Tortoise QuickTake Podcast with James Mick
Sept. 21, 2015

Narrator: Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of Tortoise provides a timely update on trending topics in the market.

James Mick: Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital.

It was all about the macro last week, as the Fed's decision weighed heavily on the market, the lifting of the crude oil export ban was voted on within the House and crude inventory numbers gave us a positive data point.

Reviewing first performance for the sector, last week:

- The broader S&P 500 Energy index was up .3%
- Exploration and production companies were up 2.1%
- MLPs finished down .5%
- And crude oil traded up mid-week, before settling marginally higher, finishing up about 1% to close at $44.68

The Federal Reserve opted not to raise the federal funds target rate at its September meeting, as some had expected. The result was an initial surge in the stock market, followed by a strong negative reaction both late Thursday afternoon and all day Friday. Concerns about global growth and low inflation were the main drivers noted. At this point, a decision to raise rates would appear to be pushed back to December at the earliest and possibly not until 2016.

On a positive note, the House Energy and Commerce committee voted to permit crude oil exports from the US, allowing for the next step in the process to take place, a vote in the full House for final passage. Of course the Senate, a much tougher vote, still looms if successful.

To be clear, our view is that an outright lifting of the ban would not likely have a material impact on prices for crude oil. The current spread between West Texas Intermediate and Brent crude oil is very close to the cost of transportation and therefore exports are not likely to tighten the spread. However, we believe free trade would be a benefit for US producers and provide another outlet for US crude. Swaps between countries such as Mexico and Canada would likely take place on a much more frequent basis with greater scale as well. Logically, we would agree with many proponents of exports that it doesn't make a lot of sense that the US joins Iran as the only two countries that currently face export bans.

There's a long way to go in this debate, but we continue to be encouraged by the positive steps that are being taken in Washington.

Finally, crude oil had some encouraging fundamental data released on Wednesday as the EIA reported a draw of crude inventories to the tune of approximately 2.1 million barrels. Stronger refinery runs and lower imports helped produce the positive number. While inventory is still high on a relative basis to prior years, the draw yielded a sharp rise in crude oil prices, as WTI spiked over $2 per barrel, or up 5% on Wednesday. Of course those gains were almost all given back on Thursday and Friday as global growth concerns, sparked by the Fed announcement, weighed on the outlook for crude oil.

On a more micro level, last week one MLP, Antero Midstream Partners, completed a private investment in public equity, known as a PIPE, with a host of investors. The PIPE was utilized to support a one billion dollar drop-down of assets from parent company Antero Resources. This is a very positive development in our view and displays the multiple options that companies have to achieve growth targets as well as displaying that market access is open to high quality companies.

While sentiment remains negative within energy stocks, constructive events, such as those noted from last week, can build momentum and hopefully lead to better returns.

Thanks for your time and we look forward to speaking with you next week.

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