March 4, 2025

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 February.

Hello, I am Tortoise Senior Portfolio Manager Rob Thummel.

February is over, and by now, winter likely feels long in the tooth. The month's chilly temperatures extended to the financial markets, particularly in the latter half, as the S&P 500 Index declined by 1.3%. One area that benefited from the frigid conditions was natural gas, with prices surging over 30% during the month. This provided a boost to the energy sector, as reflected in the 4% gain of the S&P Energy Select Sector Index, while energy infrastructure stocks, represented by the Alerian Midstream Energy Index, remained flat.

The market enthusiasm and optimism that accompanied the new administration have begun to temper as political uncertainties emerge. Specifically, concerns over tariffs and deportations are raising fears of potential inflationary pressures and a slowdown in economic growth.

Slower U.S. economic growth could impact energy demand, but energy remains the foundation of every economy—everything starts with energy. Global energy demand is going higher, and the world wants more U.S. energy. Despite strong performance in recent years, energy and energy infrastructure stocks continue to trade below historical valuation levels, suggesting the market is not pricing in above-average economic growth. We expect the U.S. to remain the world's largest energy producer and exporter. The energy infrastructure sector stands out with above-average cash yields and visible dividend growth, supported by high-quality cash flows, making it especially compelling during periods of uncertainty.

February was filled with reports on 2024 earnings and 2025 outlooks. We are getting our first look at how energy companies are responding to key policy shifts under the new administration.

Let's start with "Drill, baby, drill." Big oil including the largest oil producers such as Exxon, Chevron, BP, Shell, ConocoPhillips, and Occidental—have announced a combined capital spending of over $100 billion for 2025. However, what may be most interesting to you is that 2025 capex is actually lower than 2024 when adjusted for recent acquisitions. As expected, the industry's biggest players are maintaining disciplined capital allocation, a positive sign for shareholders.

"Drill, baby, drill" has been replaced by a new slogan coined by our chief revenue officer Brett Wright called: "Build, baby, build." The Trump administration wants the U.S. to dominate artificial intelligence so big tech including Meta, Google, Amazon, and Microsoft are increasing AI capital spending.

In the fourth quarter, big tech invested over $70 billion in capital expenditures, with 2025 capex projected to exceed $300 billion—a 31% increase over last year and double the level seen in 2022.

AI is redefining the energy sector, as the increasing demand for AI infrastructure drives electricity consumption. During fourth-quarter earnings calls, nearly all U.S. electric utilities highlighted long-term electricity demand growth rates of 3% to 5% in their respective service areas—significantly higher than historical averages.

For example, Dominion Energy, which serves Data Center Alley in Northern Virginia, expects annual electricity demand growth of over 6% in its Virginia service territory for the next decade. Additionally, Dominion's data center contracted capacity has surged 88% since July 2024.

Energy infrastructure companies continued to discuss potential AI projects with Energy Transfer announcing a long-term agreement to supply natural gas to CloudBurst data centers – an AI project in Texas.

A key takeaway from the 15 energy infrastructure companies that provided updated 2025 outlooks in February was an average EBITDA growth exceeding 7% accompanied by corresponding dividend increases. Additionally, the sector announced several expansions including new energy infrastructure to support the Permian Basin and the expansion of natural gas liquids export facilities.

Speaking of exports increasing, liquefied natural gas (LNG) remains a key driver of what Secretary of Energy Chris Wright describes as unleashing the "Golden Era of American Energy Dominance." Some of you have asked whether this trajectory could change if the administration successfully ends the Russia-Ukraine war, allowing Russia to reemerge as a major global natural gas supplier.

We still expect U.S. LNG exports to nearly double to over 26 billion cubic feet per day, supported by long-term contracts in Asia, Europe, and Latin America. Global energy consumers prioritize security and supply diversity, ensuring that the U.S. will maintain its position as the world's largest LNG supplier, regardless of geopolitical shifts.

Additionally, an improved U.S. LNG regulatory environment is likely to encourage further capacity expansion. Cheniere Energy, in its recent conference call, noted that streamlined permitting for U.S. LNG projects could help the company nearly double its current capacity to over 90 million tonnes per annum in the future.

Let me wrap up with a quick update on an energy technology many of you are interested in: small modular nuclear reactors (SMRs). At Tortoise, we closely monitor emerging energy technologies, and SMRs are one of them.

SMR developer Oklo recently provided an update on its advanced reactor design—a liquid-metal-cooled, metal-fueled fast reactor capable of running on recycled waste fuel. This differs from traditional pressurized water reactors, which make up most of the existing nuclear fleet.

The technology is still under review by the Nuclear Regulatory Commission and is likely at least a decade away from commercial deployment.

Thanks for listening and have a great day!

Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.