November 9, 2026

Rob Thummel (00:36):
Hello, I am senior portfolio manager, Rob Thummel, and welcome to the Tortoise Energy Quick Take in 10. Now it is Halloween, so it is trick or treating season. And so I'm going to start out first of all with the treats because that's what I like to do. So from a treats perspective, the energy sector continues to deliver lots of treats for investors. Broad energy is the best performing sector in the S&P 500. It's been led by Exxon and Chevron. The energy sector itself is up, I think about 55%. If you look at what's done really well, it is Exxon and Chevron. Exxon and Chevron did report their earnings last week. And if you didn't catch them, both of the companies, both Exxon and Chevron beat expectations and both beat expectations primarily due to the fact that refining margins were much wider. We've been hearing a lot about refining margins.

(01:28):
Obviously the refining margins is the difference between the cost of the price of gasoline, diesel and jet fuel and the cost of the oil that's used to refine it. Margins have been widening out significantly because as we all know, especially during this election season, gasoline, diesel, jet fuel are all at pretty high prices. Yet we've got refineries, including Exxon and Chevron's refineries operating at utilization levels well above 100%. Hopefully we have some relief on the way. How are we going to get relief? Well, there's probably a couple ways. Oil prices potentially could come down, although I should say that oil prices are now today about 50% higher on the futures market. So the futures curve is about 50% higher than the oil future this time last year. The other factor that will bring diesel prices down, and I think that's important because what we've all learned is that diesel basically runs the economy.

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Diesel is a component of all consumer products because diesel's that last mile of delivery. And so if we can get Russian refineries back up and running and stop being drone attacked by Ukraine, then we'll have larger exports of diesel and then that will help alleviate some of the refinery shortfalls that we have here in the US from a refining capacity perspective. Okay, midstream. Energy midstream continues to do well. Energy's up, energy midstream's up about 30% for the year. So it's hanging right in there with the broader energy sector. And then obviously it's also been supported a little bit by the higher oil price, but the companies themselves continue to do well and I think investors continue to like what midstream has to offer. If you look at a couple of the announcements that happened last quarter, if you look at midstream, what's done really well in midstream is probably a name that we like and have liked the tortoise and invested in for years and decades.

(03:14):
And that's the LNG trade, but in particular Cheniere Energy. We've seen US natural gas prices. And in fact, in the S&P 500, the only energy names that are really down are the large natural gas producers, Expand Energy and EQT because we've got low natural gas prices in the US because the US has ample supply of natural gas. We've got so much supply. Inventories are about normal levels. We all know though, internationally, that is not the case. Natural gas prices in Europe are actually very high, much higher than the US. So that really with the higher prices in Europe and lower prices in the US, that really encourages or promotes increased liquified natural gas exports. And Cheniere Energy has been the benefactor of that as well as Venture Global, two names which many of you know very well from investing with us over the years. Cheniere had a unique announcement though last week when it announced a new agreement with none other than Qatar Energy.

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Qatar, that's right. The second largest LNG exporter. You probably though, isn't Qatar an exporter of energy? Yeah, they are. So is Cheniere, but Qatar entered into an agreement with Cheniere where US LNG will actually be shipped to Qatar who will buy that liquified natural gas for a series of 30 years starting in the 2030s, I believe. And so effectively this contract will mean that Cheniere will be shipping LNG to Qatar well into the beyond 2050, which is quite remarkable but a clear indicator of the importance of the sector. We continue to see the fact that

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natural gas coming out of the Permian Basin and finding its way into other locations through new pipelines. Kinder Morgan is spending some capital to transport natural gas from West Texas where natural gas at times during this quarter was actually well below a dollar in MCF. And you did hear me right, it was below a dollar in MCF.

