Midstream fundamentals vs tariffs and market turmoil

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The equity markets, including energy equities, have experienced sharp declines over recent days as investors grapple with the uncertainties sparked by the rollout of U.S. tariffs. Midstream equities have not been immune, giving back recent gains but still outperforming the broader markets. In fact, through Friday, April 4, 2025, the Alerian MLP Index is down only 1.4% year-to-date on a price basis and up 0.3% once distributions are considered versus the S&P 500 Index's 13.7% price loss and 13.4% total return loss.

Natural gas demand growth appears resilient

Importantly, midstream companies earning a majority of their margin from natural gas centric services account for roughly 75% of midstream sector market capitalization. (e.g. gathering, transportation, processing, fractionation, NGL logistics).[1] Accordingly, in our view, midstream sector participants remain well positioned to benefit from the robust outlook for U.S. natural gas demand which we believe will see little impact from U.S. tariffs or heightened trade barriers enacted in retaliation.

Domestic natural gas demand is positioned to benefit from the start-up of multiple liquified natural gas (LNG) export facilities, all underwritten by long-term supply contracts with limited exposure to tariffs. Natural gas demand is also expected to benefit from rising demand for natural gas-fueled electric generation to meet the needs of data centers and the broader trend toward "electrification of everything" including transportation, heating, and industrial processes.

Further, any incremental onshoring of manufacturing that is achieved, which appears to be a key tenet of President Trump's underlying objectives, only adds to domestic power and natural gas demand. The administration has also often touted the contracting of additional U.S.-sourced LNG as a negotiating vehicle.

Healthy outlook remains

Therefore, despite the market turmoil currently unfolding, we believe the midstream sector offers investors an attractive distribution yield and an improving outlook for cash flow and distribution growth. In our view, these fundamentals are supported by significant and predictable natural gas volume growth that may near 25% - 34% by the end of the decade.[2] Further, midstream sector leverage and distribution coverage metrics remain healthy which we believe insulates sector growth plans from market volatility.

Important information

1. Bloomberg as of 2/28/25
2. Bernstein, The Long View: A US gas supercycle is coming…we upgrade gassy E&Ps, 01/15/25 and KinderMorgan 1Q25 Investor Presentation, 2/28/2025

The Alerian MLP Index is a capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities.
An investment cannot be made into an index. Past performance does not guarantee future results.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio's investments. Although the characteristics of MLPs closely resemble a traditional limited partnership, a major difference is that MLPs may trade on a public exchange or in the over-the-counter market. Although this provides a certain amount of liquidity, MLP interests may be less liquid and subject to more abrupt or erratic price movements than conventional publicly traded securities. The risks of investing in an MLP are similar to those of investing in a partnership and include more flexible governance structures, which could result in less protection for investors than investments in a corporation. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns.

Energy infrastructure MLPs are subject to a variety of industry specific risk factors that may adversely affect their business or operations, including those due to commodity production, volumes, commodity prices, weather conditions, terrorist attacks, etc. They are also subject to significant federal, state and local government regulation.

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