

March 12, 2026

**James Mick, Senior Portfolio Manager (00:07):**

Great, and welcome to the Energy Quick Take and 10 update, special update. My name is James Mick. I'm a senior portfolio manager with Tortoise, and with me is my fellow senior portfolio manager, Brian Kessens. And today, we just want to give you a little bit of an update on what's going on with the Iranian situation, and we'll just try to answer some questions. We're just gonna go back and forth, ask each other different questions, and see what's, happening in the market. So to start, Brian, what surprised you so far about the movements of crude oil? And we, we last had an update. Rob and Hunter did one about a week ago. So what's surprised you since that time?

**Brian Kessens, Senior Portfolio Manager (00:42):**

Yeah. You know, the, I, I think the biggest thing that, that surprised me, frankly, is we, we've had the situation in recent history. You only have to go back to 2022-That's right. To see when crude oil prices were actually above \$120 or \$120 actually. They, they peaked at \$123. No surprise the, the reason for that was we had a, a, a relatively large, producer of crude oil, that being Russia, they attacked Ukraine and there was some sense about what would happen with that production. And indeed, the West started to sanction some of that oil and we saw prices were relatively elevated. In fact, for the year, the price of crude oil averaged about \$94 per barrel, which not coincidentally is about where WTI is at. Sure, as we sit here today. Right,

**James Mick, Senior Portfolio Manager (01:24):**

Right.

**Brian Kessens, Senior Portfolio Manager (01:24):**

The other thing that maybe surprised me a bit is just, it has been a really, really volatile. We're seeing five, 10% price movements just from a remark by either the president or one of the secretaries or that when it ran does something. So I think that just speaks to the, hey, the uncertainty of the situation, how long is it gonna last and what is indeed the lasting magnitude of the, of the impacts? Yeah.

**James Mick, Senior Portfolio Manager (01:44):**

Duration obviously

**Brian Kessens, Senior Portfolio Manager (01:45):**

Is- Duration.

**James Mick, Senior Portfolio Manager (01:46):**

... Key question.

**Brian Kessens, Senior Portfolio Manager (01:48):**

So James, just thinking about crude oil, has the market been, been rational in terms of your view of that pricing for crude oil?

**James Mick, Senior Portfolio Manager (01:55):**

Yeah. I think generally, yes. If you look at the way the structure has worked, I mean, we've seen a pretty sharp increase in terms of the front months, which we should. Again, back to our duration question, we don't know. So the market has certainly elevated itself in the, the front months. But in the outer months, you have seen the curve rise go up a little bit, but it hasn't been dramatic. Yeah. And, and so I think you're in a steep backwardation now, which makes sense. The magnitude of that backwardation in terms of the outer months, I think is probably the biggest question. What should be priced into there?

Clearly we're pricing in some disruption still. I would say it's probably more related to the inventory side. That's where I think the biggest question would be is how fast do you refill that inventory level?

[\(02:36\)](#):

And that's, that's up for debate. And certainly the duration will be the biggest impact of how, like how long is the Strait of Hormuz closed? Well, that is going to dictate how much we're going to need and how much time we're going to need to refill all these inventory levels.

**Brian Kessens, Senior Portfolio Manager** [\(02:51\)](#):

Yeah, for sure.

**James Mick, Senior Portfolio Manager** [\(02:52\)](#):

You know, along those same lines, Brian, what do you think will or should be in terms of the price of oil, in terms of a geopolitical risk premium? What should be embedded in there as we move forward?

**Brian Kessens, Senior Portfolio Manager** [\(03:02\)](#):

That's a great question as we, as we think about it, because we've always talked about this supposed geopolitical risk premium. Yeah. What, what happens going forward? You know, I, I think it actually is going to depend. If, you know, if the current Iranian regime continues to be in place and a bit unfriendly toward- Sure. ... Toward the west, I think we're going to see a geopolitical risk premium, you know, call it 5%, going forward. Some of the, some of the increase that we, you just talked about in the forward curve has to be because we've got to refill some inventories. Right. But some of that increase as well is probably from an enduring geopolitical risk premium. And if anything, as well as, you know, before we are always like, theoretically, maybe the strait could be closed, could they actually do it? Yeah.

[\(03:41\)](#):

What would the US Navy do in this situation? <Laugh> Here we are. They're, they, they, maybe they have lanes that laid some mines, maybe not, maybe they haven't done anything except they've just threatened- Yeah. ... Any ship that might do it. Perception. And that threat is enough to essentially close it. So it's actually, from their perspective, pretty easy to, to close it. So that, that speaks to maybe a bigger geopolitical risk premium than, than we had before. On the flip side though, I would say, and I, I said it depends because if we do get a regime in place, not the existing one, but it does, it is friendly to Western interests where you say, "Well, really there's no threat ever of the straight being closed again because of this new regime." You could argue that there's really no, or certainly much less of a geopolitical premium that would be in place than we've seen before.

