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Welcome to the Tortoise Capital QuickTake podcast. I'm Brian Kessens, senior portfolio manager and managing director. Thank you for joining us as we provide timely updates on the market.

Happy New Year to all! As we enter 2025, the year promises to be eventful, with President Trump assuming office, ongoing unrest in the Middle East, the protracted war in Ukraine, and central banks moderating the pace of interest rate cuts. However, before diving into this year's outlook in an upcoming podcast, let's reflect on the key developments of 2024 and what they mean for 2025.

Artificial intelligence was a defining theme of 2024, propelling the S&P 500 to another stellar performance with a 25% gain, driven predominantly by tech stocks poised to capitalize on increased AI investments. In the energy sector, outcomes varied significantly depending on positioning within the value chain. The broader energy market, heavily weighted toward oil and natural gas producers, ended the year 5.7% higher. This performance was supported by enhanced operational efficiencies, as production increased despite reduced drilling and completion expenditures. Crude oil prices remained relatively stable, starting and ending the year around $71 per barrel for WTI. While global demand edged upward, increased supply from the U.S. and Guyana counterbalanced OPEC+ production cuts. Utilities also saw notable gains, with the S&P 500 Utility Index rising 23%. This performance was largely attributed to increased electricity demand from data centers, marking the first significant load growth in decades. However, the standout performer in the energy value chain was the midstream sector, which surged by 44%, as measured by the Alerian Midstream Energy Index. This exceptional performance was driven by disciplined capital allocation by management teams and a shift in natural gas demand expectations, bolstered by LNG exports, AI advancements, and reshoring efforts that fueled high-return projects. While the results were strong, it was anything but a straight line getting there, reflecting the complex and dynamic forces at play throughout the year.

U.S. crude oil production achieved a new record in 2024, ending the year at 13.6 million barrels per day (bpd), surpassing the 13.3 million bpd recorded at the close of 2023. This growth occurred despite a decline in rig counts and well completions as the year progressed. Producers demonstrated remarkable efficiency, achieving more with fewer resources. Advances such as longer drilling laterals, shorter completion times, and the integration of artificial intelligence significantly enhanced operational efficiencies. The Permian Basin, the largest oilfield in the United States, remained the primary driver of this growth, surpassing six million bpd in production. Supporting producer profitability, oilfield service and material costs stayed low throughout the year, contributing to reduced break-even costs and improved returns.

U.S. natural gas production remained steady in 2024 at 103 billion cubic feet per day (Bcf/d). This stability was not due to production challenges but rather to full inventory levels and deliberate supply curtailments by producers in response to unattractive market prices. The United States also maintained its position as the world's leading exporter of liquefied natural gas (LNG), shipping 12 Bcf/d abroad. This leadership is expected to strengthen, as LNG will likely be a key driver of U.S. natural gas demand growth this year, with both Cheniere Energy and Venture Global announcing first production from new facilities at the end of 2024. Looking ahead, several factors are poised to drive a significant surge in U.S. natural gas demand. These include the AI-driven expansion of data centers requiring increased power, rising LNG exports, reshoring of industrial activity, and the potential for colder winter weather. Together, these dynamics position the U.S. natural gas market for substantial growth through the end of the decade.

The midstream sector benefited significantly from production levels and the expectation of continued growth. Natural gas prices in the Permian Basin consistently traded below those at the Henry Hub, underscoring the need for additional natural gas takeaway pipelines. Simultaneously, the growing energy demands of data centers—requiring reliable power around the clock—have positioned natural gas generation as a critical resource to meet this need. Reflecting these dynamics, both Kinder Morgan and Energy Transfer announced final investment decisions on substantial new pipeline capacity projects, offering attractive returns. Other natural gas infrastructure companies indicated they are engaged in discussions to expand capacity further too. Despite these growth developments, capital expenditures remain at roughly half the levels seen a decade ago, allowing robust free cash flow to be directed toward shareholder returns. Management teams have prioritized free cash flow allocation for debt reduction, dividend and distribution growth, and share repurchases. Leverage ratios have improved significantly, with targets now ranging between 3.0x and 4.0x EBITDA—representing a full turn lower than pre-2020 levels. Additionally, opportunistic share buybacks reached $4 billion from Q4 2023 through Q3 2024. With leverage targets largely achieved, the sector is well-positioned in 2025 to allocate an even greater portion of cash flow toward dividends and buybacks, further enhancing shareholder value.

Midstream companies remained active in mergers and acquisitions (M&A) throughout the year, with numerous discrete asset transactions and several corporate deals shaping the sector. A consistent theme across these transactions was buyer discipline. Acquirers focused on purchasing complementary assets that aligned with their existing footprints, ensuring clear synergies and immediate accretion to earnings. Notable examples of bolt-on transactions include Permian Basin asset acquisitions by Energy Transfer, Phillips 66 (PSX), Enterprise Products, Kinetik, and ONEOK. Among the larger corporate transactions, ONEOK acquired EnLink Midstream, EQT completed its acquisition of Equitrans Midstream, and Sunoco purchased NuStar. Management teams displayed prudence in their synergy estimates, with many transactions surpassing initial projections. Additionally, TC Energy executed a strategic spin-off, separating its crude oil pipeline business into a newly established entity, South Bow Corporation. Since its debut in early September, South Bow Corporation's stock has risen by 8%. This success may prompt further consideration of spin-offs as a strategic option in 2025.

The utility sector delivered a strong performance in 2024, returning 23%. For the first time in decades, the sector is experiencing growth in electricity demand, driven by several key factors. The rapid expansion of data centers has been a significant contributor, with the momentum even continuing into the new year - Microsoft just last week announced plans to invest $80 billion in data center development in 2025 alone. Additionally, increased adoption of electric vehicles and the onshoring of industrial production are further fueling demand. To meet this rising demand, the sector must expand its capacity across renewables, nuclear energy, and natural gas power generation. With reserve margins—representing the surplus of available power relative to demand—remaining thin, particularly in regions like Texas and the Mid-Atlantic, the need for infrastructure investment is becoming increasingly urgent. Utility management teams are responding proactively, focusing on regulated returns while seeking the most cost-effective financing strategies for capital expenditures.

Finally, President Trump was elected as the new President in November. Despite the campaign promise of "Drill, baby, drill," producers have indicated their commitment to maintaining discipline in capital allocation. The Trump administration's objective to increase oil and gas production by 3 million barrels of oil equivalent per day appears attainable, but will likely be driven by growth in natural gas production. The administration is expected to adopt a lighter regulatory approach and advocate for an "all-of-the-above" energy strategy that encompasses renewables, nuclear energy, and fossil fuels. Chris Wright, the nominee for Energy Secretary and CEO of Liberty Energy, has been a vocal proponent of this comprehensive energy approach.

Bigger picture, the events of 2024 underscored the critical importance of energy infrastructure in sustaining the United States' position as a global energy leader and meeting consumer energy demands both domestically and internationally. Geopolitical developments further emphasized this reality, presenting compelling opportunities for growth in 2025 and beyond.

We look forward to sharing more detailed insights on the outlook for 2025 in our next update. Thank you for listening.

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 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.

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