Tortoise QuickTake Podcast

Tortoise

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Welcome to another Tortoise 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.

Investors are celebrating the completion of the first half of 2024, with the S&P 500 posting a robust 15% gain through June 30. Within the S&P 500, the energy sector outpaced 8 of the 11 sectors during this period. However, the broader energy sector, as represented by the S&P Select Sector Energy Index, saw a more modest increase of 11%, lagging behind the overall index.

In contrast, energy infrastructure stocks, reflected in the Alerian Midstream Energy Index, showed stronger performance, rising by 16% by the end of June. Notably, an energy infrastructure stock - Targa Resources - emerged as one of the top 10 performing stocks in the S&P 500 during the first half of 2024.

Commodity prices saw a rebound in June 2024, with oil prices increasing by 6% and natural gas prices surging by 48% from the beginning of the month. The rise in oil prices was spurred by OPEC+'s decision to extend all production cuts through September 2024, while gradually phasing out certain voluntary cuts by September 2025. More on that in a minute.

Meanwhile, the significant increase in natural gas prices can be attributed to heightened demand driven by a warm early summer and reduced U.S. natural gas production. Major shale producers such as EQT and Chesapeake temporarily curtailed production to balance U.S. natural gas inventories, which, despite these efforts, remain well above historical averages for this time of year.

Since 2020, the energy infrastructure sector has experienced significant positive changes. Notably, these stocks are now trading more in line with strong fundamental outlooks rather than being heavily influenced by commodity price movements. For instance, in 2024, the correlation between oil prices and energy infrastructure stocks stands at approximately 0.27, marking a notable decrease from higher levels seen in previous years—0.6 in 2021 and 0.51 in 2022.

Several notable events impacting the energy sector occurred in June.

Let’s start with the release of the 73rd edition of the Statistical Review of World Energy.

In 2023, several significant records were set in the global energy landscape. It marked the 38th increase in global energy demand in the last 40 years. Additionally, 2023 saw record highs in global oil and natural gas production, global electricity generation, and additions to wind and solar capacity. However, it also set a new record for global coal production, coinciding with a peak in global carbon emissions for the same year.

According to the World Energy Review, the U.S. has been confirmed as the world's largest producer of both oil and natural gas. Additionally, the U.S. has surpassed Qatar to become the largest exporter of liquefied natural gas (LNG), while China has regained its position as the largest LNG importer. China also maintains its status as the largest consumer of coal globally.

In a notable shift, India's coal consumption now exceeds that of Europe and North America combined for the first time. Coal continues to dominate global power generation, representing 35% of global demand. At Tortoise, there is an outlook for natural gas to capture market share from coal over the coming decade, reflecting ongoing global energy transitions.

At the OPEC+ meeting held on June 2, 2024, oil ministers agreed to extend all previously announced production cuts totaling 5.8 million barrels per day through September 30. Of these cuts, 3.6 million barrels per day will remain in effect until the end of 2025. Starting in October 2024, OPEC+ plans to incrementally increase global oil production by approximately 200,000 barrels per day per month, continuing through September 2025, contingent upon market conditions.

OPEC+ emphasized that this decision could be adjusted based on evolving market dynamics. Given anticipated global oil demand growth of around 2 million barrels per day, we project that oil markets will remain undersupplied, likely sustaining oil prices within the $80 - $90 range for the remainder of 2024.

In company specific news, six years and almost $8 billion after construction began, the 303 mile Mountain Valley Pipeline is now operational. MVP began commercial operations on June 14. The final price tag of almost 8 billion dollars equates to 26 million dollars per mile. This record setting cost for a natural gas pipeline underscores the economic moat energy infrastructure companies that operate the thousands of miles of existing pipelines have.

And finally. Cheniere Energy, the leading U.S. LNG exporter, provided an updated capital allocation plan that included a 15% increase in dividends and an additional $4 billion stock buyback program authorized through 2027. Since initiating its comprehensive capital allocation plan in 2021, Cheniere has successfully reduced its debt by 20%, amounting to $5 billion, while also increasing its quarterly dividend by more than 50%. Furthermore, the company has reduced its share count by 10%, repurchasing approximately $4 billion in stock. This latest announcement authorizes Cheniere to repurchase an additional 10% of its stock. An all-of-the above capital allocation strategy is in place for many energy infrastructure companies to continue to attract investor interest in this essential sector.

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 **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.