



Webinar Replay: Middle East Developments & What It Means for Global Energy Markets

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Mark Marifian:

All right. Well, good afternoon everyone, and welcome to our timely webinar. It's the Middle East crisis and what it means for global energy markets. My name's Mark Morifian. I'm the Head of Product at Tortoise. For those who haven't dialed on to our webinars before, really just trying to unpack what's happening in terms of energy complexity in real time here. We've been covering this topic really extensively. We first published a white paper January 15th and have subsequently been doing a lot of webinars and media just given our latest takes. So happy to continue that today. Before we dive in, just a quick housekeeping note, we'll leave just a couple minutes at the end for Q&A. So I'll try to get to questions that we don't address today in the prepared remarks. If you're new to Tortoise, welcome. We are energy specialists. We have more than two decades of experience.

We manage over 10 billion in AUM across really the full value chain of energy all the way from wellhead to the end user. I would say just one important framing before we get started. Just think about energy as a whole. It's about 4% of the S&P 500. That is historically low given it's really foundational to economic growth. We're seeing the burgeoning growth of AI and the reliability on power and really entering into a full demand cycle here. So we'll cover how the conversation has evolved this week for energy. And I'd say just high level, the longer this Strait remains closed or even constrained, the risk profile continues to shift up into the right. So this started as really a supply-driven shock.

The longer this continues, you could start to see the seep into the broader global economy and ultimately in credit conditions. In a near term, I would say prices are supportive for energy. But again, if this persists and prices go much higher, it ends up becoming a headwind not only for consumers, economic growth and ultimately financial conditions. And I just say that is not constructive for anyone, including energy companies over the long term. And I'd use the example of 2008. We all remember the price spike in the summer going to \$147. But what many forget is that six months later when we were facing a pretty severe recession crew, it dropped all the way down to 40. So we'll certainly have to watch how the demand begins to adjust to rebalance the system. If we go to the next page, what is happening in the Strait of Hormuz today?

When flows through the straight are disrupted, it really has global implications. It's a choke point that has 20% of commodities flowing through it, whether it be crude, refined products or other critical commodities. We've heard about helium, that's even a higher percentage. So where we're seeing this most acutely impact geographies is going to be in the Middle East and Asia. I would just use the Oman grade crude. I was just looking at that before we jumped on that. That's trading at \$130 a barrel today. So that's about \$40 higher than WTI prices. You can see just how big of an impact it is having over in the Middle East. What's actually happening, not

much has changed over the last seven days since we did our last update. You're seeing a few tankers starting to get through the straight. Our reporting has about 36 tankers have gone out so far this month.

That compares to about 29 per day. So you can just see how much traffic's down. You're getting about million and a half, two million barrels out. That's down about 90% from 20 million barrels a day. What's happened? We have rerouted some of the volumes via pipelines in Saudi and the UAE, but those pipelines are already running to some degree. So net net, you've added a little bit incremental, but that's not offsetting, even close to offsetting the 20 that are offline. After the pipes, you're still at a deficit of about 15 to 16 barrels per day. Now, Iran is considering, from what we understand, it's just so fluidly moving, selective passage framework that would allow neutral or aligned countries to transit the straight, but it would restrict more of the US and the allies flows and their allies flows. So even in a scenario where we add six to eight million barrels a day back, you're still looking at roughly a deficit of around seven million barrels, eight million barrels a day stranded.

And that's really going to impact the Gulf producers more. Think about Saudi, UAE, Kuwait, Iraq. Those countries all depend on access to that straight. So that's, again, what it turns in from a supply shock into a much larger issue. So we laid out the four scenarios in January, and I still like to use this as our anchor of how we're thinking about it. So at that time, crude was closer to 60. The first two scenarios, I'd say we're starting to not see those as really realistic. Today, we're probably between scenario three and four, same as last week. Overall, we have curtailments. This week, it's gone from eight million barrels a day last week to about 10 million barrels per day of curtailments. And then we additionally have about three million barrels of refining capacity shutdown. So I mentioned the countries that are impacted, Saudi, Kuwait, UAE, and Qatar.