[\(04:22\)](#):

So unlike anything else with this situation, kind of depends.

**James Mick, Senior Portfolio Manager** [\(04:26\)](#):

Yeah, and I mean, obviously closing the straight was always the biggest risk, and that's where we are now, obviously. For sure.

**Brian Kessens, Senior Portfolio Manager** [\(04:32\)](#):

And we said, if, if us close, we might be over \$100 per barrel and- Yeah. You know, we, we, we've seen it. We see that. Yeah. We have seen that. So James, back, back to you, are you anticipating that there's an off ramp for the administration to take here?

**James Mick, Senior Portfolio Manager** [\(04:46\)](#):

I think there is, certainly. Obviously you've got multiple parties at play here, that's probably the biggest risk. You've got the Gulf Coast countries that are out there as well, UAE, Saudi, et cetera. I think they're pretty well contained in terms of if, if

something happens on a positive side, you come to a resolution, they're going to be more than happy to see a resolution of any kind.

[\(05:05\)](#):

If you step back though, you still have three parties involved, Iran, the US and Israel. Israel probably has a different perspective than the US, but I think the US clearly has the most optionality here. But to your point, its regime change is probably the question, what are they actually after as a, as a country? What do we want to see happen? Because if we get regime change, that's a bigger deal, but it also takes longer. Yeah. And that could be, to your point, less geopolitical risk premium in the stock or in the price of crude on a go forward basis, but again, how much pain are we willing to accept in the terms of higher crude oil prices to get that accomplished?

[\(05:41\)](#):

I don't know, but I think the off ramps are certainly there for the US. I think Iran would probably take any off ramp at this point to deescalate, short of regime change. Yeah. They clearly don't want that. So I think that their, their impetus is let's get this done as fast as possible. I think that from a US perspective, I think they've got multiple off ramps. The president has allowed himself that, but the question is, is where does that leave us? So I think there are plenty, but it's going to be a, a, a determining factor is the duration.

**Brian Kessens, Senior Portfolio Manager** [\(06:08\)](#):

Yeah.

**James Mick, Senior Portfolio Manager** [\(06:09\)](#):

For sure. And maybe back to you, Brian, LNG clearly has responded pretty strongly to this disruption in the straight. Maybe what other areas have, have a little bit below the surface that have also responded

**James Mick, Senior Portfolio Manager** [\(06:20\)](#):

From a stock or from a sector perspective?

**Brian Kessens, Senior Portfolio Manager** [\(06:23\)](#):

Yeah. No, great question because clearly crude prices are higher, LNG prices are higher, easy. Let's, who, who produces LNG? We're still- Right. Not Qatar, but the US does. I know it's by the let's by the cruel producers. Seems pretty easy. But yeah, if you do look, there's actually a, a number of different companies that can potentially benefit from, from the situation as well. But not just LNG and crude oil goes through straight, but refined product actually goes through the straight as well, anywhere between three and four million barrels per day, which is pretty significant as you think about the global market and taking that, that off of the market. So generally, we, we are seeing refining spreads actually move higher too. Yeah. And then the subtle thing with that as well is if you're a US refiner, one of the key in- inputs, or costs for you is natural gas.

[\(07:09\)](#):

True. And internationally we just talked about, the price of L&G is moving higher. So if I'm a European refiner or an Asian refiner, oh wow, my gas prices are a lot higher, hence the crack spread has to move higher to accommodate that. But not in the US. But not in the US. Yeah. Not in the US. Our gas prices are relatively flat from where they were still driven by the weather here, getting kind of getting out of winter, but still driven by the weather. We're at three dollar, roughly three dollars per mm BTU. So the US has a significant competitive advantage relative to their international peers as it relates to the refining and making that much more from a crack spread to the extent that they're able to export. So- Right. I would expect the US refiners along the Gulf Coast, maximize production, export as much, as they can actually get on the, on the water.

