Tortoise Energy Podcast

March 9, 2020

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

Hello, I am Tortoise Managing Director and Portfolio Manager Jim Cunnane with this week's Tortoise QuickTake podcast.

Well, what a difference a week makes for the midstream energy market. In the past week, there was very significant news in regards to the Coronavirus, OPEC, and the 2020 U.S. election. Please note we will be sending out a special podcast with a specific focus on OPEC shortly.

But for now, let's start with the Coronavirus. In China, the situation appears vastly improved since infections peaked in mid-February. Energy Aspects has noted a pickup in domestic activity related to the consumption of oil and gas, specifically highway traffic is increasing and some plants are reopening. This past week, reported new infections in China have stayed at a very low level. While still uncertain, oil demand from China is estimated to be down four mmbpd this quarter from the pre-Coronavirus estimates. For perspective, the global market is about 100 mmbpd for crude and natural gas liquids. Of course, this past week we also witnessed a significant spike in new cases outside China, with Italy and the U.S. of particular concern. Potential oil demand declines outside of China are highly uncertain at this point but we expect downward demand revisions in the near future as the virus spreads and economic activity in certain areas is curtailed.

While there remains a lot of uncertainty surrounding demand in the oil markets, I want to reiterate the three main Coronavirus takeaways we recently discussed on our special podcast titled "Update on Recent Market Volatility". First, global energy demand has grown 37 of the last 38 years despite many previous healthcare concerns. Second, as I already noted data suggests that cases have peaked in China although they are growing in the rest of the world. And third, midstream cash flows are resilient. While we can't predict the duration and extent of the current crisis's impact on oil demand we do know that when economic activity slowed for months during the 2008/2009 financial crisis, the energy infrastructure companies that we invest in experienced less than a 5% decline in volumes.

On to OPEC, who the market thought was going to provide some oil price support last week. Going into the week the market was anticipating that OPEC would reach a deal at their meeting to reduce oil supply by approximately 1 mmbpd. The consensus thinking was that Saudi Arabia, the leader of the pack, has been supportive of reductions in supply to combat lower demand oil and price concerns since about 2018. Putting some numbers around it, OPEC's output has fallen from 33 mmbpd to 28 over that period, which actually caused the OPEC's global market share to fall. Given the 30% decline in oil prices this year, combined with falling estimates of oil demand, the consensus here was for another supply cut. As the week wore on and the meeting started word broke that the proposed OPEC cut would be 1.5 mmbpd through year-end. Unfortunately, Russia was not on board with this proposal and the meeting ended without an agreement. Over the weekend the Saudi's, likely frustrated with the lack of cooperation, and tired of giving up market share, announced that they were going to reduce prices on their crude oil. They also threatened to increase the supply to the market by as much as several mmbpd. Saudi Arabia appears to be betting that lower prices will bring Russia back to the negotiating table or will cause North American supply to fall as private producers react to the lower prices.

Now, for those of us who were diligent in our economics classes, we recognize that falling demand expectations due to the Coronavirus combined with rising supply courtesy of Saudi Arabia will require lower prices in the near term to help the market find equilibrium. And lower they are this morning, with prices down approximately to $30, a decline of 28%.

We will be closely monitoring the impact of these lower prices on our midstream holdings. The immediate concern will be the pressure it puts on counterparties, some of whom are upstream producers. Additionally, if prices drop enough it may lead to lower U.S. volume growth and potentially declines. In 2016, when prices fell significantly, we saw some declines in 2016 crude oil production domestically, yet pipeline volumes were essentially flat and cash flows for most midstream companies continued to grow.

It's hard to believe that the U.S. elections become a secondary story in a week where the Democratic presidential race was turned on its head. Predictit has Joe Biden's odds at nearly 80% now, almost doubling during the week. It's worth noting that the odds of the Democratic candidate also increased meaningfully this week, as well as the odds of the

Democrats capturing the Senate increased. This leads investors to ponder the meaning for energy investors. While Biden has proposed more friendly energy policies than Sanders, a Biden candidacy may raise the odds that new, possibly unfavorable, energy policies are enacted.

All-in-all the macro environment was really unfavorable for midstream companies last week. It's worth noting that this quarter's earnings were very good, valuations are exceptional, and midstream companies remain essential for our economy to function.

Again, please note that we'll be sending out a special podcast shortly on OPEC.

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.

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.