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 Portfolio Manager Jim Cunnane with this week's Tortoise QuickTake podcast.

Over the weekend SpaceX became the first private company to send astronauts into orbit in what was the first crewed space flight from U.S. soil since the space shuttle program ended in 2011. It was an exciting event to watch and an impressive accomplishment that bodes well for the future of commercial space exploration.

While I am not going to compare the U.S. financial markets to a rocket ship, fuel provided by the Fed has propelled prices up steadily since late March. On a price basis, the S&P 500 moved up approximately 3% for the week, 7% for the month, and 36% from the late March lows. The Alerian MLP Index, coming off its best week of the year last week, rose another approximately 4% last week. For May, the price increase was 12% and the move from the lows is now over 100%. As we have noted on this podcast over the past couple of months, we still see midstream energy as a compelling investment opportunity as the stock prices this year have declined by a larger percentage than the expected decline in company cash flows. As one example, the Alerian is still down approximately 30% year-to-date while earnings were down 8% this quarter, in-line with our expectations. Earnings are particularly solid for companies focused on natural gas, with important participants like Williams continuing to provide positive messaging about their earnings outlook.

An encouraging sign in the early phases of a market recovery is strength in the debt markets. For midstream we are definitively seeing the strength we would hope to see. Last week Inter-Pipeline issued $700 million in 7-year notes at the low yield of 4.2%. A continued sign that the debt markets are open for business and that well positioned midstream companies can access low cost financing. Looking at performance numbers for midstream debt you can also see improvement. Since the lows in late March, midstream investment grade debt is up approximately 27% and midstream high yield debt nearly 49%. Year-to-date midstream debt has almost worked its way back to breakeven, recovering from the sharp first quarter fall off. In past midstream bear markets, a complete recovery of losses on the debt side has been an early indicator that the equity market recovery will continue to grow roots and expand.

For this recovery to continue to unfold we will need to see global energy demand continue to rebound from extremely depressed levels. There are definitively good signs to point to. For example, there continues to be positive indications that Chinese oil demand is approaching pre-COVID levels. The U.S. data also appears to be improving as all of the U.S. States have now eased or lifted restrictions. This is coming at the right time as the U.S. has entered the Summer driving season, traditionally a critical driver of annual U.S. oil demand. This year is far from traditional though, and driving patterns are far from normal. Interestingly, Apple Mobility data this week generated some news articles suggesting that driving activity had fully recovered to pre-COVID levels. There are some quirks in Apple Mobility's methodology that need to be considered. For example, their data is indexed to a date in January, typically a low period for gasoline demand. Also, they are measuring queries to Apple Maps, meaning that the number of queries is what has actually recovered as opposed to actually driving miles or gasoline demand. A drive around my midwestern city suggests that traffic is picking up but that with many of us still working from home, actual demand in the U.S. is still well off from a full recovery. Air demand paints a similar picture with TSA check point data still 80% below normal. While that's an improvement from the 95% decline at the bottom, we still have a long way to go to establish a new normal. Overall we are encouraged with the improving demand data but we need to see continued improvements to support the rally in midstream securities.

On the regulatory front the Atlantic Coast Pipeline/Mountain Valley Pipeline delays continues, with impacts to EQM, Duke Energy and Dominion Energy. As we expected, the Ninth Circuit rejected the request for a stay of a recent ruling by the Montana Federal district court. The impact is continued delays in permitting by the Army Corps of Engineers.

Those are the highlights from last week. Thanks for listening. We will be back next week.

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

The Alerian MLP Index is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX).

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