Middle East Crisis & What It Means for Global Energy Markets

June 24, 2025

Rob Bernstein:

Good morning, and good afternoon everyone. We're going to give another minute here to allow everybody to join in that is trying to get in at this stage.

Great. Well, let's get going. And little housekeeping before we begin. For those that want to ask a question, please utilize the Q&A tab so we can address them real time. It's right at the bottom and it's very easy. We can move to this very quickly. I appreciate everybody joining today, this very quick put together last minute, but today's session will be a Q&A discussion and it's focused on the evolving Middle East crisis and what it means for global energy markets and US investors.

And we're joined by Rob Thummel, Senior Portfolio Manager, Senior Market Strategist here at Tortoise Capital. Rob brings 30 years of professional experience investing in energy markets with the last 20 spent at Tortoise. He's probably a familiar face as he's frequently called upon by major news outlets including Bloomberg, NBC, and others, to share his perspective on energy trends, market dynamics. And we're thrilled to have him here today.

Tortoise Capital is a firm solely dedicated to energy investing with a long-term track record of navigating complex market environments. That makes today's conversation not only timely but grounded in deep, specialized experience. We'll begin by discussing the current dynamics in the Strait of Hormuz and the broader regional instability. And then we're going to shift to what it all means from a US perspective. Including energy independence, the growing role of US LNG exports as a secure alternative in our volatile world, and the rising global demand driven by AI and data infrastructure.

So with that, let me welcome Rob Thummel. Rob, it's a pleasure to be here with you today. Thank you.

Rob Thummel:

Thank you, Rob.

Rob Bernstein:

Well, let's begin by setting the geopolitical stage with the Strait of Hormuz back in the spotlight. We want to first understand the scale of what's at stake and how the current events in the Middle East are shaping the global energy flows. So I guess the first question is what portion of global oil flows through the Strait of Hormuz and how vulnerable is this choke point?

Rob Thummel:

If you think about the Strait of Hormuz, it's pretty important. Nobody had really heard about it until recently, and it pops up every time there's concern about some disruption in the Persian Gulf and the Middle East. Why?

Well, it's because 20% of global oil consumption flows through the Strait of Hormuz, 20 million barrels a day. Globally we consume a hundred million barrels a day, so 20%, 100 ships a day. So there's a lot of activity through that strait. The thing about it is it's very narrow and its narrowest point, the strait is about 21 miles across. Across from it, basically, or it's across from Iran and Oman. So you can see why rising conflict in Iran has brought the Strait of Hormuz is probably to one of the top Google searches, basically as everybody tries to understand what's going on. So that's the landscape of it and the significance of it. It's probably one of the single most important pieces of energy infrastructure, at least from an oil perspective, in the world.

Rob Bernstein:

So at this stage, from what we know, have we seen any disruption of Iran's exports flowing after these strikes that took place?

Rob Thummel:

The good news is is from a physical supply perspective, oil continues to flow, ships continue to transit across the Strait of Hormuz, out of the Persian Gulf into the ocean and across the world. So we've seen no supply disruptions, really no changes to the underlying supply and demand fundamentals related to the oil markets really since June 12. And so that's been the good news.

Now, that's why I think this is really important because if you think about it, if we ever did see some disruption to the Strait of Hormuz, it could create a global energy crisis. And what I mean by that is if the strait was closed for some reason and it'd have to be closed for an extended period of time, and that's what typically you're going to hear about if you're listening to the news, because obviously the news channels tend to take the worst case scenario.

We don't think that that's going to happen at Tortoise, but if it would, and we're talking about months, if we had a month, several month long closure of the Strait of Hormuz, we would have a global energy crisis.

Now, we don't think at Tortoise were going to have a global energy crisis, and we don't think that oil prices basically are going to go up much from here. In fact, they may go down from here because we just simply don't think that the strait will be blocked and there will be any disruption to the global oil supply. And so as a result of that, we think that oil prices probably will remain in this $65 to $75 range for an extended period of time.