(05:17):
That seems unusual, but there's just not enough pipeline takeaway capacity as a result. And there's so much supply coming into West Texas because of the drilling for oil and shale oil that ultimately results in shale natural gas as well. That's one of the reasons why the US can really be the leader in AI infrastructure because the US can win the AI infrastructure race because of the low cost of supply of natural gas. So speaking of AI, a lot of exciting things that went on with AI, but that was probably, there were a few tricks. And then the first trick was one that we watched very closely, but we saw AI infrastructure stocks as represented by our TCAI, Tortoise Capital AI Infrastructure ETF. They declined for the month. We were down 17%. So you'd say, "My goodness, that was a tough month." And it was. But you know what?

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Let me look here. This is the thing I look at very closely when those type of things happen. Let's look at the CapEx numbers. So the CapEx numbers by the hyperscalers, what did they do? Well, Amazon, Meta, Google, Oracle, Microsoft, they all reported capital expenditure numbers. Then in addition to that, SpaceX got into the mix for capital expenditures. SpaceX recently just announced that they're going to have a pretty heavy CapEx spend over the next several years. In fact, they're going to spend $250 billion next year and another $280 billion a year after that. Overall capital expenditures, which really drive a lot of this TCAI and this infrastructure trade are going to be up 57% next year over this year. You can look out over the next four years, the comp and annual growth rate's going to be something close to 20% on capital expenditures. So even though we had a rough month in TCAI from a performance perspective, the big picture drivers are still in place and we still are optimistic about what can happen in the future.

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The other big factor that we think still really supports TCAI and its long-term secular trend of AI is this IPO, Anthropic. Anthropic came out and provided the first look at its prospectus, it's filed its S1 with the SEC. Most people think that Anthropic will go public sometime before Thanksgiving or right around then. At Tortoise, we're probably not going to be investing in Anthropic as an IPO. However, there was some great information on a lot of the pages of the Anthropic IPO that really highlight and align with what we've been talking about at Tortoise and the need for more AI infrastructure. For instance, on page 30 of the prospectus, if you get a chance to take a look at it, it talks about how compute demand is rising dramatically. On page 33 of the prospectus, it talks about $500 billion of compute and infrastructure commitments that Anthropic has through 2030.

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Once again, a lot of those commitments are with AI infrastructure companies because obviously we all know that AI doesn't run on ships alone. AI runs on infrastructure. And then lastly on page 36, this is something that we follow very closely. If you remember Jensen Wong's five layer cake, what's at the base of that five layer cake? Well, the base of that five layer cake is electricity and Anthropic highlights on page 36 that one of its risks of its IPO is its electric power and fuel constraints. And so if the companies in particular and electricity, both electricity and natural gas companies aren't able to supply the natural gas to generate the electricity, then that will be a constraint for AI. And then lastly on page 37, it talks about data center infrastructure and the need for all of that. And we've all learned that there is no AI without infrastructure.

(09:22):
There's no AI really without infrastructure in general. So if you think about what's inside or what are we talking about infrastructure? Well, we're talking about the data centers themselves. We're talking about what's inside the data centers, the cooling device, heating and cooling devices. We're talking about the memory and storage

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devices or memory and storage equipment. We're talking about some of the cables and fibers and things along those lines that all are really, really important, the picks and shovels of AI infrastructure that are absolutely critical. Elon Musk also mentioned to us that one of the things that we are under supplied is effectively we're under supplied liquid cooling. And so we've seen this, what happens before, if we're under supplied in a market, then that result of that is growing margins basically. So like with memory and storage, we had an undersupplied market of memory and storage, growing demand.

(10:16):
What happened is you saw companies like Micron and Western Digital and SK Hynix see their margins rise from the mid 50s all the way in some cases to the mid 70s and even in higher. And so although we had a downturn or at least a bit of a meltdown I guess in the TCAI on a monthly basis, I would say that I think that the fundamentals both from a capital expenditure perspective and an infrastructure perspective are still well in place for this long-term secular trend to continue and we think that will still be a positive for TCAI. So with that, I'm going to stop for this particular quick take. Thank you for listening and if you need further information, please feel free to reach out to us via our website at tortoisecapital.com. Thanks again.

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

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