So we're seeing storage fill. Curtailments, this is where it gets bad curtailments start to turn into four shut-ins. And in those four shut-ins, they're harder to reverse than simply the exports disruptions. And it can take a month or so plus to get some of the volume back online and take production back online. So if let's just say this persists through April, you're looking at 10 million barrels a day times 30 days, that's potential demand destruction, barrels coming off the water, not getting to market of 300 million barrels a day. So any type of, whether we were in oversupply before, if you have a second straight month of significant declines in barrels not reaching the market, that's really going to start to impact prices. We did want to take a look back at history and when we've had these large supply shocks before, this is the largest one we've seen over the last 50 years.

But one thing that we found that was interesting is that the markets tend to price the supply shocks as more temporary, but they often can persist longer. One report I read this week cited that events resulted in approximately a 40% reduction in production even four years after the initial shock. So you can just see the long-lasting ramifications that this has over time. Around infrastructure and LNG, I'd say this is an area that really is concerning us. There was meaningful escalation last week in the overall damage of the energy infrastructure that was targeted. Just a few examples. So we had the gas field in around the South Pars field was attacked. Ras Laffan, and Qatar, that's the largest LNG export facility. I'll cover that in a second. We had gas

infrastructure targeted in the UAE, and then we had refinery disruptions in Kuwait and Israel. And then on LNG, that was the most, I'd say, severe one.

Qatar, which accounts for about 20% of global LNG supply, they lost approximately 17% of their capacity. So that's about two Bs a day out of 10 BCF a day of production. And the kicker here is that the timeline for repair, three to five years. So they just spent \$26 billion to bring these facilities online. They got them online a couple years ago. Now you have \$20 billion in damage. So real impact, you're seeing it out in Asia, but I'd also say EU gas storage is notably low. So I think there's concern there about their industrial users having a supply crunch and how are they going to be able to restock their inventory? This is before we even get to the winter months where the EU is reliant on gas and those inventories being full. So that is going to just create some structural tightening more on the global gas markets.

We also saw the administration continued to look at ways to alleviate pressure for prices in the market. So recall last week we had the tanker reinsurance program, and then we had a G7 coordinated strategic petroleum reserve release. So the US, this is the largest on record. The SPR release is 40 million barrels. The US is going to release about 170 million barrels a day, and we thought the flow rate would be somewhere between one and a half and two million and a half barrels a day. And Chris Wright, our energy secretary confirmed that it's going to be closer to one to one and a half million barrels a day. So again, that's how you offset a little bit of this 20 million barrels offline, but you're seeing the flow rate is not going to be the same as you have shutting down the Strait of Hormuz.

The other two new things that happened this week, the US temporarily sanctions on both Russia and Iran crude. So again, marginal, but what's happening is oil on water is starting to be drawn down pretty rapidly. So going into this, there was a lot of flowing storage that's exhausted. So you're just seeing one by one effectively, the system is burning through the shock absorbers, and I think that's part of the reason why we saw this announced five-day ceasefire before the market's open on Monday. There's just concerns what happens to the physical liquid markets. You just can't slow this down, and the math just doesn't add up. So the next step is what happens with demand destruction, and you're seeing that start to happen in Asia. So some of those countries there, they're reducing work weeks, there's been some school closures. I saw the rickshaws in India are lined up.

So there's this morning on a video. So you're seeing mobility restrictions to try to conserve fuel. Airlines have started to reduce some flight schedules as well due to higher jet fuel prices. So again, this is all part of the rebalancing and how we work through the demand destruction rather than the supply recovery. So go to the futures curve, we can see that actually the price has not moved a ton. This is from yesterday, so we're up a little bit today. But the front end, the orange line was last week, the blue line is this week. The green line was last month. So 2026 contracts are up about \$20 over the last month. But what I think is interesting is when you go out on the further end of the curve, 27, 28, 29, 30, look at how the long date contracts have started to modestly move up up \$7 or so.

So I think that the question in the past was, is \$75 oil too high? Now the conversation may be shifting is, is it too low? Does it accurately reflect the risk in the systems, at least on the

backend? So when you wrap this up, you have lower spare capacity, you got a higher geopolitical risk premium, you have fewer ... We have not worldwide been adding ... We've underinvested in crude oil and crude oil projects, so we don't have supply projects coming online. US shale, that can be a source of additional barrels, but we're at a more mature stage of growth in terms of the US shale patch. So these are all things that I'd say are working against it being lower for longer, and potentially you're looking at higher for longer. I did want to touch on, if we go to the next page, did want to touch on the exports as a whole.

