November 18, 2026

James Mick (00:36):
Hello, and welcome to the Energy Quick Take in 10 podcast. My name is James Mick, senior portfolio manager with Tortoise. Well, at this time, normally I would start talking about the month of October, what happened from a performance perspective, why, all those factors. But in this case, I think it's probably much more relevant to take ourselves back to last week and stay in November. Of course, as you all know, we had the blue wave in terms of the election, both at a federal and a state level. So my goal today is to talk about two things. One, energy, and two, AI. And within the context of that, talk about what happened, why, and then what our outlook is as a result. So let's jump into energy first. So what happened? First and foremost, you had the price of crude as represented by the Brent front month contract declined from about $118 at the end of October to about $92 just yesterday.

(01:29):
So a pretty precipitous decline of roughly $26. In addition, you had the S&P Select Sector Energy Index decline about 12% over from roughly the end of October to a couple days after the election on 11/5. So why did this happen? Well, the premise in our view is pretty simple. With the Democrats taking control, the view was is that they would end the war in Iran. At a minimum, you would see a decrease in the kinetic activity that would be potentially taking place in the war after the elections. Well, the second one is certainly more likely. We think the first is not as likely. I think if you think about the president and what control or powers he has, from a foreign policy perspective, he has a lot of flexibility. In addition, Trump has the ability to veto. When you think about what Congress has, Congress controls the purse string.

(02:19):
So they can influence, but it would take longer time, a longer point of time for them to be able to influence this in terms of the funds for the war. So where does that leave the administration? Well, we really think there's probably three options that are still on the table. One, you could just walk away. This would obviously be problematic for all our allies in the region. In addition, Iran probably takes control of the strait of whore moves and starts charging a toll. So not the best option. Two, you could come to some type of an agreement. This is likely problematic as well. You think about where Iran is now. After the elections, they're emboldened and rightfully so. So their ask as a result in terms of what they want from the administration have only increased. In fact, Secretary Rubio noted this when he came back last weekend saying that the demands of Iran are outrageous.

(03:10):
So that's probably not overly likely either. We're probably pretty far away as it relates to the two groups. Another is you could increase the kinetic activity. This hasn't really proven super successful in the past. In addition, you open yourself up to retaliation, not only of US basis, but also of our allies in the region, including their infrastructure, which Iran has said that they would likely bomb. So where does that leave us? Well, we think it leaves you in the status quo. Ultimately, what you have is you have the blockade that continues and you have a result of that, you've got the sanctions that will also continue, which are pretty substantial. The administration views this as crippling and the idea would be to force Iran back to the table with maybe more reasonable demands and/or some type of regime change over time. So bottom line, status quo is what we believe.

(04:00):
Now let's shift gears to AI. So what happened? Well, the Philly semiconductor index fell about 21 to 22% from 10/29 to 11/5 a couple days after the election, so roughly five trading days. Obviously a big decline of roughly a fifth of the value from a market cap perspective of that index. Why? Well, the why, the premise is really that as the Democrats take control, that will have a big impact in terms of their ability to influence regulations around data centers. So what does that mean? I think it helps to break this into a couple of different levels. One at a federal level and then at a state level. So from a federal level perspective, there's probably not a lot that Democrats will be able to do because anything that they try to impose from a bill perspective that would be overly burdensome would very likely just be vetoed by President Trump.

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Now the state level becomes a little bit more interesting. Our view would be to focus on states where you've seen a flip from red to blue. Now, there's some caveats to that as well. Let's take Texas for instance. Governor Abbott already has regulations in place and a moratorium in place by the way as well that relates to permitting of new data centers. So the other nuance to this argument would be this, more than likely what you're going to end up with is a stopping or a delay of new permits on data centers that have yet to be built and/or permitted, not existing data centers or data centers that are already in construction. So the way to think about this from our perspective, the best way to think about it is even in states where you did flip to blue, you're very likely only going to see a delay.

(05:37):
Our view is probably three to 12 months would be a reasonable expectation, but that's a delay of new permitting on data centers. And again, keep in mind, this is a relatively bipartisan issue, so we don't think that this really changes the outlook whether you would've had a Republican or a Democratic controlled state legislature and/or governorship. So by and large, what we're left with is more than likely just a delay and certainly not a stoppage of anything related to data centers. With that, I'm going to shift gears again and I want to bring in our analysts. We have four different analysts that cover various sectors and they're going to talk about the results from the third quarter earnings and give you a couple of bullet points on each sector to tell you how things went from that perspective.

Hunter Wilcox (06:21):
Hi, I'm Hunter Wilcox, an analyst with the Tortoise Capital portfolio team. I cover data centers and refiners. Let's hop into a recap of refinery earnings. Across the board, it was really solid, great beats. We saw an average 10% beat on EBITDA. Some companies even beat by 40 to 50%. What drove this beat? Refiners had a realized margin of about 40 to $50 a barrel. It was a doubling year over year and their utilization, meaning the barrels that they pumped out, was up about 98%, and this is a very strong utilization. This utilization drove these strong beats resulting in a lot of free cash flow. What are these companies doing with all this free cash flow? Well, they announced multi-billion-dollar buyback programs, dividend raises, and then they're also going to put some of the cash onto their balance sheet and pay down some of their debt.

(07:07):
All around, it was a great earnings quarter and fourth quarter shape enough to be pretty good for them. On data centers also was a great quarter. This was an execution quarter. Across the board as well, these companies hit their timelines and their budgets. This was a very big hurdle for these companies to hit because 2026 was the year of execution. Some of the companies did experience a few delays when they were building their data centers, but this was not delays on their end. It was more so the customers were having changes done to the data center structure that slowed down some progress or they actually were energizing the data centers a little bit ahead of schedule and the customer said they wanted to slow down the ramp because the demand for their capacity wasn't matching up just yet. All around, good on the execution front.