[\(07:50\)](#):

And

[\(07:50\)](#):

Then the other thing that I think is interesting is a petrochemical industry- Derivative. We don't talk a lot about it, but another derivative, if you will, goes through a process where you apply some heat and pressure to an energy commodity and make

something else like plastics, associated with it. And there's a lot of LPGs, ethane and propane and naphtha that are the key inputs- Right. ... Into the petrochemical complex as well. And if you were relying on that Middle Eastern volumes for your PET chem, well, you're a bit, you're a bit out of luck here. So that provides an opportunity for anyone else that can continue to operate like the US petrochemical companies in this environment. And the other thing is it depends a bit on what you're actually cracking. Are you cracking naphtha, which is more priced on the price of crude oil and that's, that price is significantly higher, so you're disadvantaged, but if you're using ethane or propane, which in the US, we have an abundance of- Right.

(08:45):

If you're able to use that, your margins are that much higher. So again, kind of come back to the US, competitive advantage for- Stock advantages. ... And the petrochemical industry. So anyway, those are two, two areas I haven't seen a lot, a lot talked about yet. Yeah, eventually maybe we'll, we'll get there, but a couple areas overlooked that I think there's some opportunity

**James Mick, Senior Portfolio Manager (09:02):**

In. Yeah. Great.

**Brian Kessens, Senior Portfolio Manager (09:03):**

James, maybe back to you. Any, any areas the market has, has overlooked?

**James Mick, Senior Portfolio Manager (09:08):**

Yeah, I think the biggest component would be spare capacity. And, you know, I've, I've talked a lot about spare capacity on webinars and podcasts and stuff, and I think, I think the market is complacent, frankly.

**Brian Kessens, Senior Portfolio Manager (09:17):**

Yeah.

**James Mick, Senior Portfolio Manager (09:18):**

And as we look back, our, our view of, of spare capacity was maybe much different than say like the IEA and, and what the, the country's had available from an OPEC perspective. In our view, I think Saudi Arabia is probably the only country that is, has any real spare capacity to it. And that's maybe, maybe it's a million barrels a day. If they're at 10, could they produce 11? Yes. Can they go to the 12-2 that they, you know, they claim probably not for any extended period of time. And so I think that spare capacity issue is a big deal that the market got complacent on. And I think as we look forward, my, my view and my hope is that the market realizes that we probably need more spare capacity. Just having Saudi or just having a little bit from the UAE is simply not enough.

(10:00):

We need more spare, spare capacity, and I think that'll be a change that hopefully comes out of this whole situation. That's, that's by the way, after we, we go back and, and refill all the inventories that we're going to be draining. Last question that I have for you, Brian, is, it was just recently announced, I think, today, this morning we've got the, the IEA or a group of countries on the OECD side- Yeah. ... Going to release 400 million barrels. What impact does that have on the overall market and how beneficial can that be, given that we've got a, a pretty big outage in the straight

**Brian Kessens, Senior Portfolio Manager (10:31):**

Right now? Yeah, yeah. You know, I, think it, it's definitely helpful. It's a step in the right direction. Yeah. if, if nothing else, it shows that the West or the OECD countries are recognizing, hey, there's certainly a big situation here with our oil supply- Let's help out. Let, let's try to do something with it. And this is frankly why the strategic petroleum reserves are put in place, to begin with. We had a similar situation, if you will, with the arable oil embargo in the 70s. <Laugh> And after that, we, we built some, some inventory. So I think it's helpful, certainly needed to happen, yet at the same time, you know, you mentioned 400 million barrels. Seems like, seems like a lot, but if you think that 20 million barrels is disrupted- Yeah. ... On a daily basis, that 400 million is aggregate, you know, <laugh>-

**James Mick, Senior Portfolio Manager (11:14):**

Maybe a

**Brian Kessens, Senior Portfolio Manager (11:14):**

Month. Yeah. We, we, maybe a month at, at, at best all that's gonna replace, you know, what is beyond that, and then to your other comment about spare capacity- Yeah. ... You know, this isn't, this is, this is just what we have in spare. These are the emergency stocks. You use four million here, you have to use another one, then you're really getting into a situation that becomes, you know, even that much more interesting.

**James Mick, Senior Portfolio Manager (11:34):**

Yeah, and I think worldwide, we're looking at 1.2 billion in strategic petroleum reserves. So it can help, but to your point, it's not going to solve everything, right? We're not going to completely change the scope of that. But what it may do is it may give the administration, the Trump administration time to achieve the, achieve the objectives that they want to achieve. Yeah. So maybe that kind of goes to our questions around duration. That's ultimately what we're all looking at here is what is the duration of this- Yeah, for sure. The key question. Yeah. Absolutely. As we sit here today, yeah. So thank you very much for joining us. Hopefully it was beneficial for you.

**Have topics you want covered or other feedback to share? Write us at [info@tortoisecapital.com](mailto:info@tortoisecapital.com).**

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