We continue to have significant exports. Our exports volumes have remained stable, particularly on the LNG side, but you're seeing wider spreads are improving the margins for US LNG exporters, and that obviously the supply has tightened up significantly with Qatar going offline. We've had a number of client conversations this week. I'd say that you are seeing a little bit of a rerating in LNG assets. If you look at some of the biggest LNG companies that we own, they're up 20, 25% over the last week, particularly since the attack on the Qatar LNG assets. And overall as a whole, LNG stocks up significantly 40, 50% for the year. Refining margins would be the other area I'd want to cover domestically. We are seeing those margins expand. They were at \$20 all the way up to \$40. And then Mike Worth, the CEO of Chevron, or CEO of Chevron, he was at CeraWeek this week, and his comment was simply that the product markets are signaling much tighter conditions than the crude itself.

So watch on the product side, potentially diesel gets tighter and some of these other jet fuel and some of the other byproducts of crude. Lastly, I just wrap up from an equity perspective. I'd just say there's a big disconnect between terms of where the prices are at and what stocks have priced in. Again, we don't know, this can shift if the straight opens up, but right now, if you look at ENP companies, they're reflecting the mid \$60 range in terms of pricing, and so they're really not reflecting fully the current commodity prices. We are focused really across the energy value chain, whether it be integrateds, majors, midstream infrastructure, upstream, downstream refining. So we're going to participate across the value chain versus being more short-term oriented in ENP beta alone. And then I just take a step back from a portfolio perspective. I mentioned energy being at 4%, but I think we're just seeing how important it is to the global economy.

We've seen energy in times of energy stress and inflationary regimes. In the '70s, it got up to 30% of the S&P 500. In 2008, we were closer to 15%. So we are at a very small overall allocation to the broader market versus where we've been historically. And then you start to look at inflation pressures emerge, and that's pre this crisis. I was looking at the PPI, which is kind of a forward indicator. We were at up 0.7, January up 0.9 in February. So I mean, that alone, you're already starting to see higher input costs firming up even before for the supply shock. So when you take a step back, I think of energy with one allocation, it to me is playing three key roles in portfolios. You have the inflation hedge, you have the income generation, particularly if you're doing that on the midstream side, and then you have this hedge to geopolitical risk.

So I think that is hard to find with a single allocation within the portfolio, but right now energy's certainly representing that. So again, I'd say the biggest thing, just to wrap this up, this has evolved from a disruption to really a full scale supply shock. The damage of the infrastructure is inputting longer duration risk into the system. Inventories are now starting to draw down. We're starting to use a lot of these tools, and I guess you just get concerned that you ultimately run out



of tools in the toolkit if the system doesn't start to respond. And I would just say all this past month, these events underscore the importance and strategic importance of North American energy infrastructure and US energy production. If we are at five million barrels a day and 40 BCF a day of production of gas and five million barrels a day of supply pre-shale, our prices would be much different.

But the growth and US output over the last two decades and the significant technology development of horizontal drilling and shale really has allowed us to stay immune. You see in our prices are in the 90s today versus some of the broader world is over a hundred and even at 130 in different spots. So we should be very grateful here of the abundance of resources that we have within our country. So let me stop. I got just a couple minutes left. I see several questions here. Let's see if I can get to one or two of them.

One question, once the damaged exports facilities from missile techs bring even more demand to US LNG exporters, that's true. I think we covered that. You're seeing that rerating of the existing stocks. Jack Fusco of Cheniere just announced today that their newest train is to go. So there was questions as, are they going to FID that or not? And now you're getting instances where not only are they going to go forward with it, I saw Venture Global, they announced a long-term agreement as well, and they were taking more price risks. So yes, I think certainly the Qatar damage is probably having the biggest impact on LNG as a whole.

So that's going to cover it for me. Really appreciate everyone jumping on. We'll continue to do these, getting a lot of great, great feedback. If you do have any questions, do feel free to reach out to your Tortoise sales rep and we'll look forward to having a more one-on-one discussion. You can always email us as well at info@tortosecapital.com. Thank you, and we'll talk to you guys soon.

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