April 24, 2026

Alexis Pickard:
Hello and welcome back to our energy quick take in 10. My name is Alex Pickard and I am vice president of the strategic relationship group here at Tortoise and I am joined today by Matt Salee, executive vice president and head of investments. Matt, thanks for being here again.

Matt Sallee:
Hey, great to be here.

Alexis Pickard:
So over the past couple of months, our team has been having a lot of conversations with our platform partners and their clients and energy continues to be front and center, especially given everything happening globally right now. So today we though we could frame this discussion around some of the key questions we've been hearing directly from clients. So to kick us off, Matt, one of the topics we've been consistently hearing about is the latest developments in the Middle East, particularly around the Strait of Hormuz. Can you tell us what's changed recently and how investors should be thinking about risk from here?

Matt Sallee:
I mean, things were literally changing right up until I just walked in here. So we're worried we weren't going to have anything to talk about. Rest assured, there's plenty going on. So I'd just say around the ... Probably tired of hearing the Strait of Hormuz, but anyway, it is certainly ... Things are, I'd say escalating there. Iran is now firing on vessels. So Wednesday morning, see the news that they had actually literally fired upon three vessels and seized two of them. So those vessels are now under Iranian control. Obviously, the US blockade remains in place. I'm going to come back to that in a minute. The president has now authorized the US to attack any Iranian vessel that's laying mines. So yeah, things are definitely escalating there. And around mines yesterday, the Pentagon actually told Congress that it will take up to six months to clear all the mines that are already out there.

So if you think this disruption's going to just flip a switch and be clear overnight, that's not realistic. So a lot going on there.

Alexis Pickard:
And you touched on this that I think we can probably count on the Strait of Hormuz being disrupted for a number of weeks still, regardless how things shake out over the coming days. How should we be thinking about the potential impact on oil prices?

Matt Sallee:
So basically we've declared a ceasefire, but we're not really seeing a deescalation. It's really, I think the ceasefire, all this does is prolong the energy disruption. So in our view, oil prices are far lower than ... I shouldn't laugh, but far lower than what our estimate of inventory, the inventory impact has been thus far and what it's likely to be into the future. Because again, ceasefires is going to prolong kind of getting resolution. I would say one thing that is worth noting is Iran has tied the removal of the blockade to continuing negotiations. So I think that's pretty problematic to even get both sides to the table.
It's ironic. We haven't ceasefire yet. We're sending a third aircraft carrier to the area. I think we have ... So we'll have three there. I think we only have memory serves 11 total. So that's a significant deployment of resources to the area. So again, it doesn't feel like we're near resolution that kind of feels like what the market's pricing in. You look at not just oil prices, they're higher obviously, but not in our view to the level of disruption that we're seeing. Equity market, not to be a doomsdayer, but S&P closed their record highs yesterday, pretty remarkable.

And I'd say the other thing, just in terms of kind of going back to just what's going on in Hormuz, the US actually literally boarded fast roped onto an Iranian tanker last night, our hour overnight, a two-million-barrel tanker. So a lot going on there. And I'd say, yeah, to your point, not really reflected in the current pricing environment, whether you're talking equity markets, how energy stocks are traded and just where oil's trading at. And then I mentioned things are changing literally as we're walking in here about 15 minutes ago, I guess Iran's top negotiator just resigned. So pretty dynamic situation.

Alexis Pickard:
So speaking of kind of those risks and the continually evolving situation, how much of that risk would you say is already priced in versus what could still happen?

Matt Sallee:
Well, I think just to put in context, put numbers to it. So the Strait before the conflict, about 20 million barrels per day flows through there again, or not again, but to put that in context, the global market's about a hundred million barrels per day. So about a fifth of all oil products, also about a third of propane flows through a significant amount about a quarter of natural gas. So it's a big deal, but to put numbers around it. So basically you have the Strait shutdown. Globally, the US and other OECD countries, developed countries are releasing oil from their strategic reserves. The US is maxing out exports, and then countries like Saudi Arabia have a pipeline option to get another way to get oil out. So just walking through those numbers, the pipeline bypasses that exist are about being generous, six million barrels per day.

