April 3, 2025

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

Spring has officially sprung in the heartland. As we head into April, the NCAA Final Four looms on the horizon and Major League Baseball threw out its first pitch. Exciting stuff, unless you are a pitcher facing the Yankees that is. Apparently a newly designed bat by an MIT physicist led to a whopping 15 home runs for the Bronx Bombers in their first 3 game series. That would put them on pace to shatter the MLB record of 307 team homers for a season. Probably a little early to be giving them the record, but the torpedo or bowling pin designed bat is certainly an entertaining distraction to the world of non-stop tariff talk!

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

- On the commodity front, crude oil was positive, with futures rising 2.5%
- Natural gas was up nicely, increasing 7.4% on futures pricing, due to colder weather
- Shifting to equities, the broader S&P Energy Select Sector Index® had a solid month, increasing 3.9%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index finished in the green, up 1.2%
- Utilities, per the Dow Jones Utility Index, moved higher as well, up 2.0%
- MLPs, as represented by the Tortoise MLP Index® kept up the positive energy momentum, rising 54 bps

I hate to do this to you, but we have to talk tariffs. The new "four letter word" if you will, tariff discussions are everywhere. I'm recording this on April 1st, so tomorrow is the so called "liberation day" in tariff world where the U.S. will apply reciprocal tariffs on a variety of countries. The number of countries and amount of the tariffs are still a mystery. In my view, what is not a mystery is the underlying premise of what is going on here.

First, it's important to remember that while there is a lot of uncertainty, I believe the underlying message from the Trump administration is simple, America First. That involves not only bringing back manufacturing jobs but creating an environment where domestic energy can flourish and help supply the power necessary for the reshoring of American businesses to take place. This is incredibly exciting for energy investors and especially for those who like to invest in companies moving molecules and electrons from point A to point B.

There were two recent podcasts that took place on a show called All-In. One was with Scott Bessent and the other with Howard Lutnick the Secretary of the Treasury and the Secretary of Commerce, respectively. The overriding theme of Bessent's discussion was to effectively swap out government spending for private sector spending. That would balance the budget, reduce Federal debt, and increase growth. Lutnick talked about the use of tariffs to generate revenue and rebalance the global trading system, which he claimed was out of whack and costing the U.S. trillions of dollars. Both discussed less regulation unleashing American ingenuity and energy.

While one may disagree with the tactics or approach, I believe the end result is certainly something to aspire to. Hopefully everyone wants a balanced budget, more dollars in their pockets, and a vibrant job market for all Americans. Of course, tariffs elicit a negative response for many as it relates to the potential for inflation or increasing costs for consumers. These concerns are clearly showing up in sentiment surveys and in the stock market. Let's leave out whether you agree or disagree with tariffs, what is important to understand is that the Trump administration is utilizing tariffs in two separate ways. One – to elicit actions that they want to see from a country - think Mexico and stopping the movement of fentanyl across the border. Two – an ability to generate revenue to balance the budget. The former is likely to be temporary while the latter is potentially more permanent in nature.

With that in mind, we have to determine what the impacts could be and how long it will last. That's a topic that could take hours to cover, so let's try to simplify it in the quickest way possible. I think we ultimately end up with a temporary increase in inflation with a drag on growth, resulting in a period of stagflation. That will be followed with a period of growth as the U.S. executes on Bessent's plan to replace government spending with private sector spending. This fits the narrative as well as to why the administration is moving as quickly as it can to effectively get all the negative news out right away. Assuming this is achieved, we end up with a pretty awesome environment. Yes, it will be bumpy to get there, but the underlying tone and message is the same, America First, with a strong dose of energy dominance. That sounds pretty good for energy investors!

In the interim, if this scenario plays out, energy will actually do relatively well in a stagflation environment as it means inflation with no little to no growth. Stagnating volumes wouldn't be great, but the ability to pass along inflation via escalators for pipelines or just simply higher commodity prices for upstream companies is certainly better than the alternative.

I wanted to make a few final notes on the commodity market. Starting with crude oil, OPEC Plus is scheduled to start bringing back barrels in April at a clip of approximately 138,000 bpd per month. Interestingly though, the group is also slated to have compensation cuts for those countries that have been overproducing since January of 2024. Those cuts will actually be more than the barrels slated to be brought back online, meaning that if everyone cooperates, admittedly a big if, we will end up with less barrels than current.

In addition, the U.S. has ramped up the pressure on Venezuela, and lately on Russia, related to secondary tariffs. These are tariffs applied to the import of any goods into the U.S. from countries that buy Venezuelan crude oil. Trump stated he was not happy with Putin and his response to the Ukrainian ceasefire proposal, throwing Russia into the mix as a potential secondary tariff recipient. In summary, the concern for crude oil in 2025 might be misplaced, although for how long is hard to say.

On the natural gas front, weather has been the primary culprit leading to lower inventory levels and ultimately the increased prices noted earlier. When we entered the winter, inventory levels were about 8% above the 5-year average. By mid-March, after several cold spells, we were about 12% below the 5-year average. Quite the turn in inventories, leading to a 70% increase in price during that corresponding time frame.

To summarize, in periods of market volatility, it's always good to step back, take a look at the big picture, and try to understand the underlying path. In this case, while tariffs can certainly be impactful, we believe the uncertainty is mostly noise along the pathway to a more constructive U.S. economy. With that, have a great month and we look forward to speaking with you again soon.Thanks for listening and have a great day!

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