Tortoise Energy Podcast

Tortoise

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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 Senior Portfolio Manager Jim Cunnane with this week's Tortoise QuickTake podcast. As the father of high school seniors, I am thankful for a little, maybe a lot, of the bonus family time with them before they head off to school in the Fall. Not sure they are as thankful as their parents are, but I'm also so thankful for the work so many frontline workers are doing to "bend the curve" and help us overcome the Coronavirus threat.

We just ended another positive week for the markets. The S&P 500 rose 3% and the Alerian Midstream Energy Index matched that 3% return. Although we have had a couple of good weeks midstream prices are still down almost 50% year-to-date.

One interesting phenomena last week was the steady news flow about declining oil prices, which seemed odd in the face of the newly announced OPEC+ supply reduction agreement. What's the story with that? Well, a lot of it is the financial media's focus on showing the price of the near month crude oil contract, which is only trading until tomorrow. While the May contract declined to around $18 a barrel last week, the June contract ended the week around $25. The difference in prices is the largest we have seen since the Financial Crisis over a decade ago. This morning the May contract declined sharply, to near $11 a barrel. The June contract remains near $22. This sets up a scenario where we may see a "spike" in oil prices as the near month contract rolls over to the June contract tomorrow. It also illustrates the unusual environment we are currently in, where near term oil demand is extremely weak, storage is rapidly filling up, and therefore near term oil prices are low. At the same time future demand and prices are expected to rebound, setting up a steep upward slope to the oil futures price curve, commonly referred to as a Contango market.

While the oil supply situation in a better place post the OPEC+ agreement last week the market's focus is narrowing in on the demand side of the equation. If you were interested in more info on the oil market's supply and demand dynamics, please listen to my colleague Rob Thummel's April 13th podcast. One item we noticed this week is that Chinese demand, which may give an early look at rebound expectations in the rest of the world, seems to be coming back at a good clip. According to Sinopec, China's largest refiner and retailer, gasoline demand in China has rebounded to 90% of pre-virus levels. Analysts are suggesting that they expect demand to rebound to 100% by the end of April. An interesting observation is that consumers seem to be preferring driving over mass transit, which is contributing to the rebound.

Switching over to company news, we are seeing a lot of distribution announcements and are waiting for the kick-off of midstream earnings season on Wednesday. Distributions have been really consistent with the expectations we have based on the in-depth stress testing we have talked about on previous podcasts. Check out Brian Kessens April 8th podcast for an in-depth overview of our stress testing and what it suggests about distributions. This week's announcements were interesting. For example, Oneok, a midstream blue-chip, held its distribution flat, consistent with our expectations for well capitalized and well positioned midstream companies. On the other hand, Antero Midstream and Crestwood Partners, both sporting 40%+ yields and with more risky gathering and processing businesses, also held their distributions flat. Our work suggests that gathering and processing businesses will likely all cut their distributions and currently may have a free pass from the market to do so. We will see if Antero and Crestwood are able to maintain their distributions down the road. Either way, distribution announcements continue to come in at or above our expectations which is likely adding price support to midstream equities.

One of our analysts referred to the earnings season that is about to start as possibly the most unusual one we have ever seen. We should get some insight on how businesses are holding up in the lockdown period, possibly better than expected. Companies will be able to emphasize the importance of their assets to the U.S. economy and the relative stability of their cash flows even in an incredible period such as today. So while we may get some favorable guidance about near term results we aren't sure what to expect in regards to guidance for the rest of 2020 and 2021. Will we get any guidance at all given the tremendous uncertainty on the lift of lockdowns and a return to normal demand? We wouldn't be surprised if guidance is very broad or possibly gets pulled for some time. Irregardless, our investment team is deep and has great insight into the workings of the companies we invest in. We feel well positioned to take advantage of any uncertainty earnings season brings us.

We will be back next week with early returns from earnings, including Kinder Morgan's results from Wednesday. Will the high level of recent insider buying prove to be a good indicator of results or will the huge March sell-off in prices be a better indicator? We would bet on the former.

We will be back next week with more. Thanks for listening.

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 Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).