Tortoise QuickTake Energy Podcast

June 24, 2019

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.

I spent late last week traveling, visiting clients. It's always time well spent as you truly get a feel for what is on investors' minds, but also get a chance to hear about what is going on in their line of business. Luckily it was not a reprise of the movie Tommy Boy, although I must say that is a classic movie. While you think about your favorite Chris Farley quote, I'll move to this week's update.

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

- On the commodity front, crude oil was strong, rising 9%, while
- Natural gas went the opposite direction, lower by approximately 4.2%,
- Shifting to equities, the broader S&P Energy Select Sector Index® rose 5.2%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were even better, up 5.8%
- And finally MLPs inched higher, as the Tortoise MLP Index® went up 61 bps

It was a pretty busy week in terms of news items, so I'll tackle these by breaking them down into their respective categories.

Let's start with macro news first:

- On Wednesday, the Federal Reserve Open Market Committee met with the big takeaways being that rates were left unchanged and the dovish tone, at least as read by the market, has increased. The market reacted strongly, pushing forward and continuing so on Thursday and Friday.
- President Trump noted this past week that after a conversation he had with Chinese President Xi, the two would also meet at the G20 in Japan. Markets were receptive to the possibility of at least conversations picking back up between the two countries over the ever-present trade war.
- Escalation with Iran continued as well, as it reportedly shot down a U.S. drone on Thursday. Both sides claim something different, as Iran said it was in their airspace while the U.S. claimed it was in international airspace. It appears a U.S. strike was ultimately called off by the President afterwards, yet the tensions clearly are rising, as is the price of crude oil.

Moving on to upstream:

- OPEC finally settled on a meeting date, with July 1st and 2nd in Vienna the winning days after what was a strange and pretty ridiculous buildup over nothing. Iran and Saudi Arabia, with outside influence from Russia continue to clash. All that being said, the outcome is still expected to be a continuation of the current cut agreement for the second half of 2019.
- U.S. crude oil inventories finally experienced a draw this past week. We have to go back to the beginning of May to find a draw of this magnitude. Hopefully this is a turning point as Rob pointed out last week that we are entering the summer driving season with stronger demand.
- In oil field services news, C&J Energy Services and Keane Group, two pressure-pumping companies, announced a merger of equals. Both companies have had a rough go over the last several years, as the oversupplied services market continues to be beaten up. Clearly consolidation is an attempt to gain some pricing power by rationing supply. We'll see if it works.

Shifting now to midstream news:

- The Canadian government approved the Trans Mountain Expansion project for crude oil takeaway. You might recall this pipeline was purchased by the government from Kinder Morgan last year. Still some hoops to jump through, but nice to see some positive news from up north other than the Toronto Raptors.
- EQT Midstream and its partners in the Mountain Valley Pipeline project announced plans to offer a land exchange with the government. The proposal effectively gives the government control over existing private lands in exchange for right of way granted to MVP to cross the Appalachian Trail. Additionally, there was a slight increase in costs for the pipeline as well as a push back in timing of in-service, which was frankly a formality at this point and fully expected by the market.

And finally, in downstream news:

- Reuters reported that CPChem was potentially going to announce a bid to acquire Nova Chemicals for $15 billion dollars. CPChem is a joint venture between Chevron and Phillips 66. Nova has a variety of projects currently in process, as it looks to continue to take advantage of cheap U.S. feedstocks.
- Philadelphia Energy Solutions, a 335,000 bpd refinery in the northeast, suffered a large fire on Friday. Luckily, no major injuries were reported.

I wanted to wrap up with a quick follow-up. Rob mentioned several statistics last week from the BP Statistical Review, including global energy demand rising yet again. At its analyst day a few weeks ago, Plains All American had an interesting slide. They noted that the U.S. has approximately 300 million people and uses 20 million barrels of crude oil per day. Meanwhile, China and India have approximately three billion people and use 20 million barrels of crude oil per day. As more and more people improve their standard of living throughout the world, energy demand is highly likely to continue rising. The United States and our companies in particular, are in a great position to help meet that demand.

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.

The S&P 500® Index is a market-value weighted index of equity securities.

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.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index").

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*