Webinar Replay: Middle East Developments & What It Means for Global Energy Markets #8

May 5, 2026

Mark Marifian:
Okay, we'll get started. Welcome everyone. And thank you for joining our timely webinar, the Middle East Crisis and what it means for global energy markets. My name's Mark Marifian. I'm the Head of Product here at Tortoise Capital. We've been doing these webinars weekly, really designed to unpack all the complexities of energy in real time. So the Strait of Hormuz, the Middle East crisis, this is something we've been discussing really since the beginning of the year. So look forward to keeping our thoughts top of mind with everyone. Before we dive in, just a quick housekeeping note. We will be leaving a few minutes of time for Q&A at the end if there are questions. If you do have questions, you can type those in in the Q&A box at the bottom and we'll get to them at the end.

For those who have not joined previously, welcome. We are at Tortoise, energy specialists. We've been managing energy securities for more than two decades. Today, we manage approximately $11 billion across the energy value chain and really cover all sectors from the wellhead all the way to the end user. So we try to update these slides every week to give you latest and greatest here. So we'll give you some macro-overview to start. Actually going to hit a couple of the more topical questions we've been getting on client calls, and we'll wrap it up as to how this is all impacting the energy sector itself.

So if we go to the next page, okay, Strait of Hormuz, I think we all know what's happening. Why does it matter? What are the flow impacts? So let me just recap the recent news flow over the past few weeks. We began to blockade April 13th. The ceasefire was extended with no end date on April 21st. This week we had a bit more news. Shipping still remains disrupted despite the US corps. You might've heard of this Project Freedom announced a few days ago, but we really didn't see an uptick in shipping activity. And then we did see, unfortunately, an infrastructure attack in the UAE at one of their storage terminals within the last 24 hours or so. So as of this minute, I'd say we have a fragile ceasefire holding, and that's where we're at today. Related to the ceasefire, I mean, I think one thing we're seeing is just the blockade may have supplemented the threat of military escalation, at least in the interim as a source of leverage for the US. So potentially right now there's less escalation risk, but that also means you're going to have a longer disruption to the straight, and really it becomes a game of chicken between Iran and the US, and so we'll get into that.

Now, what are you seeing on the two charts here? On the right-hand side of this chart, you can see we normally have 20 million barrels a day flowing through the Strait of Hormuz, and really you've only been getting two million barrels through. That's Iran exports, and now those really aren't even getting through with the US blockade. You have had some pipeline redirections, and then we've built some inventories in the Gulf. And then what came out over the last 10 days or so is that demand, we think it's probably starting to be impacted. And so you can see there's possible demand destruction of about two and a half million barrels a day. Ultimately, you're at this 11 to 12 million barrel range of a supply demand deficit, and we'll see how that plays out over time here. Now, on the left-hand chart, what you're seeing is the inventories.

And so I think what has been potentially happening is there's been under-reported inventory draws, and that is helping offset some of this deficit of 12 million barrels a day. We know that there are some draws coming out of the SPRs, but I think there's also some invisible draws that are potentially helping balance markets where we are today. And so once those inventories become more tapped out, I think that's when you're subject to seeing higher price spikes and ultimately demand destruction.

So if we go to the next page, okay, what happens to oil prices if the blockade end today? So this is a question we've been getting in a lot of our calls. So what would potentially be the immediate reaction? Again, no one knows, but this is our thoughts. You could see WTI fall 10 to $15, that'd be in the $90 range. You probably have backwardation with ease where the front month price isn't as high relative to the rest of the curve, but we're quite backwardation on the curve right now. We'll show that in a little bit. I think as this has gone on, not two plus months, it's going to be harder to normalize and you're going to see that. And so it won't just happen immediately. So the curve will likely reset above where it was prior to the disruption. Your longer dated curve probably is going to stay higher. And then there's a structural tightness that's built in now with the market because you've had all these inventory draws and you effectively don't have any spare capacity. So I think the market's going to need some clarity here. Ultimately, what's the production recovery that we have from the Middle East in terms of infrastructure damage, what amount of production was shut in, how much inventory has been drawn either commercially or through the SPR? And then ultimately, what's our demand response? How deep does this impact the global economy and how does demand rebound from there? So that's a very topical question that we're getting. But again, I think that the short answer here is you're going to go down to that $90 level, at least short-term, if the crisis abated today.

