Tortoise Capital Advisors

Tortoise QuickTake Podcast

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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.

We reached halftime in markets last week so here are some highlights from the first half.

Investors dove into an energy market at the beginning of the year where the water was murky and the sea was very choppy. Early in the year, many market analysts raised a red flag when recommending investing in the energy sector due to the uncertainty of several technical and non-technical undercurrents swirling around the energy sector. As the year has unfolded, a red flag has been replaced by a green flag as the water has become clear and the sea is calm. For example, during the first quarter of 2016, the MLP sector, as represented by the Tortoise MLP Index®, experienced moves up or down by 2% or more during half of the 61 trading days. In the second quarter, these 2% moves were much less common with MLPs only moving 2% or more in one out of every four trading days.

Performance of the energy sector has followed the weather; as the seasons have changed the energy sector has become hot. The energy sector, as represented by the S&P Energy Select Sector® Index, is up 16% through the end of the second quarter. Energy was the best performing sector in the S&P 500® during the second quarter. The stock prices of MLPs have risen by 15% through June 30, posting the best quarterly return in the history of the Tortoise MLP Index®. The best performing stocks in the energy sector so far in 2016 have been oil and gas producers. The producers, as represented by the Tortoise North American Oil & Gas Producers Index℠, rose by 27% this year. The performance of energy stocks has been supported by positive returns in oil and natural gas prices, which have rallied by 31% and 25%, respectively so far in 2016. Refiners have been the worst performers in the sector year-to-date with stock prices returning -18% year-to-date.

Through June 30, the range of individual stock returns in the Tortoise MLP Index® remained wide with best performing MLP, Rose Rock Midstream, rising by 93% through the end of the second quarter. The worst performer in the index being CVR Refining, returned -59%. The best and worst performers in our Tortoise North American Oil and Gas producers Index℠ were Marcellus Producer Rice Energy up 102% through June while DJ Basin producer Synergy Resources returned -22%.

Last week, commodities and energy stocks followed the broad market in a post-Brexit rally. The S&P 500® Index rose by 3.3%. Oil prices increased by 4.4%, boosted by the largest monthly decline in U.S. oil production since 2008. Natural gas prices increased by 7.6% due to hot weather and lower inventory builds. The energy sector and oil and gas producers rallied by 3.2% as well. MLPs lagged slightly with stocks appreciating 1.6%. A combination of stable oil prices and a 10-year treasury yield around 1.5% make MLPs look quite compelling given the Tortoise MLP Index® current yield of 7.5%.

Moving onto news events from last week, the fireworks show started early in Tulsa and Dallas with the Energy Transfer/Williams saga inching closer to final resolution. Last week, Williams announced that shareholders approved the merger acquisition with ETE. Subsequently, Energy Transfer Equity announced the termination of the merger agreement with Williams due to failure of conditions under the merger agreement specifically Latham & Watkins inability to deliver the required tax opinion. Then on Friday, six of the 13 board of directors resigned from the Williams board. Alan Armstrong was retained as CEO. The best news from all of this for both companies is that Williams and Energy Transfer are taking steps forward to returning to what they do best which is operate strategic energy infrastructure assets.

Oil and gas producers continued to access the capital markets last week with Southwestern Energy issuing $1.3 billion of equity and Eclipse Resources raising $130 million of new equity. Anytime a producer raises equity, an alarm bell goes off in some investor's minds reminding them of a similar situation that played out last year. Recall, in 2015 producers raised equity and oil production volumes flattened in the second half of the year. The result was falling oil prices that negatively impacted energy stocks. Here is why we think this year is different. Last year, oil prices were approaching $60 per barrel and the futures curve indicated that oil prices would rise into the $60s and beyond in 2016, ‘17, and ‘18. Today, current oil prices are around $50 per barrel; however, the futures curve doesn’t indicate that prices will ever reach $60 per barrel. So even with the strong year-to-date increase in oil prices, current oil prices remain too low to incentivize most oil producers to increase drilling. Therefore, U.S. oil production is expected to decline in 2016 and into 2017 which will continue to support stable to growing oil prices. Oil and gas producers are expected to use the increased cash flow from higher oil prices to improve their balance sheets by paying down debt.

Lastly, in news impacting the downstream sector, General Motors announced last week that SUV sales in June rose 17% from a year earlier. These trends in new car sales due to low gasoline prices continue to point to strong future demand for gasoline.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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

The S&P 500®

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The S&P Energy Select Sector® Index

The S&P Energy Select Sector Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

About Tortoise North American Oil & Gas Producers Index℠

The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

About Tortoise MLP Index®

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.

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