Rob Bernstein:

Perfect. So now that we've examined the structural risk and the recent developments in the strait, let's shift the lens toward the United States and explore how this growing volatility abroad may actually position the US as the world's most secure and reliable energy supplier. So if you could, this disruption in the strait, would it boost us export demand as being the more secure provider, especially through the lens of Europe and China?

Rob Thummel:

Well, if you think about just the context of where the US has come from, and a lot of your investing careers or people that are listening to this call, clearly the US has come from being really relying on foreign sources of energy supply like the Persian Gulf to today, where the US is energy independent, the US is the largest producer of energy in the world and now the largest exporter in the world.

It was illegal to export oil from the US until 2015. 2015, President Obama lifted that law. And since 2015, the US has gone from obviously zero oil exports to today, the US exports about 4 million barrels a day of oil every single day. And it's been this way for a while and it's been rising basically every single year. So the long-winded answer to your question is, yeah, the US could help out if the Strait of Hormuz was closed or temporarily disrupted and could add to the global oil supply. And it already has been.

Asia has been a source of demand for US oil, Europe has been a source of demand for US oil as well. And so if there was a disruption in supply and it was temporary or even long-term, the US could increase drilling activity and then ultimately export more volumes of crude oil globally and it would make an impact.

The other thing I would point out though, and I think this is really important from an import perspective, from the US's perspective, I mentioned the US is energy independent. This is really important because a decade ago US was probably importing over 2 million barrels, actually almost 3 million barrels a day from the Persian Gulf, every single day. A crisis like this had a much more magnitude, significantly more magnitude related to the impact on oil prices than it does today because the US simply doesn't rely on the Persian Gulf as much for its oil.

Today we import about 500,000 barrels a day from mainly Saudi Arabia to serve a Saudi Arabian-owned refinery in the Gulf of Mexico, an Aramco-owned refinery. But generally speaking, the US doesn't have to rely on foreign sources for crude oil. And so that is a really beneficial factor of the US shale revolution, and it's been a huge change from the US's perspective. And energy security has been a really significant opportunity for the US to really benefit from as a result of US shale technology.

Rob Bernstein:

So let's touch on the shale side a little bit because I don't know if it's as well understood and recognize the depths or the size of the capacity in some of these basins. Maybe you could talk a little bit about the basins or specific technologies that are still driving growth today.

Rob Thummel:

So really what shale technology entails is basically hydraulic fracturing and horizontal drilling. And that's really started to pick up in 2005 from a natural gas perspective, accelerated into oil in 2008, and that's really US shale technology today is probably 65 or 70% of US oil production. It's almost 80% of natural gas production in the US. So it's really taken over and a lot of the growth and demand, both domestically and in some cases globally, has been filled. The energy demand for oil and gas has been filled by US shale.

Without shale, I can't imagine where oil and gas prices would be. They would be significantly higher. And so ultimately then inflation would be higher. Cost to consumers would be higher. And oh, by the way, being able to export oil and gas has been beneficial from a... you just take it from balancing the budget perspective as well. Obviously more exports are not a bad thing when you're looking at the import-export imbalances.

So shale has really been a tremendous opportunity and a tremendous technology for the US economy and the US industry in general. There are multiple shale basins throughout the US, but the predominant shale basins that really are aware, most of the oil and gas comes from the US from an oil perspective, it's mostly the Permian Basin in West Texas. And then from a natural gas perspective, it comes from the Marcellus Shale in Pennsylvania.

Now, there are probably a handful of other basins, 10 maybe basins in total, and there, frankly, are more opportunities probably to drill additional shale basins. But for now, the Permian Basin on the oil side and the Marcellus Shale on the gas side will really lead the charge for the US into the future.

Rob Bernstein:

So as we think about global supply needs, and now getting back to the situation, the crisis in the Middle East, and understanding a little bit more about the US, the shale, the reserves that we have, LNG becomes central. So let's explore US dominance in the LNG exports and what it really means, especially if Qatari flows are disrupted and European dependence shifts further west. So with US LNG making up about 40 to 50% of Europe's imports and Qatar around 15 to 20%, what happens if Qatari supply is disrupted?