If we go to the next slide, I think folks are wondering, why hasn't this supply shock been felt yet? So what you're seeing here is global inventories. And we had this nice build starting in 2025 where we were closer to about 3.5% below oil inventories on average, and we ended up getting to about 2.5% above our historical average going back to 2018. Now, since then, we're losing that. And so you're going to end up most likely in this five to 7.5% deviation below oil inventories if the crisis abated today. And so obviously we're not having any resolution there, so you could potentially go deeper than that. I think the way to look at this is number of days of inventory.

And so when we're talking about crude oil inventory today globally, you're looking at about in the low 70s in terms of global inventories. What does that mean, relatively speaking? We've seen global inventories, at least in the OECD, dip all the way into the high 50s. And so even pre-shale 2000 and 2004, you had inventories between 50 and 55 days. So we can draw down quite a bit. People are saying, will we run out of oil? The answer is no. We do have some cushion here, but again, you're just pushing this timeline as to when the shock starts to become much more severe. And I would say you start to get in that kind of fragile range when you're in the 50s and anything below that, I think you'd really start seeing alarm bells go off. And so we're at 70 days now. By end of June, you could be in the mid to upper 50s.

I was reading sell-side research this week. The operational minimum storage level for the global crude oil system is estimated between 30 and 40 days. So we have to have some oil flow into storage tanks, pipelines, refineries. And so anyways, just trying to give people perspective, no, we're not running out of oil today, but yes, there are certain thresholds where this starts to become more severe as you draw down these inventories. But I think the punchline remains here that we started at 2.5% above historical levels. Now we're projected to be somewhere between five and 7.5% below historical levels. Okay. If we go to the next page, now this is really the question is how long is this going to last? And that's a million dollar question here.

Iran's ability to store its oil is finite. And once its storage capacity is reached, that's when you start to have shut-ins, and that's going to trigger even more severe economic stress than what Iran has today. So historically, the country's been around producing about three and a half million barrels a day. They've been exporting about two. They can't get their boats out on water because of the blockade, you can have shut-ins and reach capacity. So you're seeing estimates all over the place. I'd say the best guess here is somewhere in that two to four-week range of remaining capacity for Iran domestically. Some experts are saying this could be as long as eight weeks. What I'm showing here on the chart is Gulf production by their reservoir pressure. And so the higher the pressure, the easier it is to bring back production, the lower the pressure, the harder it is to bring back production.

So generally, most of the countries sit in that medium pressure, but I will point out that Iran here has some production at very low levels. So if they have to start shutting in production, that has longer term ramifications as well as that's production that may not come back online. So they're slightly disadvantaged versus the rest of the Gulf where there have been some shut-ins or slowing of production.

Okay. If we go to the next page, this is demand destruction. You'll recall on a few pages back, we talked about noting that we may be seeing now demand destruction at different points. Goldman sell side, our group is estimating about two and a half million barrels a day of production, or excuse me, demand destruction. And so you're seeing this spread across various regions, really less in the US and China, China built up their inventories. US has a lot of oil here, so we're less impacted.

What's getting impacted? Middle East, clearly the conflict is impacted the Middle East. You're also seeing impacts in Africa, and so those have been the larger oil downgrades in terms of demand. But then I would point out here that on the right-hand side, the good part here is that we started to see oil become a substitute across many of the East Asia countries. India's reliance on oil, you can see on that chart here, that light blue line, it's down about a third since 2000. So we're able to withstand these disruptions much better than we were, say, two decades ago. All the reasons why you would expect people working from home, they're utilizing public transit, even EVs are allowing for substitution of oil demand. That being said, we're not seeing immunity to this. Europe, we've seen jet fuel prices really continue to edge up there. I think that's what's probably going to get most of the headlines.

