May 6, 2026

James Mick:
Welcome to the Tortoise Quick Taking 10. My name is James Mick, senior portfolio manager with Tortoise. We thought we'd try something a little different this time. I used to be a teaching assistant in college, and so I thought, "Hey, why not try something a little new?" Funny enough, when I was a teaching assistant, we actually had those projectors. If you remember those where you would write on a transparent piece of paper and it would project it up onto the screen. Of course, the only problem was that you had to turn out the lights. In turning out the lights, a lot of times people would go to sleep. So hopefully no one falls asleep, although we do not have our projectors.

So before I get into all the nuts and bolts, I thought I would just talk a little sports. If you've listened to my audio podcast before, I love to discuss sports. I thought I'd talk about the Royals, but frankly, there's not much to talk about. So instead, I thought I'd talk about the NFL draft and the Chiefs. NFL draft about a week and a half ago in Pittsburgh, the Chiefs traded from the number nine pick up to number six to select Monsoor Delaney, a cornerback out of LSU. He was actually the number one cornerback in the draft by all measures. So good selection. Of course, now that was the necessity because they traded away Trent McDuffie. I kind of like to think of this in terms of like a portfolio. So you had McDuffie, All Pro, blue chip stock.

You knew what you were going to get week in, week out. So you trade them to the Rams, you have to replace them. They choose the hot IPO, Delaney. Now, hopefully that all works out. Hopefully you're getting it a little bit cheaper than the new IPO. That said, you hope you can also match the production of McDuffie as you go through. And then maybe importantly, most importantly, you need to be able to satisfy with all those dollars that you saved, needs that you have elsewhere on the team. And the chiefs did sign Kenneth Walker, Super Bowl MVP to help my homes in the backfield. We'll see if that works.

Okay. With that, onto performance. So as we look at performance for the month of April, we've got crude oil plus 3.6%, natural gas down 15.9. By the way, those are spot prices, not front month contracts. S&P energy minus 3.6%. Utilities plus 60 basis points, 0.6%, midstream plus 3.3, and the S&P 500 plus 10.5. So crude oil plus 3.6. But what I would say it was of a very, very volatile, excuse me, 3.6%. So as we were going, we had a high of probably 115. We had a low of maybe like 83.

Again, these are the spot contract prices, not necessarily the front month, but we did have a lot of volatility. And that volatility drove some of the energy markets. And frankly, it was driving the S&P 500 as well. Anytime something would come out that brought down the price of crude, the S&P 500 shooting higher. Anything that raised the price of crude, S&P 500, dropping lower, but obviously finishing very strongly. Now, in addition to that, we had some really good earnings from some of the hyperscalers and the AI thematics, so that also drove some of those returns in a positive manner.

On the natural gas side, we're in the month of April. For the most part, this is kind of a shoulder season month, not a lot of demand for heating or cooling, and the price kind of reflected that. This is not that uncommon at all. And then energy, I'd say probably traveled a little bit more along the lines of crude oil's volatility, but didn't get as much of the upside. And then utilities, which tend to act defensive, didn't really need to act defensive. As you can see with the S&P 500 higher, that said, a lot of good earnings out of utilities as well, in particular, increasing CapEx related to the AI infrastructure build out. And then midstream, bucking the trend a little bit from an energy perspective, but doing quite well as it relates to a plus 3.3% month. So in total, an interesting month, but earnings started and we're starting to move into a period with more and more earnings and we're seeing pretty good results throughout the period.

So we think that that'll help all the energy stocks as we move forward. Okay. With that out of the way, let's shift back to the number one driver in the markets, which is crude oil. And I know we talk about crude a lot, but obviously it's such a big driver in terms of what we're seeing. So let me start with just a quick update on Iran. The latest data coming out is that Iran is, or the US is trying to shepherd ships through the Strait of Hormuz, escort, if you will, and they're effectively calling this a little bit of like a mission to help the rest of the world out. So in doing so, of course, Iran is saying, "Hey, if you do this, you're breaking the truce or the agreement and they may have to come in and start firing on the ships." The US has said, "Well, if you do that, that'll be problematic." So here we are back in this tit for tat.

