May 8, 2025

Welcome to the Tortoise 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.

Will April showers bring May flowers? Markets were showered with a lot of uncertainty in April as the US raised tariffs, OPEC+ accelerated crude oil supplies, Ukraine and Russia peace talks wavered, companies removed 2025 guidance, and fears of an economic slowdown grew.

Given the April developments, no big surprise that stocks across the energy value chain were mostly lower in April. Broad energy (as measured by the S&P 500 Energy Index) fell 13.7% and crude oil prices 19%. Midstream (as measured by the Alerian Midstream Energy Index) was better with a decline of 5.6%, and utilities (as measured by the S&P 500 Utility Index) managed a small gain of 0.1%.

Is any of the uncertainty being cleared up? On the energy front, yes.

Related to tariffs, China placed a 125% tariff on all US energy imports. Yet, looking at actual energy exports to China, the US exported no LNG to China since the end of January, less than 5% of US crude oil exports went to China, and while 20% of US propane exports were China bound, all of those energy commodities are fungible and we've seen cargoes simply rerouted to other destinations if necessary. The one energy commodity more problematic is ethane as half of US ethane exports go to China, representing nearly all of China's waterborne ethane imports. That's a real problem for both countries as the waterborne ethane market is dominated by the US. Consequently, China exempted ethane from its blanket tariff policy. Problem averted. In fact, the companies we categorize as significant exporters indicated during their earnings calls that they are seeing no change in the demand or number of loadings at exports docks.

And what about oil prices? Over the weekend (May 3rd), OPEC+ announced an acceleration in the return of oil supply to global markets. The plan adds another 411,000 barrels per day to the global oil market starting in June. This announcement, combined with a similar one last month, means OPEC+ will have unwound nearly half of their 2.2 million barrels per day in voluntary production cuts.

As a reminder, going back to 2023, eight OPEC+ countries reduced global oil supply by 2.2 million barrels per day through voluntary production cuts. These cuts were originally scheduled to be gradually returned to the global oil market beginning in March 2024, however, the timeline was repeatedly delayed.

Why accelerate now? It is because Kazakhstan, Iraq, and Russia are consistently producing above their stated targets. The decision's aim is to enforce the previous agreement, and actually see supplies decline. As a consequence, we believe the global oil market will be oversupplied by 300,000 to 500,000 barrels per day starting in June. As a result, oil prices could fall into the low $50s in the short term. Over the long term, we expect oil prices to stabilize in the $60 to $80 per barrel range. Also, note the IMF estimates the breakeven oil prices needed for OPEC members to balance their budgets is over $80 per barrel.

We're about halfway through first quarter earnings reports. Partly due to energy's inelasticity, energy companies have not pulled their 2025 guidance and generally earnings have been constructive in the uncertain environment. Kinder Morgan kicked off midstream earnings indicating they expect to beat their 2025 budget due to improving natural gas demand from LNG and data centers. In fact, Kinder announced a new $430 million natural gas pipeline project in South Carolina supporting data center buildout. Expected to come on-line in 2030, the contract length is a whopping 30 years. That's the type of capex we like. Another data center project was announced by TC Energy. This one builds off an existing long-haul natural gas pipeline in the Midwest at a cost of $900 million with expected in service in late 2029. Expected returns for the project are 15% to 20%. Specific to first quarter, most companies reported in-lines to beats. Two companies did come up short, Enterprise Products and Oneok. Both were explainable as Enterprise had a petrochemical unit off-line and Oneok was bitten by some poor weather. We don't expect either to be recurring. Though one earnings takeaway that it is recurring is share buybacks. Enterprise, Oneok, Targa Resources, Antero Midstream, and Hess Midstream all repurchased shares in 1Q and we believe they all likely accelerated buybacks in April given the downside stock price volatility. They are in a great position to take advantage of opportunities the market presents.

Both integrated oil companies Exxon and Chevron reported solid results, continuing modest production growth with significant capital allocation to share repurchases. EOG did note they are reducing capex by 3% or $200 million in light of weaker crude oil prices and the aforementioned OPEC+ decision. They expect to deliver total production growth of 5% this year. Utilities generally have had a quiet quarter so far. 1Q met expectations with 2025 guidance and capex unchanged. If there are changes made to the Inflation Reduction Act in the tax-cut bill expected to pass this summer, we believe they'll be some movement on capex.

From here, we expect continued constructive earnings results across the sector, with companies confident in 2025 guidance. In May, we expect to see tariff tensions ease somewhat with trade deals announced, even if only in draft form. Those deals may include some promises from other countries to buy more US energy, namely LNG. We're also watching actions by OPEC+ and sanction talk on the oil exports of Iran and Venezuela. Finally, the data center buildout is only gaining more momentum and we expect further natural gas project announcements tied to their power needs. Stay tuned.
Thanks for listening.

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

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