We saw domestically airlines starting to raise their prices there, and the EU is encouraging folks to work from home and they may have "six weeks of jet supplies remaining." We'll see, but I think that the concerns are just different and you're going to see demand destruction concerns vary based on the region of the globe that you're in. All right, if we go to the next page, okay, WTI, futures curve, we've been showing this every week. It's week over week look, and then pre-war, which would be 227, 26 and the purple line. So you can just see the absolute much higher levels that we are today versus prior to the war, the curve is up about $30 for 2026 for the remainder of the year. And we are now looking at a long-term price for 2026 of $90 the rest of the year. So again, before the conflict, you were closer to 60, now you're at 90.

And then I think the bigger question is what happens longer term to the curve? 2027, the curve is pricing in $75 on average, and even 28 to 30 now, the futures curve is at $70. So the punchline is the whole curve's moved up essentially $10. You're going to be at $70, or the curve is pricing $70 all the way now through 2030 or through the rest of the 2020s. You've had a massive jump so far year to date. Our long-term target, we're squarely in that $75 range now, and so we'll continue to monitor that. Obviously, you're seeing price spikes related to and impacting the curve this week. Unfortunately, we saw an Iranian drone strike that UAE storage terminal, so that caused the escalation and the price. But more generally, we have not seen damage over the last three, four weeks to energy infrastructure, which is good, but in total, we've had about 80 energy infrastructure facilities damaged in total. So we'll have to see when this all ends, what the ultimate impact is to those facilities and their production.

Okay. If we go to the next page, all right, now we're getting into the US itself, and we've shown this page for several weeks now. We just had an update on this. And then frankly, I'd say the US supply response, you're seeing a structural shift here where the industry really has greater capital discipline and they're really a much more measured approach to growth. So the rig counts here, they have not moved. They actually declined last week, about three rigs. So you can see that dark blue line. That's really the lowest it's been in several years. Now, you are getting meaningful improving from operators in terms of recovery rates. They're applying new technology and AI to their existing acreage and existing production. So that is helping.

But I'd say the days of adding a million barrels a day annually, largely behind us, how do we think that production will cascade if it goes higher? We'd expect activity to be led by private E&Ps first, and then you go up, roll up the small mid-cap names, then large caps, and then finally the majors would probably change their production profile. But overall, I would say the group as a whole, the industry as a whole, they want to optimize existing production, accelerate any drilled but uncompleted wells, which that number's way lower than it has been. Then they would start to deploy rigs. And then we're going through earning season, so we're getting a lot of anecdotal points from companies, and really you haven't seen a deviation from this. We saw a few weeks ago, Continental and the Bakken said they're going to be revising production estimates higher, and then Diamondback was the one publicly traded company so far for this earning season, the producer, they said they're going to optimize production, and so you could see their production go higher, but really we're at 13.5 million barrels a day of production. Even low single-digit growth is going to be helpful, but I think we should just expect a much more measured approach here.

Okay, go to the next page. All right, so a couple charts here. We've been showing this left-hand chart for several weeks now. Don't forget how big of a US exporter the US is. We're exporting almost 18 million barrels a day, and you're starting to really see that ramp on the crude oil side, not surprisingly, but crude oil has been impacted. We spent a lot of time on that in the first half of this call. And so on the right-hand side, you can now see exports of crude oil, you can see that spike, and you're starting to draw inventories from the US as ships are going down around the horn of Africa, these big VLCC tankers that can load two million barrels a day, they're going to the Gulf of Mexico, excuse me, the Gulf of America and Corpus Christi and Houston and filling up.

So for the last week of April, we had over six million barrels of exports, and you can see that's up pretty significantly from the four million barrels a day that we've been averaging in 2026. So again, I would just say this reinforces a really supportive policy for energy assets, energy infrastructure. It's a good backdrop for conventional energy exports, and we haven't talked about LNG, but LNG is certainly going to be a big winner in this as well. If we go to the next page, this is the last slide, but I would just say in general, it's still pretty wild how performance, whether it's broad energy, the E&Ps,

the refiners, midstream, you name it, you're not up significantly since the start of this war, but you really have had a step change in what the curve looks like going forward. So I think we could still see a nice uplift as people certainly realize the curve is higher, but also just how hard it is for the logistics to untangle themselves, moving crew from one place to another.

