

# Tortoise QuickTake EnergyPodcast



April 9, 2018

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

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

Funny story to kick things off this week: with two boys that play a lot of competitive sports, I've seen many ejections in my time. I've seen kids kicked out of games, coaches kicked out of games and even some parents that were asked to leave the premises, but this past week was truly unique. My son was participating in a math contest at a local school when an irate mom was kicked out as she argued the proctors were being unfair. What made this even better, the contest was for 2nd through 5th graders! I think all the other parents were so shocked as she was escorted out, we didn't know whether to laugh or sit there with our jaws on the floor. Just when you think you've seen it all, life throws up another entry into the hall of fame for moments not to forget.

Let's start with a recap of market performance:

- On the commodity front, crude oil was weak, down approximately 4.4%
- While natural gas was also negative, falling 1.2%
- Shifting to equities, the broader S&P Energy Select Sector Index® decreased 10 bps
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index<sup>SM</sup> struggled a bit more, lower by 1.1%
- And finally, MLPs were marginally lower, as the Tortoise MLP Index® fell 18 bps

Who would believe that you could explain the stock market gyrations of late with the plotline of a Star Wars trilogy? To do my best Yoda impersonation, teach you, I will.

Many likely forget, or don't want to remember, that Star Wars episodes one through three, or the prequels as they were better known, had a somewhat strange underlying plotline – that of a trade war with a blockade of a planet. The political undertones of which allowed a senator to become chancellor and eventually emperor of the entire galaxy. Suffice it to say, I seriously doubt many kids picked up on how or why all of that took place, they simply loved some awesome fight scenes. Even the original trilogy had hints of trade tensions, as Han Solo was a smuggler after all.

And so it is today I bring you back to why the stock market is all over the board: trade wars. As President Trump and China engage in escalating rhetoric around trade, the market seemingly decides by the hour whether it cares and whether the rhetoric is real or just talk.

Morgan Stanley had an interesting note, stating that all of last year we had only eight days of seeing a plus or minus 1% move on the S&P 500®, which was the lowest level since 1965. This year, we have already seen 27. Yet, the average is 53 days. So while ahead of pace, 2018 is not that different. In actuality, 2017 would appear to be the extreme outlier.

Should we be worried about trade tensions? Based on information we are reading from policy analysts, not yet. According to their views, this appears to be a drive by, both sides to come to the negotiating table, as most of the items of note are not what would be considered essential from either party.

From an energy perspective, propane did pop up on China's list. If, and let me repeat if, a trade war actually materializes, China would place a 25% tariff on U.S. propane. The U.S. exports about 1.1 million barrels per day of LPG, or liquefied petroleum gas, mostly propane. China takes about 140,000 barrels per day of that amount. Most experts simply assume you would have a switch of sources of supply, as any U.S.-based propane normally destined for China would be replaced with another country or countries and those former export destinations would be backfilled by U.S. supply. So while certainly not helpful, it wouldn't be a massive blow to U.S. propane if tensions really do escalate.

Speaking of propane, that's a nice lead-in to discuss an often overlooked area of the energy value chain, natural gas liquids. Given they are a byproduct of crude oil and natural gas drilling, we often treat them as an afterthought, yet the components have a lot of value. Natural gas liquids consist of ethane, propane, normal and iso butane, as well as natural gasoline. Each component has a market with its own set of demand drivers. Two of the most common are ethane, which is utilized to make plastics and propane, utilized for space heating and what you might be most familiar with, as a fuel for barbecue grills.

U.S. production for natural gas liquids is expected to surge in the coming years. For 2018, we anticipate NGL production to grow 15% in the U.S. Our five-year outlook provides a robust growth profile as well, with NGLs increasing from approximately 3.7 million barrels per day in 2017 to over 5 million barrels per day by 2022.

The U.S. petrochemical industry has had a resurgence as a result of the cheap feed stocks available to it in the form of ethane, propane and butane. We anticipate over \$180 billion to be spent in the petrochemical industry domestically.

Of note, just yesterday, Saudi Aramco announced memoranda of understanding of \$8 to \$10 billion with two separate companies to explore petrochemical technology at its Texas-based Motiva Refinery. Yet another potential large-scale project related to surging U.S. natural gas liquids production.

And with that, we have successfully linked natural gas liquids and U.S./China trade tensions, utilizing Star Wars. Kevin Bacon, eat your heart out.

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](mailto:info@tortoiseadvisors.com).**

The **S&P Energy Select Sector Index** is a capitalization-weighted index of S&P 500<sup>®</sup> Index companies in the energy sector involved in the development or production of energy products.

The **Tortoise North American Oil & Gas Producers Index<sup>SM</sup>** 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 U.S. royalty trusts.

The **Tortoise MLP Index<sup>®</sup>** 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 Tortoise North American Oil & Gas Producers Index<sup>SM</sup> and Tortoise MLP Index<sup>®</sup> (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) to calculate and maintain the Indices. The Indices are not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. S&P<sup>®</sup> is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones<sup>®</sup> is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").

The **S&P 500<sup>®</sup> Index** is a market-value weighted index of equity securities.

**Disclaimer:** *Nothing contained in this communication constitutes tax, legal or investment advice. Investors must consult their tax adviser 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 intent.*