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Jacob Ford:

Hi, I'm Jacob Ford, investment specialist here at Tortoise Capital. And today I'm being joined by senior portfolio manager, Brian Kessens, for another one of our Energy Quick Take in 10. So energy continues to be at the center of some of the biggest themes in the market right now from geopolitics to AI power driven demand. So today we're going to unpack what moved the markets this month and what it means going forward. So Brian, thank you so much. It's great to have you on. Yeah, it's my pleasure. So obviously Iran has clearly taken center stage in March, had a major impact on energy prices. So give us the big picture. What does it mean for energy prices, supply, just overall market sentiment?

Brian Kessens:

Yeah, it's been quite a month. I've been investing in energy nearly 20 years now and this month might have been the most interesting to say the least as it relates to energy markets because we've seen so much disruption as it relates to energy supplies. Obviously the straightforward moves have been very much in the spotlight over the course of the past month, how it's effectively closed right now. So what does that mean? Roughly eight to 10 million barrels as near as we could tell of cool oil are simply offline. They're not making their way to world markets, which is about 10% of that is supplied to the world. But not only is crude oil disrupted, refined products, gasoline, diesel also moved through the straight and disrupted. And then maybe one thing that's a little bit under the radar is natural gas in the form of liquified natural gas or LNG, where Qatar's facility is essentially shut down right now because they're not able to export any natural gas or LNG through the straight. And they provided about 20% of the global supply of LNG to the market. So if you're a country that is importing natural gas, your natural gas prices have significantly moved higher. As an example, Europe has seen their natural gas prices been powered by about 75% just over the course of the past month. Different here in the US where we're an exporter of natural gas, we're from a natural gas perspective, really not impacted where our gas is actually flat month over month and continues to really be driven by how cold the weather is, how hot the weather is with anything else. Speaking of crude oil, as we started at the beginning, significant moves there. WTI, the US benchmark moved from roughly 67 to about \$100 per barrel, so 50% move in WTI. Brent, which is the international price for crude oil was up even more. It started the months at about 72 when we actually ended the month at \$112 per barrel.

One interesting thing there is you can see that the spread between WTI and Brent, it almost doubled or actually more than doubled alone just over the course of the past month. What all that means, I think at the end of the day is it just has a renewed focus globally on energy security. It's kind of started with the war, Russia's war in Ukraine, and then this just steam in how urgent security is kind of the big time as it relates to energy today.

Jacob Ford:

That's fascinating. So with this disruption to global supply, does that mean that the US is now going to be in a good position to help increase exports?

Brian Kessens:

Yeah, it's a great question. And certainly we have a competitive advantage in that we're, for the most part, energy independent and we are an exporter. That said, we are already exporting about four million barrels per day of crude oil. We don't have an ability to do much more than that. We're already exporting about two million barrels per day between gasoline and diesel and refinery utilization was already in the low 90s. So there's not a big ability to export even more gasoline or diesel although certainly the refinery like too because their bargains are up significantly over the past month. So not a lot there. On the LNG side, the US continues to be the world's leader and the export of LNG. We're just a little bit shy of 20 BCF per day, but again, those facilities are operating pretty much at or even above benchmark capacity.

And in some cases, if there is one, one bright spot from the US's ability to export more, it is the Golden Pass LNG export facility. It's been under construction in the past couple of years to own by Qatar and Exxon. And it actually just came online today. It started to export LNG today. And over the next month, we expect it to ramp up to about one BCF per day. So that's about 5% of all US LNG exports. It also represents about 10% that is offline from Qatar and the Persian Gulf. So is it solve the problem? No, but it is a step in the right direction

Jacob Ford:

Oh, that's some super timely news. So that's a great backdrop for what's going on with the physical commodities, but how does this trickle down, if you will, to be specifically with energy stocks?

Brian Kessens:

Yeah. Yeah. All comes down to stock prices, right? So stock prices, no surprise. Energy stocks have moved higher over the course of the last month. The XLE or all the energy companies that are in the S&P 500 had a pretty good month. It was up about 10% as you might expect. Utilities actually were down about 3%. They're really not impacted, frankly, by what's going on in Iran whatsoever. Refiners, I mentioned, refiners. Valero, one of the largest US refiners, particularly along the Gulf Coast was up about 20% under and quarter outstanding performance there. Midstream companies, steady cash flows, not taking any commodity price risk for the most part. So you would expect them not be up 10% that the broader energy was, but midstream was still up about three to 4%. So still very strong. Interestingly, services only up about 1%, but in general, pretty good absolute returns, especially actually when you look relative, the S&P 500 was actually down five.

So the relative was up before that absolute. We did get some questions about, "Hey, crude oil being up 50%. Seems like maybe energy should have performed even better in this situation." I think we just had to remind ourselves, we actually had a pretty good start to the year. January and February were really good for energy returns as well. So maybe some of this was already, this geopolitical risk was already kind of forecasted at the start of the year and certainly we had a good March, but maybe not quite as much as people would have expected because that'd be a pretty good start.

Jacob Ford:

Okay. Very good. So beyond the geopolitical headlines, Brian, was there anything that generally surprised you this month? Yeah.

Brian Kessens:

The one thing I will say, I just talked about service stocks. If you think service stocks, you think oil prices are higher. They move even more than the producers do traditionally with oil prices, but services only up about 1%. I think the reason for that is the producers, US producers have continued to stay. We're going to be pretty capital disciplined going forward. So that surprised me. And then there was actually one tanker that actually moved into the Persian Gulf. Not sure what that shift captain is thinking, but maybe he does more than we do.

Jacob Ford:

Yeah. Excellent. So let's think back way back to the beginning of the year before I ran was a big story. AI, electricity demand was kind of the big talking point. It's really the defining theme and energy. So did March bring anything new to this story or has it strengthened the case for natural gas power infrastructure or just anything related to those?

Brian Kessens:

Yeah. Yeah. Just one thing is that someone's playing catch up. The Energy Information Agency or the EIA actually has now come out with their expectations for in the PJM region and at ERCOT, which is in Texas, about how electricity demand is going to grow in the next couple years. And ERCOT specifically, they have 10% growth expected. And they've come out now and said that they expect most of that generation. The growth in generation meat that's going to come from natural gas and they're expecting natural gas generation growth to actually move higher by 7%. So just good to see the EIA kind of catching up with where we've been all along for the most part.

Jacob Ford:

Excellent. Good stuff. So let's look ahead to the next month. That's going to put us right in the middle of earning seasons. What are you listening for?

Brian Kessens:

Yeah. The producers, I touched on it a little bit. We're listening for, are they actually going to increase CapEx to take advantage of some of the higher prices? I will say the forward curve 2027 is only actually a little bit below 70. What price do they actually need to see before they'll actually add rigs? I think is one thing that we're going to listen for. Midstream, I think there's some outsized opportunities maybe to take advantage of some spreads. I think that'll be interesting. Refiners, frankly, we're talking billions of dollars in outsized opportunity here because of the wide bread spread to WTI and the fact that natural gas is a key input and that's an advantage relative to the rest of the world. So I think refining earnings should be pretty good to deploy them.

Jacob Ford:

Good stuff. Brian, that was a great breakdown. Thank you so much. There's a lot of moving pieces, but I think this has been a great way to frame what really matters and what to watch for from here. So thank you to everyone for tuning in. If you want

to continue the conversation or talk through how this might fit into portfolios, please let us know. We are always happy to connect. And until next time, we'll talk to you then.

Have topics you want covered or other feedback to share? Write us at info@tortoisecapital.com.

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