In terms of what we've seen for earnings, if you see earnings revised above where they were in January for the broader market, half those revisions higher are coming from energy. And so the higher prices are flowing through to the companies themselves. The left-hand chart here, you can see that just how we're trading, we're at 15 forward earnings multiple versus 21 for the broader market, so cheap on a relative value there. And on the right side, wanted to show just upstream historical enterprise value to EBITDA. So what's moved, what hasn't this year? OFS companies, oilfield services companies, they've moved a bit, but the other lines, integrateds, oil and gas E&Ps, these valuations are pretty low versus their 10-year history. Oil E&Ps are up about 20% since the start of the war. And just going back to the stats on the curve that we discussed, that curve just maintained $75 through the end of 27, you're looking at E&Ps, they're effectively paying off all their leverage and they're going to have a free cash flow of about 14%.

So very, very strong earnings and outlook for those companies. So again, I think when you take a step back energy here, you're seeing the strategic importance. I can't emphasize enough the reasonable valuations, and you just haven't had ownership recover from where it's been in the past in terms of the broader market exposure. We didn't talk at all about US LNG. That remains very well positioned here. I think you're going to need pipeline capacity as well to get these exports to market. So with energy, when you take a step back, you're getting inflation sensitivity and protection there, you're getting income generation through particularly the midstream side of things, and then you get this hedge to geopolitical times of disruption. So we'll leave it there, see what questions are out there, but let's start the Q&A.

Okay. First, just a couple here. Yeah, I think we covered this one pretty well, but the secretary says when Secretary Wright has stated numerous times, when the conflict's over, oil is going to go much, much lower, very, very low. I think we would agree that it certainly goes lower, but is the curve going to re-rate back down to 60? We don't see that happening. I'd say that the one caveat to that would be is if we ultimately ended up seeing significant demand disruption because prices spiked so high that overall this ends up putting us into a recession. That could lead prices to go much lower. In 2008, we'll remember a different time, but crude spiked at $147. And then when you had the bankruptcies, we ended up seeing crude dip all the way down to $40 six months later. So it can happen, but assuming you stay off that recession, I would expect you're going to be much higher than you were than going into this.

Six million barrels a day being exported by the US, how much heavy crude had to be imported to refine to meet US demand. We are importing crude from heavy crude from Venezuela, and then we've always gotten the heavy crude from Canada. So I think that is part of it. And I would just comment one more additional relative to that. There is a bit of a mismatch with the US in terms of what we produce. So we produce light sweet crude, that's more of the shale crude. When you look at refineries in East Asia, they're more set up for that medium sour. So there is a bit of a mismatch. I mean, the optimization levels aren't matching one-to-one there. So I would say that's something to watch out for. And when things normalize, you would expect that the Middle East medium sour would more or less replace some of the demand that you're seeing for our light sweet crude.

So I will leave it there. Thank you all for joining, and we'll keep going on these presentations. We're getting good investor demand. So if you have any questions, please reach out to us and we'll talk to you all soon.

Disclaimers:

This transcript 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 Capital 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, which speak only as of the date of this publication. Tortoise Capital does not assume a duty to update these forward-looking statements. The views and opinions in this commentary are as of the date of publication and are subject to change. This material should not be relied upon as investment or tax advice and is not intended to predict or depict performance of any investment. This publication is provided for information only and shall not constitute an offer to sell or a solicitation of an offer to buy any securities.

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. NAV prices are used to calculate market price performance prior to the date when the fund first traded on the New York Stock Exchange. Market performance is determined using the bid/ask midpoint at 4:00pm Eastern time, when the NAV is typically calculated. Market performance does not represent the returns you would receive if you traded shares at other times. For current including most recent month-end performance and expenses, please visit the individual fund page or call (855) 994-4437.