Rob Thummel:

So this is really a really interesting story and another beneficiary of this US shale technology. So if you think about it, liquefied natural gas, LNG, never even heard of it, but in the period of about eight years, the US has gone from importing natural gas to the largest exporter of natural gas. So the US has become the largest liquefied natural gas exporter in the world in a very short period of time. An entire industry has been created by LNG technology.

So that said, who's second? Qatar. And we didn't talk about this earlier, Rob, but you made a very good point. The other set of ships that have to go through the Strait of Hormuz are LNG tankers, liquefied natural gas tankers have to take LNG from Qatar through the Strait of Hormuz to distribute it primarily to Asia. But if the strait would be closed or disrupted 20% of the global LNG supply that comes from Qatar would be unavailable.

So who would've to step in? Well, we've seen this game played before. Russia was a large natural gas player in the world, and then obviously the pipeline under the ground or under the seat was disrupted, destroyed, and who came in and filled the volumes that Europe needed when Russian volume was no longer available, it was the US, and you just highlighted that.

So US has the capability to grow LNG exports, whether it's to Asia or to Europe. And when you just look at LNG exports going forward, we see this for a lot of our products as a significant growth driver for the energy infrastructure sector. In particular, you've heard us talk about liquefied natural gas exports out of the US doubling between now and 2030, and will probably continue to grow from there as well.

And so we see the US retaining its position as the largest LNG exporter in the world and growing that position going forward as countries like India and China in particular and other countries in Asia look to expand economies and use more natural gas and also look to replace natural gas with coal to generate electricity in those countries.

Rob Bernstein:

So it's fair to say with the situation with Russia, with the Strait of Hormuz, Qatar supplying, we're sort of approaching a moment right now where US LNG becomes not just an option, but a necessity for European energy security. So with that umbrella, is it already priced into the markets?

Rob Thummel:

Well, from an LNG perspective, we don't want to see LNG prices, natural gas prices go too high globally. And so no, there's not a disruption, well, not a significant disruption right now priced into the LNG markets, but in some ways, I don't think we'll see dramatic rises in prices. Why?

Well, because the US has this security of supply and can provide it and can step in over a longer period of time to help any supply disruptions that would occur. And so yeah, no, we haven't seen any of that priced in.

Now when we look at it from our lens is, look, how important is energy infrastructure to the rest of the world and the US? Well, it's really important. The US owns the largest energy infrastructure network in the world. You can't replicate this network. It's very difficult. The economic modes are very wide, and yet the energy infrastructure stocks, a lot of which we're investing in for a lot of you and your clients are trading at discounts to where they've traded at historically.

And that simply doesn't make sense to us. We think that the US energy sector, including infrastructure, is very underappreciated for the fact that there is no really economy without energy infrastructure. And so we're excited about the future opportunities in energy infrastructure, in particular, the opportunities to continue to support the domestic and global economies through more exports and through actually to help support the development of artificial intelligence as well.

Rob Bernstein:

So that's a good place to take from. So let's work on this and look ahead. So even beyond the geopolitical crisis, there's a structural demand shift that's underway right now, and the rise of AI, the rise of data centers, electrification, it's creating a new wave of long-term energy demand, and the US as you have been discussing is positioned to serve it. So how does the rising energy demand from AI and data centers factor into the broader US natural gas story, both domestically and for exports? And is it short-term or is this a long-term structural growth driver?

Rob Thummel:

Look, I've been looking at the energy sector for 30 years, and a lot of you have as well, or maybe even shorter periods than that. But when you think about energy, you usually think oil. You think about driving your car, heating your home, and that's really important for that.

But if you think about energy going forward, where's the puck going? Well, when we look at where's the puck going for energy, electricity is becoming the new oil. And what I mean by that is electricity growth in the US has been basically

nothing for two decades. Electricity growth is about to start to change, and it's already is changing, frankly, and it's growing and it's growing at a fairly fast pace. Why? Well, because we're just in the early stages of what many people are calling the fourth industrial revolution, and that's artificial intelligence.

This is expected to last for several decades. And artificial intelligence is one of the most exciting opportunities that I've seen in my energy career. Actually, probably the most exciting, the first being US shale, now it's artificial intelligence because for the first time in my energy career, the energy sector and the technology sector intertwined both need each other to continue to develop.

