Tortoise QuickTake Energy Podcast

Tortoise

Oct. 14, 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.

It's funny how the worlds of business and sports can be so similar, yet so different. The lessons learned in sports, such as perseverance, hard work and determination clearly translate well to the business world. However, one of the great things we love about sports is the unpredictability of the outcomes. Not so much in business. Uncertainty is usually bad and generally leads to negative outcomes like declining stock markets and lack of capital investment. As we enter the 4th quarter, we'll hope that markets gain some of the clarity they seek.

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

- On the commodity front, crude oil increased approximately 3.6%, while
- Natural gas continued its recent swoon, declining by approximately 5.8%
- Shifting to equities, the broader S&P Energy Select Sector Index® rose 1%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were essentially flat
- And finally MLPs had a rough week, as the Tortoise MLP Index® fell 2.2%

It was a relatively quiet week from a company-specific view, as macro events dominated the headlines. First and foremost, in still yet another soap opera-esque turn, the President had a positive tweet on Friday regarding the negotiations with China amid the trade war that drove up markets. For the most part, this sounds more like a truce, where the proposed increase in tariffs will not go into effect and China will buy more U.S. agricultural products. Beyond that, hard to say, as phase one of the trade talks apparently wraps up and we move towards phase two. What markets want is certainty and it doesn't appear we are getting that, unfortunately. More to come in the future on the trade war news that seemingly drives the market on a daily basis.

Crude oil had a busy news week, highlighted by all three major agencies, the EIA, OPEC and the IEA releasing updated forecasts. The punchline is that demand for 2019 and 2020 is set to average about 940,000 bpd and 1.2 million bpd respectively. Meanwhile, the positive nature of the news was that despite a slight reduction in demand for both years, non-OPEC supply was cut by slightly more, leading to a positive net supply/demand revision.

Additionally, it was reported that an Iranian tanker was hit by missiles. Not sure this can be confirmed at this point, but we do know there were explosions and notably the tensions in the region continue to escalate.

Finally, the Secretary General of OPEC stated the OPEC plus group would do whatever it takes to keep markets balanced, including deeper cuts if needed.

Warmer weather has primarily been to blame for weak natural gas prices, as the previous storage deficit to the 5-year average has essentially been wiped out.

In company-specific news, ConocoPhillips announced a 38% dividend increase and plans to repurchase $3 billion in stock in 2020. As one might expect, the stock was an outperformer.

Tacking onto comments from Jean Hugues' podcast from last week, PG&E continues to generate negative headlines, this time in relation to rolling blackouts in California in what the company stated is an attempt to reduce the chances of wildfires given the heat, dry conditions and heavy winds.

Pattern Energy Group announced an acquisition for $293 million of two separate wind facilities, one in Ontario and one in New Mexico.

Within the energy patch, earnings season kicks off this week with midstream bellwether Kinder Morgan on Wednesday and oil field services giant Schlumberger on Friday.

Finally, I wanted to wrap with a snapshot of something we have outlined in our Teal Energy Deal. Both Matt and Rob have discussed the Teal Energy Deal in the last couple of weeks, our view of how the U.S. and the world can transition to a cleaner energy future with the help of natural gas and renewables supplying growing energy demand through electrification.

Of course, within that analysis, we highlighted how the U.S. has done a pretty admirable job of reducing emissions through the use of more natural gas and renewables at the expense of coal. However, two of the largest fossil fuel emitters in terms of growth are China and India. In order for the world to make a dent in the emissions outlook, both countries need to reduce coal usage and increase natural gas and renewable usage. Demand for energy is growing rapidly in both, yet the “all of the above” approach is not working as emissions have grown at a rapid rate.

Matt mentioned a couple of weeks ago some positive steps that India is taking on that front, specifically related to natural gas. Morgan Stanley released a well-timed report this past week with some outstanding data points regarding how India’s energy transition will be fueled by natural gas, including:

- The country can save $4.5 billion dollars per year, helping the current account deficit
- 25% lower CO2 emissions
- 25% savings for energy consumers
- An expected $140 billion dollars of investment in natural gas infrastructure over the next decade, and a
- 6-10% CAGR in natural gas demand through 2025

Those are all great stats and in-line with our thoughts of increased natural gas usage globally. Of course, with coal still remaining a key source of power for India, we believe they need to do more. And that can be done by the government mandating stronger controls on pollution and emissions. If that happens, this could be the tip of the iceberg for natural gas demand in India.

Even still, a step in the right direction to be sure.

We’ll continue to update you on our Teal Energy Deal, but in the meantime, we encourage you to take a look at our website and check out the white paper.

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"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the 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.*