Tortoise QuickTake Energy Podcast

Tortoise

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

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

First, we would like to offer our sincere thank you to all our men and women of the armed forces as we spent yesterday remembering those who gave their lives, so all of us could enjoy these precious freedoms we hold dear.

The end of May brings about another annual gathering, that of commencements. In the spirit of those, I went searching for some of the best commencement speeches and memorable quotes associated with them. I'll offer up two quotes that stood out, one serious and one funny. The first is from the commencement attributed to Kurt Vonnegut that actually really wasn't him at all. One part read, "Accept certain inalienable truths: Prices will rise. Politicians will philander. You, too, will get old. And when you do, you'll fantasize that when you were young, prices were reasonable, politicians were noble, and children respected their elders."

The second one is short and not attributed to anyone specifically, but may be better advice. It read, "you aren't doing it wrong, if no one knows what you are doing." Definitely good advice!

We'll start things off with market performance for the week that was:

- On the commodity front, crude oil was hit hard, down almost 7%, while
- Natural gas was up on a spot basis, higher by approximately 2.7%,
- Shifting to equities, the broader S&P Energy Select Sector Index® declined 3.4%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ fared worse, down 6.4%
- And finally MLPs did buck the trend a bit, yet still negative, as the Tortoise MLP Index® fell 1%

Crude oil was weak as noted, primarily as the bears on demand are winning compared to the bulls on supply. It truly is a question of which one of these two sides worries you more. On the one hand, investors are concerned from a macro perspective about worldwide demand, particularly in the face of the growing trade dispute between the U.S. and China. On the other hand, supply risks remain at elevated levels with continued geopolitical uncertainty in the Middle East, as well as Venezuela's well-known struggles. The large crude oil build domestically was a key driver in last week's lower prices. Inventories for the US on the crude oil side stand about 22 million barrels, or approximately 4%, over the five-year average.

Rob mentioned last week the IPO of Rattler Midstream. It priced on Wednesday at the midpoint of the range and actually finished up 8% after 3 days of trading. A nice start against a tough overall stock market backdrop.

The main topic I want to focus on is, what's really driving the market at this point? As both Matt and Rob detailed in the last two podcasts, the fundamentals for energy companies and the first quarter earnings were very strong. As an example, crude oil prices, despite the weekly drop, are at approximately $58, and still well within the range of what E&P companies expected when budgets were set.

The key drivers have really been macro, specifically trade wars and geopolitics, and the potential for a slowing economy, either caused by the trade wars or magnified by them, depending on your view.

It's a classic rotation out of risky assets, i.e. stocks. The 10-year U.S. treasury has dropped to 2.32%, levels we haven't seen since late 2017.

If that is the case, and investors are getting more defensive, I offer you midstream energy as a solution. Utility stocks, long held as the bastion of safety, rose last week by 1.8%. Yet consider that midstream energy now sits with higher coverage and less reliance on equity capital markets than at really any time in its history since the companies started building projects. Additionally, leverage continues to turn lower. With the ability to flex capex budgets in 2020 and beyond and maybe most importantly resilient cash flows, we believe midstream energy is primed to be an outperformer in the event the economy does slow.

As a quick note, a check back at history provides a guide to the resilient cash flows. One example is the consumption of crude oil by the United States, which faced its largest declines over the last 40 years in 1982 and 2008 at about 5% each. In other words, in two of the bigger recessions we've seen since the 1930's, people still drove cars and flew airplanes. Inelasticity of demand can be a good thing and we believe severely underrated in the energy space.

Perhaps investors are taking notice. I went back and ran performance since Trump's tweet about China and the negotiations falling apart, which was on May 5th. From that point till today, the S&P 500 is down almost 4%. MLPs are actually up 1.8%. By the way, crude oil is negative 6% during the same time frame. It's an incredibly small sample size, but hopefully a harbinger of things to come in terms of midstream energy outperforming.

That will do it for today…have a great week and we look forward to speaking with you again soon.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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