And if you think about it, a lot of this comes down to leverage, right? The leverage from a US perspective is quite simple. Choke off the Iranian flow of money, and that means no exports, no money from those exports, that's their main focus from a US perspective, hence the blockade. Interestingly enough, that's kind of the same view from an Iranian perspective because their view is we need to increase the price of crude to make it economically painful for the rest of the world in terms of this price, inflation, right? So in a way, they kind of have the same goals. The question is, is who gives out first? And that's ultimately what we'll have to see. Now, continuing on the crude side, let's talk about inventory, because we've had some pretty substantial draws of inventory as we've moved along, and we had really one of our first major draws in the US this past week, 17 million barrels of both crude and product drawn from inventory.

That brought our April total to about 44 million, and that's versus a typical build of 10 million. So very dramatic in terms of that counter seasonal, if you will, in terms of what we've been witnessing. We anticipate that from this point forward, you will continue to see pretty sharp draws. In fact, if you look at the exports, we set a record in the US six million barrels a day, actually slightly more than six million barrels a day of exports. That broke the old record of roughly a little over five million barrels a day that we had in 2023. So definitely very strong exports. We expect that to continue as well. So we are absolutely drawing from inventory domestically, and of course in the rest of the world too. Now, what about the strategic petroleum reserve or the SPR? We're also seeing draws from that. Right before we started the war, we were at about 415 million barrels.

And the idea after the war started that we came to an agreement, we would withdraw 172 million barrels. The rest of the world, in total, we would have 400 million barrels, of which the 172 is inclusive in that number. So if we withdraw our 172, we will be down to levels around 240, 240 million barrels, levels that we have not seen since 1982. Given that it is May 4th, I will also tell you that is when ET came out, for those of you who might remember, and right before Return to the Jedi came out in 1983. So that's the timeframe we're talking here, a very, very long period of time back. That's going to have to be refilled. We're probably ... That would put us about 500 million barrels below previous peaks in the SPR. So again, dramatic difference in terms of where we are.

And by the way, that SBR release will continue. We've done very little so far, maybe 16, 17 million barrels of the 172. So we have a lot longer and a lot more to go as we look forward. That brings me to my next topic. As it relates to inventories, I would say one of the biggest things in our view is a complacency of the forward curve. And as we think about the forward curve, I'm going to draw it for you just to give you a perspective of where we were and then where we are now. So let me quickly erase this and I will give you the forward curve view.

Try this a little bit more. Okay. So as we look at the forward curve, we're going to draw here. We've got this is price of crude. This is time, and this is going to be at the five year mark right here. We're going to put this in at about $60. We'll put in a hundred up here. So when we started pre-war, 227, this is what the forward curve looked like. It was effectively something to this nature. All the way out to forward years, pretty flat. And this was right about $62. So that's where we were from a forward curve perspective, pre-war. Obviously the war happens, starts off. 228, we bomb along with Israel, we bomb Iran. This is what happens to the forward curve, shoots higher right in the front month. So now you're into a steep backwardation in terms of the forward curve. Here's where the forward curve is as of Friday.

This is more what it looks like. You kind of start here and it tapers off. Again, extreme backwardation. The problem is that while we're pretty high here, this obviously rose quite a bit, this really has not moved very high on a relative basis. So your average currently is about $71 from a forward curve perspective. Our view is that this curve, what's going to happen when we get a ceasefire, the front months are going to come down, but we need the rest of this curve to shift higher. In fact, we need somewhere probably between $75 and $90, let's call it, in order to incentivize an increase in the refill or refill of that storage that we have drained considerably across the world. So let's put into perspective what that drainage looks like. Right now, it's anywhere from 10 to 15 million barrels a day in terms of disruption and what we're probably seeing in terms of an inventory draw.