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And you guys are probably aware of how the data centers have been trading the past couple of months. The sentiment has been very negative, but the fundamentals are very sound because this year these companies have signed about $306 billion of contracts across the board with investment grade counterparties or high investment grade counterparties. And fundamentally it's a pretty sound business with the execution now finally rolling out.

John Price (08:17):
Hi, I'm John. I'm also here a part of the analyst team at Tortoise Capital and I help us cover midstream utilities and AI infrastructure. Today we'll be talking a bit about midstream and utilities earnings. To start with midstream, our midstream universe had a very strong quarter, EBITDA beat by about 2% across the board on average. And

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that was especially good for us given the fact that we had some impacts from marketing gains earlier in the year that started to reverse, but given strong fundamentals on the volume front, that allowed several of our names to beat. So that was a positive. Looking at year over year numbers, names ranged from being up anywhere between 5 and 18% year over year on a volume and EBITDA basis. So that was also a great positive to see. There are two big themes that I would call out. The first on the natural gas front, natural gas demand remains very, very strong and that's driven by two main factors, that's LNG and data center or broad power demand.

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So that's number one. Number two is where's that gas going to come from? And we're seeing more and more indication that a lot of that gas is going to come out of the Permian. And because of that, a lot of names have announced projects, long haul gas projects coming out of the Permian. Next, I'll talk a little bit about utilities earnings, which were also very strong. Most of the names in our coverage beat. Some of those beats were driven by weather, although when you look at the earnings, they're up year over year and a lot of that is driven by them adding to their rate base due to spending CapEx to help meet the power demand, which I referenced a little bit earlier in midstream CapEx. There are two big themes that I would call out. The first theme is that several names moved their EPS CAGRs upward.

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Utility names will typically give guidance for five to 10 years out. And we saw several names actually move their EPS CAGRs up into the double digit range for really the first time here. The second bit is in order to achieve that growth, they had to also raise their capital plans. So they're spending a little bit more money on CapEx, but that benefits some of the other names that we own, like the services names. So really positives all around for both mainstream utilities.

Brady Adler (10:25):
I'm Brady Adler. I'm on the analyst team. Today I'll be going through some LNG exporter names and then our broad AI infrastructure trade and just where we kind of see some bottlenecks going through there. So right now I'll start with LNG. Across the board, we saw some of the bigger names in LNG raise their guidance going into 4Q, which is a really big sign. The minimum base was 10% above guidance, so that's really strong. We're seeing that just as the TTF Henry Hub spreads continue to stay expanded with your Middle East war premium, you have European natural gas levels at all time lows over the past decade lows. And then we see that spread continue to stay elevated going forward, which is probably why you see these companies guiding much higher adjusted EBITDA than they have been previously just because they think they're going to continue to capture on that spread and then maybe even sign longer term agreements at higher rates than they have been previously just as countries look to expand away from the Middle East as you saw Qatar signing some deals with US LNG exporters for the first time ever, which is a really good sign.

(11:27):
Okay, moving on to AI broadly. Where we really see some bottlenecks developing is beyond just the GPU now. We're looking more into connectivity and then cooling, specifically liquid cooling. So just to touch on connectivity a little bit, you see some memory and storage names having gross margins in Q3 around the 80% mark, which is just unbelievable to think about. And then you also see these names contracting out more longer-term agreements. They have their supply contracted out well through 2028, which just goes to show that if they can contract at such high rates, they're getting 80% margins plus supply going through 2028, clearly there's a bottleneck there that the market is willing to pay almost whatever they can to get these different memory and storage chips or abilities in their hands. And then moving on to more of a liquid cooling side, as we get more compute and the density within the racks become higher, there's a lot more heat involved.

(12:21):
And it is physically impossible at this point to rely on air cooling alone, which is why you need liquid cooling. In order to continue in the AI trade at the very base level within the data centers, you have to have liquid cooling,

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which we think is just the biggest bottleneck there is right now because you cannot move forward if you don't have liquid cooling in your hands. And you see that with these liquid cooling names posting record breaking EBITDA margins, dollar per megawatt is increasing on their contracts. So you just see that the demand is coming through the earnings on both sides.

Braeden Gembala (12:59):
My name is Braeden. I get to serve alongside the analyst team here at Tortoise and I cover oil and gas producers, so the upstream and then as well as infrastructure services, which we've seen a lot of explosion from with AI demand. So starting with oil producers, earnings are up. Earnings are really strong. Earnings are up about 125% over the last year, free cash flow up about 130% in that same amount of time. And you would think with how elevated oil prices have been, maybe they're going to raise CapEx. They're going to try to drill more, add more rigs, but we have actually seen them prioritize the shareholder by increasing dividends, buying back a lot of stock and strengthening the balance sheet by paying off a lot of that debt. We've seen net leverage across the sector be cut in half over the last year.

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Moving on to the service names, demand for skilled labor, construction, electrical workers, even plumbing, things of that nature is just dramatically improved over the last year with this AI build out. We estimate about a trillion and a half dollars just from the hyperscalers and utility companies through the end of 2028 going into new infrastructure projects in the United States. And so there's a big gap between the amount of labor that's available versus the amount of labor that is demanded for all of these pipelines, transmission systems, new projects that are coming on. And I'm going to leave it there because just for the sake of time.

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