TortoiseEcofin QuickTake Podcast

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Hello I am James Mick, Managing Director and Senior Portfolio Manager with TortoiseEcofin.

This time last year I was basking in the glory of my Kansas Jayhawks winning the NCAA national title in basketball. Sadly, that's not going to happen this year, but the Jayhawks did win the Big 12 conference title, make the NCAA tourney for a record 33rd straight year, and obtain yet another number 1 seed. So not a bad season after all. Although to be fair, it's a lot easier to take bowing out of the tournament early when you are only one year removed from a national title. The madness of March was certainly not reserved for only basketball as the stock market felt it's very own version, with Silicon Valley Bank serving as a one seed in terms of stirring up controversy. We'll touch on that and much more as we dive into the monthly podcast.

Let's start things off with performance for the month of March:

- On the commodity front, crude oil was down marginally, with futures falling 2.7%, while
- Natural gas was significantly lower, dropping 33% on warmer weather for futures pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® was slightly negative, declining 21 basis points
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were closer to commodities, lower by 3.2%
- Utilities, per the Dow Jones Utility Index, proved defensive, higher by 3.9%
- And finally, MLPs, as represented by the Tortoise MLP Index® were middle of the pack, down about 1.1%

The month of March served up its fair share of drama. Topping the charts was Silicon Valley Bank and the apparent replay of It's a Wonderful Life. On March 9th, SVB was in trouble, with the stock down 60% for the day. By March 10th, the Fed had basically shut down the bank. I'm not a banking expert by any means, but effectively this was a classic mismatch of assets and liabilities. Even secure investments made by the bank in U.S. treasuries were worth much less than anticipated due to the significant rise in interest rates promulgated by the Fed in such a short period of time, which was exacerbated by the longer duration securities held by SVB.

Of course, SVB wasn't alone in this debacle as a few other banks fell as well. The real concern was a potential run-on regional banks as investors flocked to the perceived safety of large, national style banks deemed "too big to fail". Generally speaking, the Fed put a likely stop to the run for now, yet concerns remain on the banking front to be sure.

The question for us, what does it mean for energy companies?

In general, not much at the moment. Energy companies really had no business with SVB, or other banks associated with Silicon Valley, so that wasn't a big risk. We spoke with all of our midstream companies and that was certainly the case. In addition, we focused on liquidity, identifying credit facilities, capacity available and cash flow to offset any concerns around debt coming due. What we found was a welcome, yet not unexpected outcome. The U.S. midstream sector in general is very well situated, with little drawn on credit facilities, substantial excess free cash flow after capex and dividends, and plenty of capacity to take care of any debt maturities for the next couple of years if needed. Of course, we actually saw a split rated IG/HY company issue debt just last week at a rate just over 6.5%. Certainly, higher than previous issuances, but not dramatically so.

So, concerns of the energy markets were and are overblown. The market reaction was somewhat expected, as interest rates fell, energy sold off, and tech rallied. The market concern became one of an acceleration of recession fears and the perceived impact on energy demand. The market turned on a dime and went from expecting a couple of hikes and a period of flat rates for 2023 to one of an immediate cut and a series of additional cuts for the remainder of the year.

Yet Powell and the Fed actually followed through with their 25-bps hike in March, the market seemed somewhat content with Fed provisions for the banking crisis, and some sense of normalcy returned, with energy making up ground in the back end of the month. All that said, the concern would be that a tightening of financial conditions from the banking crisis did some of the work for Powell by likely leading to a slower economy moving forward. How soon that takes place is anyone's guess as the market continues to put up decent, albeit slowing economic stats.

Our view is that free cash flow works pretty well in every environment, regardless of macro twists and turns. So, stay buckled in and enjoy the high yields and cash in your hand.

On the crude oil front, OPEC came out and surprised us this weekend with a pretty substantial cut to production, to the tune of potentially 1.6 million bpd all in. The banking crisis pushed crude oil into a tailspin, with WTI falling as low as $66. Clearly, OPEC was not pleased with prices that low, so Saudi appears to have orchestrated a rather large cut in front of the planned OPEC meeting. Given most countries are not producing at existing quotas, the cut won't be quite that large, something less than 1M bpd, but given the commodity pundits' views that oil markets were likely to tighten in the second half of 2023, one has to wonder what this means for inflation.

The bearish view for oil has centered on weaker demand due to a coming recession and the resilient supply of Russian oil seemingly avoiding the pitfalls forecasted by us and others due to sanctions. The bull case revolves around China and its emergence out of covid induced lockdowns, which has led to higher demand for sure. In all, the banking led, recession-based macro narrative had trumped the bull case, perhaps prompting Saudi to act.

One thing is for certain, OPEC is in control and driving price and U.S. shale is no longer viewed as the marginal producer. This is likely a good thing for oil markets. OPEC wants and needs a higher price, and they are back in the driver's seat to obtaining their wishes.

We have a very interesting summer ahead of us!

With that, enjoy the start of baseball season and we look forward to speaking with you again soon.

Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseecofin.com.

The **Dow Jones Utility Average Index** is a price-weighted index composed of stocks of 15 utility companies listed on the New York Stock Exchange.

The **S&P Energy Select Sector Index** is a modified market capitalization-based index of S&P 500 companies in the energy sector that develop and produce crude oil and natural gas and provide drilling and other energy related services. Returns include reinvested dividends.

The **S&P Oil and Gas Exploration and Production Select Industry Index** is comprised of stocks in the S&P Total Market Index that are classified in the Global Industry Classification Standard oil & gas exploration & production sub-industry.

The **Tortoise MLP Index®** is a float-adjusted, capitalization-weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities. To be eligible for inclusion in the Tortoise MLP Index®, a company must be publicly traded, organized as a limited partnership or a limited liability company, and be classified as an "energy MLP" by the Master Limited Partnership Association (MLPA).

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