Now take that and say, okay, well, we're 65 days roughly into this. What if we're at three months, so 90 days, and let's say it's 10 million barrels on the low end of that, you're talking 900 million barrels. The idea or the thought by many is that we're very likely going to be over a billion barrels in terms of total withdrawal that we've had as we start to move through this time period of the war. The problem with that is that is a lot, a lot of barrels that you need to refill at some point. So as an example, we entered the year, our perspective was that we were going to be about 1.5 million barrels a day over supply. Okay, 1.5, you multiply that times the 360 roughly in a year. Maybe you get 500 million, a little bit more than that. So as you look at the 500 million barrels and you go above that, all of a sudden it takes a lot in order to rebuild all that inventory.

You're looking at two plus years to rebuild that inventory. So again, dramatic in terms of where we are. Okay. Let's shift gears now to the UAE leaving OPEC. Big news in the market. From our perspective, I think that clearly it can have an impact. The UAE has had a lot of disagreements with the Saudis over time, and that's perfectly fine. Not too different than what they always have. However, the UAE also is one of the few countries outside of Saudi that has spare capacity. And so the UAE would love to produce more. However, they've been tempered a little bit. Their spare capacity is maybe, it's not nearly as much as Saudi. Let's call it five to 700,000 barrels a day. So could they do more? Yes. Will they do more when they exit OPEC, which they exited on May 1st? It's likely that they'll want to, but keep in mind, they were already cheating above their quotas for some time, and they historically have been generally cheating above their quota.

So I wouldn't say that there's a ton more barrels that they're going to bring to market. The other component of this would be what happens if OPEC dissolves? And by the way, we don't think that it will, but if it did, would that be all together bad? And I would argue that it may not because ultimately what you would have is you would have better price discovery if everyone is producing where they want to be. And more importantly, right now, pretty much everybody but Saudi and the UAE is producing where they want to be or the max that they can. So again, I don't think that it would be that dramatic. The UAE is exiting. We do not think that it means that OPEC falls apart, so that's where we stand on that one. And then finally, I wanted to take a minute. We've been knee deep in earnings.

We've had a lot of great earnings so far. I think the second quarter and the third quarter will be better for energy companies than even the first. That said, it has been a strong start to the year. So I wanted to read you a couple of quotes from various companies that have reported so far to give you an idea of what this looks like. So first, from enterprise products, they are the largest exporter of natural gas liquids in the US.

This is from Tug Hanley, the VP of hydrocarbon marketing in relation to crude oil markets. "I really think that what we are alluding to is the forward market may not be accurately reflecting what we're seeing in the physical market." It's probably not high enough, hence my chart.

This is from EQT, the second largest natural gas producer in the US, Toby Rice, the CEO, in relation to regulations and US infrastructure. "We just saw a couple of days ago, Trump put out executive determinations that just continue to reinforce the critical need to get energy infrastructure built. We need more infrastructure to make sure we can preserve this really valuable opportunity for Americans."

Google, largest hyperscaler in the world, Sundar Pichai, the CEO in relation to AI usage. "Our first party models now process more than 16 billion tokens per minute via direct API used by our customers up from 10 billion last quarter, 60% growth in a quarter." Wild numbers.

NextEra Energy, the largest utility in the US, John Ketcham, CEO, on demand acceleration. "First, demand for electricity in this country is not slowing down. In fact, it's accelerating. Our customers need power now and speed to power is essential."

And finally, Quanta, the largest engineering and construction company in the US, Duke Austin, CEO on demand. Quote, "When you think through it, the transmission, the infrastructure, and what we see in front of us with robotics, the way the grid's used, the power electrification, I just see more demand, more demand in generation and in the electrification of the world. We see it for a decade plus."

And that is why we're excited about energy. Thank you, and we'll see you next time.

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