It's probably not quite that much. If you say the SPR release results in, call it two million barrels per day, I think it's actually more like a million and a half that can logistically come out of storage. And then let's just say there's demand destruction and the fact that we went into this year slightly oversupplied, that adds back, we'll call it two million barrels. So you lost 20, you get six back from pipelines, two from SPR, and then call it two from demand destruction and just starting the year over supply. That's 10 million barrels net that are off the market. We're about 55 days into the conflict, so that would be 550 million barrels. I've seen estimates as high as 800 million barrels have come out of inventory. The baseline we started the year at 2.2 billion, so significantly down already. And if you just ran the numbers out, literally just did the math, we would run out of total global inventories, it would be zero by the end of the third quarter.

So it's pretty amazing that the oil prices, frankly, that aren't higher than where they are.

Alexis Pickard:
And if we did see a resolution, say the street reopened, how quickly would you expect markets, particularly oil prices to normalize or that supply to even back out?

Matt Sallee:
So it's going to be a while is our estimation. As I mentioned before, the Pentagon said it'll take six months to clear all the mines. And then there's a lot of production that's offline that was shut in because inventories were full in that area where they couldn't get out of the Persian Gulf. So those wells have to be probably serviced to come back on that might have pressure issues. And then there's a lot of physical damage. I talked previously about the Qatar LNG facility, but there's about two and a half million barrels per day of refining capacity that's offline because it's been damaged. So it's going to be a little while.

Alexis Pickard:
So a lot of clients are trying to connect this back to their portfolios. Is this starting to show up in inflation or in the broader economy yet? And then, sorry, some kind of more practical specific questions. For example, could disruptions like this start to impact things like airline capacity for travel or particularly in regions like Europe?

Matt Sallee:
Funny you should mention that. Yeah. I'd say we're not really seeing it in inflation yet. However, I was following one economist who says a 5% increase in the price of oil leads to 0.1 impact to CPI. So we're up roughly 50% just to use round numbers. So that would lead to about 1% inflation that's at the current oil price and that's just oil prices that doesn't account for the fact that natural gas prices, while they are cheap here in the US, are up significantly in Europe and China. And that goes into a lot of industrial processes. So I'd say the benefit is for the US, we're largely insulated being self-sufficient for energy, but that's not the case in Europe. And it's certainly not the case in Asia who's highly dependent on Middle Eastern exports.

I would say you're the question, are we seeing any airline impact? There are four airlines, I can't remember which ones, four European airlines that have already cut their flight schedules. And I've heard anecdotally that some domestic flights here in the US have been curtailed, if you will. So I hadn't seen that. I just heard it in passing from someone, but definitely in Europe, we're starting to see flights curtailed. So with the cost increase in jet fuel, it's arguably airlines aren't necessarily all that profitable right now. So anyway, I don't want to ramble on inflation, but I'd say prepare yourselves. That's why I think, not to be like a commercial, but energy historically trades well in inflationary periods. So I do think that the inflation protection offered through energy portfolios is probably a good, something I'd be considering right now anyway.

Alexis Pickard:
Yeah, that's really helpful. And our next question, you started to answer that here, I think is kind of, what does all of that mean for the energy opportunities that going forward?

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Matt Sallee:
Well, ironically, if you just look at midstream energy, it's actually down since the war broke out, which is pretty counterintuitive to me. I mentioned the S&Ps at record level, so it's actually up since the war started. So I'm not sure the world's kind of turned on its head, it feels like. So I think it's a fairly good time. Again, not to sound like a commercial, but I would at least be considering an energy allocation to protect you against that future inflation and it's not expensive. So I'll leave it there.

Alexis Pickard:
And we have covered a lot of topics here, but just to wrap it up, is there anything else that you think clients are missing right now when they think about energy in this environment?

Matt Sallee:
I mean, I would just reiterate, like I said, the way the market is trading is kind of baffling to me, frankly.

Alexis Pickard:
Perfect. Well, Matt, really helpful insights. Thank you so much. Great questions. Especially as clients continue to navigate such a headline driven environment right now. If you do have any additional questions or would like to continue the conversation, please visit us at tortoisecapital.com or reach out via email at info@tortosecapital.com. We'd be happy to connect. Thanks again for tuning in and we will see you on the next Energy Quick Take in 10.

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

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