Obviously, the technology for AI is going to develop at its pace, but the technology sits in data centers and data centers require electricity and require energy, and they require reliable, consistent, steady, stable energy. That's part of the reason why we've got so many data centers here in the US and the US will be energy dominant, but will also be AI dominant, and we'll have the largest number and already does have the largest number of data centers in the world by a long shot.

And so we see the development of AI really being supported by the energy sector as well as the technology sector. And this is a tremendous opportunity and a long-term catalyst for the sector.

Rob Bernstein:

And as you and I were discussing, intermittent energy structures is just not an option. And beyond battery power, solar, wind, sun shining, wind blowing, there needs to be a consistency of energy for these data centers, AI centers, the geopolitical component of this, something sort of the X factor that maybe hasn't been factored in completely, but certainly should be.

Rob Thummel:

No, that's a great observation, Rob. So yes, do we have to worry about other countries? Your point is effectively, do we have to worry about other countries for our energy? No, the answer is no, in general. As we look forward, if electricity becomes a new oil like we think natural gas and nuclear will be the big drivers of the fuel supplies in the US and we won't have to rely on foreign supply sources to generate our electricity.

Today, natural gas, we have so much natural gas in the US that once again, we have excess natural gas. And then not only can we be the largest global producer of natural gas in the world, we can also be the largest exporter of natural gas in the world as well. So we are really excited about the opportunities for natural gas in the near term. And then longer term we'll need other forms of energy as well. Nuclear will be added to that as well into the future. And so the combination of nuclear and natural gas going forward will really help support and advance the development of artificial intelligence. Like I said, not just over a few years, but over a few decades.

Rob Bernstein:

I'm going to jump a little bit backwards just continuing to get to some of these questions that are coming in. One of the questions is an interesting one. It does take us back to an early part of the conversation, which is if the Strait of Hormuz is significantly disrupted, how quickly could it be redirected from Saudi Arabia through the Red Sea in Gulf of Aden?

Rob Thummel:

By no means would you ever be able to redirect 20 million barrels a day away from the Strait of Hormuz, but there could be millions of barrels that Saudi Arabia could use a pipeline that runs across their country and move it to the other side of Saudi Arabia to be exported. That would be I think a couple million barrels a day. So that's why the Strait of Hormuz is so significant from an energy infrastructure perspective, you simply just don't have a lot of replacements. And so the temporary disruptions would cause some challenges in the global energy markets, and that's why the duration of those disruptions really would dictate how long or how high oil prices could go.

Rob Bernstein:

So let's leave it there. We've gone through a whole host of different questions that have been asked of us and that we've put together for you as well. Any final thoughts that you can think of as we finish the webinar today?

Rob Thummel:

I would just say I do think that these humanitarian crises like we have right now, hopefully will be deescalated. I think that that would be a great thing for the world and for all of us. But I do think they also really emphasize the importance of energy and energy infrastructure and the fact that in the US, because of US shale technology, and being the largest energy producer in the world, and the largest exporter in the world, we really benefit from not only having low cost energy, but reliable, secure energy.

And that just makes a huge impact both economically but also politically and geopolitically as we move forward. And this position that the US is in is not going to change. We're going to continue to produce more shale oil and gas and other forms of energy and continue to be the largest producer and as well as the largest exporter and we'll all benefit from that well into the future.

Rob Bernstein:

Really appreciate the comments. As we watch these events unfold over in the Middle East we may be reaching out again with another webinar and ask Rob to join us to give us his insights. But just as a recap, we've covered a wide-ranging set of topics from fragile ceasefire, a vulnerability of global supply chains, to long-term investment case in the US and the energy infrastructure.

One thing is pretty crystal clear from the comments that you've made, Rob, and that is that in a world that's defined by volatility, the US appears to stand out as a secure, scalable, and increasingly essential supplier. So with that, Rob, thank you for joining us and thanks everybody else for joining us today. Appreciate your time.

Rob Thummel:

Thanks, Rob.