Tortoise Capital QuickTake Podcast

December 3, 2024

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

We had our first snow of the season here in KC and cooler temperatures have been the norm of late. What has also been the norm are last minute Kansas City Chiefs' victories. This past one really broke the mold, as the Chiefs needed a botched snap and fumble from the Raiders to avoid a potential game winning field goal from what is the now the first team to be eliminated from the NFL playoffs. The cardiac Chiefs are teetering on the brink of losses seemingly every week yet find new ways to win. Chiefs' kingdom is understandably nervous as both the offensive and defensive lines need to improve for another Super Bowl run. Alas, stealing a quote from the late Al Davis, "just win baby", never felt so relevant. At the end of the day, the only stats that matter are wins and losses.

Speaking of stats, let's start things off with performance for the month of November:

- On the commodity front, crude oil was marginally negative, with futures falling 1.8%, while
- Natural gas was significantly higher, increasing 24.2% on futures pricing, due to colder weather
- Shifting to equities, the broader S&P Energy Select Sector Index® had a great month, increasing 6.9%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were even better, up 11.3%
- Utilities, per the Dow Jones Utility Index, were also well into the green, higher by 4.7%
- And finally MLPs, as represented by the Tortoise MLP Index® topped them all, rising 12.8%

November has clearly been a robust market for equities, with the broader S&P 500 up almost 6% and of course all the various indices I just mentioned up at least 4.7%. The main driver would appear to be the election of Donald Trump to the presidency, with voting taking place on November 5th. The expectation is for a period of deregulation unlocking the US economy. Couple that with solid economic data, which would appear to take even a soft landing off the table, and the market has ripped.

Energy markets are certainly responding. So what are the things that a President Trump can do for energy? Well let's first tackle the consistent refrain of "drill baby drill" related to crude oil. We have been adamant that this is not something we believe will have a big impact on US crude oil production. Prices will have the biggest impact on US production, driven by supply and demand. It is likely we see more permits for drilling on Federal lands and less regulations by reducing permitting times for pipelines, to name a few options. Yet we believe that US based firms will make decisions on whether to drill on economics, not rhetoric from the president.

Where President Trump could have more impact would be internationally in terms of increased sanctions on Iran and or Venezuela. That would clearly have an impact on crude oil production and potentially impact prices, or at least allow OPEC+ to bring back barrels at a faster pace than expected.

On the natural gas front, the expectation is actually more real in our view as President Trump will certainly look to end the pause on LNG export licenses installed by the Biden Administration in January. There is little doubt this has been a major catalyst for natural gas prices, natural gas producers, and really anything touching natural gas at this point. If we were to look at producer stock prices since November 5th, it has been very impressive moving up and to the right. Of course, the weather has played a nice role as well, but that's more temporary and this started right after the election results were known. While we thought this pause would be reversed with either party winning, the market certainly seems to be much more bullish with a Trump victory.

Unleashing US natural gas to help drive down emissions across the world is a great plan and something we have been calling for since about 2018. With four years of positive regulatory certainty, natural gas appears to be a big winner, not only for LNG but also for powering AI driven data centers.

On the other end of the spectrum are tariffs. President Trump has already announced several tariffs he plans to implement, including most notably for energy tariffs on Canada and Mexico. In terms of usage by the United States, Canada stands out. We import over 4 million barrels per day of Canadian crude oil, or about a quarter of what we use on a daily basis in our refineries. On the surface, this would likely increase the cost of refined products here domestically due to higher prices. Yet it's a little more complicated with Canadian crude oil. In our view the complication arises when thinking through a combination of alternative outlets for that Canadian crude and alternative sources of heavy crude for US refiners beyond Canada. If one of those develops more than the other, it changes the calculus of the impacts of the tariffs, but generally just think of it as an increase in costs for consumers. I would note, we do not anticipate tariffs with Canada will ultimately go through as we believe both parties will work to find a solution prior to implementation. In general, the broader idea of Trump tariffs is thought to weigh on end user demand for world GDP.

With all that said, I did want to touch on some quick-hit energy topics of interest in rapid fashion.

- OPEC+ delayed its planned December 1st meeting until December 5th, where it is expected to extend current production cuts for another quarter, meaning barrels would not come back to market until 2Q of 2025
- Part of the rationale here likely relates to figuring out what President Trump does once in office related to the Middle East, specifically Iranian sanctions
- Israel and Hezbollah agreed to a temporary ceasefire on November 25th, but it is teetering with several back and forth comments from both parties
- ONEOK announced the buyout of the remaining publicly held shares of Enlink Midstream it did not own. Expected close date is 1Q 2025
- Finally, Chris Wright, CEO of Liberty Energy was named as President Trump's selection to head the Department of Energy
- Wright's company is a leading oil field services company, which helps producers drill for oil and gas

Liberty's latest ESG report for 2024 is titled "Bettering Human Lives" and contains 10 key takeaways. Number 1 strikes me as a pretty important one, stating "Energy is essential to life and the world needs more of it". I would completely agree.

In our view, energy is setup well to be a key investment theme for years to come.

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@tortoiseadvisors.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 **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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