Tortoise 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 Tortoise.

Normally at this point in the year, I would be lamenting the dog days of summer, discussing if the Royals would eclipse 100 losses yet again, and of course turning my attention to the Chiefs. But this has been a great summer. The Olympics are in full force, with the US once again dominating the medals chart and I have watched Primetime in Paris religiously each night. The Royals, after averaging 62 wins over the last 6 years, have 63 on August 4th with a legit MVP candidate in Bobby Witt Jr. And to round it all out, the Chiefs are getting set to try for what no other NFL team has ever accomplished, a Super Bowl three-peat. It's a great time to be a KC sports fan. If only energy and stock markets were as simple.

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

- On the commodity front, crude oil was marginally negative, with futures falling 1.1%, while
- Natural gas was significantly lower, dropping 31.6% on futures pricing, due to milder weather
- Shifting to equities, the broader S&P Energy Select Sector Index® had a solid month, increasing 2.1%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were a little lighter, up 48 bps
- Utilities, per the Dow Jones Utility Index, were exceptionally strong, higher by 9.1%
- And finally MLPs, as represented by the Tortoise MLP Index® were generally flat, rising 25 bps

This is supposed to be an update on the month of July, but I would be remiss if I didn't discuss the last two days of last week, which were the first two days of August. The S&P 500 was down over 3% in those two days, while the midstream sector fell about 2.9%. In fact, all markets were generally down, save for utilities and a few other defensive areas such as Healthcare.

If we check in on the WIRP screen from Bloomberg, or World Interest Rate Projections, the market's estimate of a Fed cut in September went from 114% and a 28 bps cut on Wednesday to 176% and a 44 bps cut on Friday. That's some kind of move in a two-day time frame. As of Friday, the market is now pricing in 4 and a half cuts by December. This might be a good time to remind everyone that entering the year it was anticipated we would have 7 cuts. That dwindled all the way to 1, with some thought of possibly zero. Now, within two days we have gone from 2 cuts to potentially 3, including 2 separate 50 basis point cuts. Certainly not out of the question if the Fed views itself as being behind the curve.

The change in the market has been stark and driven by the potential for the Fed's dual mandate to shift focus away from inflation and towards unemployment. The economic releases that really shook the market were primarily employment related, including a jump in the unemployment rate to 4.3% from the 4.1% expected. Combine that with some weaker ISM numbers and you get a recipe for a weaker market. The page is seemingly turning on inflation and focusing squarely on employment, the health of the consumer, and the lagged impact of the Fed's unprecedented rate hike cycle that started roughly 10 quarters ago.

Further impacting energy has been a crude oil price that has suffered from concerns about Chinese demand for really the last month. Couple that with the recent focus here domestically on unemployment and crude oil fell almost 6% in the last 2 days with Brent now sitting just shy of $77. This is certainly below where OPEC+ would like to see prices and we may see a response in the fall period if demand does wane, particularly in China.

Now that we have talked about the bad news, let's just level set where we are. Despite the pullback here for the last few days, the midstream market remains up about 13% on the year. The S&P 500 is about the same. It's never quite up and to the right for the market, despite our hope. Pullbacks are inevitable. Now you may be wondering why I spent so much time on interest rates, the Fed and the broad market. Mainly because the companies within energy are doing quite well. As an example, out of the 14 midstream companies to report earnings so far for the 2nd quarter, the average is a very slight beat to Wall Street estimates. If we take out one company, Genesis Energy, that reported a pretty decent miss on temporary deep water production facility issues impacting its pipelines, the average beat was actually 1%.

There are no fundamental issues that are concerning, free cash flow remains strong, and company balance sheets remain very healthy. The focus will be on the economic view of a soft or hard landing. Here is what we know: 1) interest rates are relatively low to history and almost certainly going lower, 2) unemployment is relatively low to history, but likely creeping higher. The Fed will cut, with the impetus to stimulate end user demand, which is ultimately good for energy. The goal will be to engineer the proverbial soft landing that so many have talked about for the last 2 years.

With that macro viewpoint out of the way, I did want to touch on some quick-hit energy topics of interest in rapid fashion.

- Permian natural gas pipeline takeaway capacity received some long-awaited good news as a joint venture between White Water Midstream, MPLX and Targa announced the Blackcomb pipeline, a 2.5 bcf/d natural gas pipeline from West Texas to a hub near Corpus Christi, with an expected in-service date in the second half of 2026
- The EIA released gasoline consumption data for the month of May, which was 3.2% over last year and 3.4% over the average consumption since the year 2000
- Enterprise announced a 300,000 bpd expansion of its LPG export facility in Houston due to strong demand
- The northeast PJM region held its 2025/2026 capacity auction to bid in power generation and prices hit record highs, up about 10x from last year's auction
    - The main drivers were higher demand for more electricity and less supply due to recent retirements of generating capacity
    - This should provide incentive for companies to add reliable generation to the region

Earnings continue apace for energy companies this coming week and after that, we will attend several energy, midstream and broader macro conferences in the next six weeks. So lots to report on for our next update.

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.

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 **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).

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