Tortoise Capital QuickTake Podcast

Tortoise Capital

November 4, 2024

Welcome to another Tortoise Capital QuickTake podcast. Thank you for joining us. On this podcast, we highlight what happened in the energy sector during the month of October.

Hello, I am Tortoise Senior Portfolio Manager Rob Thummel.

Happy Halloween! For the month of October, the stock market delivered more treats and few tricks for investors as the S&P 500 rose to an all-time high before declining to close out the month. In fact, 9 of the 11 sectors in the S&P 500 are trading at or within 5% of all-time highs with many of these sectors setting new record highs during October. The energy and real estate sectors are the only S&P 500 sectors that are not trading within 5% of historical highs. These sectors continue to trade at discounts.

Nonetheless, the energy sector as represented by the S&P 500 Energy Sector Index and the energy infrastructure sector represented by the Alerian Midstream Energy Index outperformed the S&P 500 during October rising by 1% and 6%, respectively. Energy infrastructure stocks are up of 34% year-to-date outpacing all of the S&P 500 sectors. In addition, the correlation between the prices of energy infrastructure stocks prices and changes in oil prices remains low in at 0.25 during 2024.

With November here, it's time for holiday music! While I'll spare you my best Andy Williams impression, I will say that for energy infrastructure investors, "it's the most wonderful time of the year." October is one of four months when infrastructure companies announce their quarterly dividends or distributions. This quarter, stocks in the Alerian Midstream Energy Index will distribute nearly $10 billion to shareholders. Year-to-date, over 80% (23 of 28 stocks) in the index have raised cash payments to investors. Five stocks either kept dividends flat or don't pay dividends, and no stocks cut dividends. The median year-over-year dividend growth for these stocks was 5%, at the high end of our estimates.

October is also the start of the earnings season that ends in mid-November. Some of the third quarter earnings season highlights include:

- A 65% year-over-year increase in natural gas turbine orders at GE Vernova which is one of the largest electricity generation equipment manufacturers in the world. For what it is worth, wind turbines orders declined by 33% from the previous year.
- More visibility on rising estimates by electric generation utilities for future power needs to meet future AI driven demand including an overall natural gas demand estimate of 25 bcf per day of growth over the next five years by leading natural gas infrastructure operator Kinder Morgan that incorporates AI demand.
- On the flip side, low natural gas prices and cautious U.S. oil and gas drilling outlooks hindered the results of some oil and gas producers as well as oil field service operators.

The long-term potential for the U.S. energy sector to benefit from AI-driven growth is becoming more apparent. As demand for electricity grows, meeting this need will require a combination of natural gas, nuclear, renewables, and possibly coal.

Last month, Matt Sallee highlighted McKinsey's updated estimates for electricity demand from data center development. In October, data center developers Google and Amazon announced agreements to purchase nuclear power from small modular reactors (SMRs). SMRs are an emerging technology I'll discuss further on our Tortoise Monthly Outlook call on November 12. To summarize, SMRs generate electricity by using nuclear fuel, like uranium, to create steam that spins a turbine. SMRs are designed to generate up to 300 megawatts (MW) of electricity. Currently, no SMRs are operating in the U.S., and only one has received a Nuclear Regulatory Commission license. Companies like NuScale Power, Kairos Power, TerraPower, and Oklo are developing SMRs, targeting operation after 2030. At Tortoise, we evaluate all emerging energy technologies, so stay tuned to our podcasts for updates on SMR developments.

We believe natural gas-fired generation will be essential for meeting both immediate and future electricity needs. Last month, Evergy, our local electricity provider, announced a $2 billion investment in two new natural gas plants with a combined capacity of 1,400 MW. For comparison, the only approved SMR project currently plans for six 77 MW reactors, totaling 462

MW. Its latest cost estimate is $9.2 billion. Extrapolating from this, it would cost almost $28 billion to match the capacity of Evergy's natural gas plants. The cost advantage of natural gas generation is clear, reinforcing our view that the "Age of Electricity" over the next decade will also be the "Age of Natural Gas."

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@tortoiseadvisors.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.

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.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Through our family of registered investment advisers, we provide investment advice to related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, we stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*