

Three Things to Close 2023, and Three Things to Look Forward to in 2024 by Ted Gardner

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Three Things That Drove the Market in 2023

Three Things to Look for in 2024

1 MLPs Outperformed Other Structures and the Broad Energy Market

U.S. MLP investors enjoyed a banner year with gains of over 25% in the calendar year, compared to C-Corps and Canadian companies. Outperformance was due in part to a significant valuation gap at the beginning of the year and to meaningful M&A activity in the sector.

1 Geopolitics

While the Israel-Hamas conflict is currently “contained” within Gaza, an escalation to a broader regional conflict directly involving Iran, Saudi Arabia or other OPEC countries could cause a massive supply disruption that would move oil prices meaningfully higher. Roughly 3 million barrels per day (bpd) flow through the Suez Canal, while nearly 20 million bpd travel the Strait of Hormuz.

2 It Was a M.A.A.D. World

Returns in the energy sector were driven in large part by merger and acquisition activity (M&A), in addition to acquisitions and divestitures (A&D). OneOK and Energy Transfer Partners gained headlines for acquisitions, while other MLPs were acquired by their parent companies in a “simplification” transaction. A few private-equity backed companies were acquired by publicly traded entities as well.

2 Saudi Production

Thus far, Saudi Arabia has reduced its output to maintain supply/demand balances while other OPEC nations continued at their normal levels. At the end of November, some OPEC members announced cuts of 1.2 million bpd for the first three months of 2024. If the cuts do not materialize, Saudi Arabia could increase production to protect market share, which would be negative for oil prices.

3 Increasing Dividends and Normalizing Distributions

Income remains a key component to returns for MLPs, as distributions grew by more than 5% on average for companies in the index. Certain companies announced increased distributions to shareholders, returning to pre-COVID-19 pandemic levels in many cases. Increasing dividends reflects stronger balance sheets for many MLPs.

3 More M.A.A.D.

We expect consolidation to continue, but it is always difficult to predict the parties and the timing. Chevron recently announced the acquisition of Hess, which owns a significant interest in Hess Midstream. Other deals will undoubtedly follow, as companies seek to divest assets and position themselves in a highly competitive market.

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