on oil and gas drilling, allowing for more efficiency and greater effectiveness. Additionally, the massive growth of data centers will need to be powered by something and it’s not likely to be intermittent sources, therefore natural gas potentially stands to benefit on a pretty massive scale. Exciting times to be in the energy world.

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.
Liquefied Natural Gas (**LNG**) is a 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 its gaseous state, able to transport for much longer distances when pipeline transport is not feasible.
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.
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. To be eligible for inclusion in the Tortoise MLP Index®, a company must be publicly traded, organized as a limited partnership or a limited liability company, and be classified as an “energy MLP” by the Master Limited Partnership Association (MLPA).