

# Energy price volatility and midstream energy infrastructure

April 2025

**By: Brian Watson, CFA**  
Senior Portfolio Manager

The equity markets have reacted sharply to the uncertainties caused by US efforts to employ new tariffs to recalibrate the previous global trade status quo. Similarly, crude oil and natural gas prices have fallen as well. However, midstream energy infrastructure operators generally earn their revenues on a per volume basis as opposed to a commodity price related metric. Therefore, for most midstream companies, we believe it is more important to consider what recent price weakness might mean for future volumes rather than the price weakness itself.

## **Natural gas outlook**

Domestic natural gas demand is positioned to potentially benefit from the start-up of multiple liquified natural gas (LNG) export facilities as well as 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. In total, we believe these demand drivers may lead to a 25% to 34% increase in natural gas demand by the end of the decade.<sup>1</sup>

Therefore, we do not believe recent natural gas price volatility will meaningfully impact future natural gas volumes. Lower or higher prices may impact which basins, or which midstream assets specifically benefit more or less, but this robust outlook for demand is expected be broadly supportive of the sector. Notably, midstream companies which earn a majority of their margin from natural gas centric services account for roughly 75% of the midstream sector’s market capitalization.<sup>2</sup>

## **Crude oil outlook**

Most domestic oil producers have moved to a business model of low leverage and capital discipline targeting modest production growth to potentially maximize cash returns to investors through buy backs or dividends. As result, over recent periods of price weakness or strength, production growth plans have typically remained little changed. While recent price weakness is only a few days old and, therefore, few producers have commented on any potential changes, we believe recent price weakness will similarly have little impact to future midstream volume flow.

Notably, the largest exploration and production (E&P) companies in the US have an average net debt-to-earnings before interest, taxes, depreciation and amortization (EBITDA) of only 1.1x.<sup>3</sup> In fact, since 2008, there have only been two years when US oil production has declined year-over-year.<sup>4</sup> The first was 2016 when oil prices reached a low of \$26.21 and second, in 2020, when oil prices reached a low of negative \$37.63.<sup>2</sup> Further, despite the 2020 reduction in oil volumes, midstream EBITDA for 2020 actually beat sell-side expectations that were set prior to the pandemic that began in March 2020.<sup>5</sup>

Underlying this consistency is the healthy economics of the major US basins. According to the latest Federal Reserve Bank of Dallas Survey, the average price necessary to cover operating expenses of existing wells ranges from \$26/barrel to \$45/barrel.<sup>6</sup> In the Delaware and Midland basins of the Permian, the two largest producing areas in the country, the average breakeven price of oil for existing wells is \$33/barrel and \$35/barrel, respectively. In fact, a recent Morgan Stanley analysis found that within their coverage universe, a median price of ~\$50/barrel WTI would allow companies to still meet their base dividends.<sup>7</sup>

## **Outlook**

Though recent commodity price weakness as well as broader equity market volatility has resulted in midstream equity weakness as well, we do not believe the outlook for the midstream sector has materially changed. In fact, we believe the robust outlook for future natural gas demand growth represents a significant opportunity for much of the midstream sector. Further, for those midstream companies with greater exposure to crude oil volumes, we believe history suggests that while recent price weakness may slow growth prospects, a significant change in expectations is unlikely.

**Important information**

1. KinderMorgan, Inc. as of 2/28/25 and Bernstein as of 1/15/25
2. Bloomberg L.P., 3/31/25
3. Bloomberg 4/1/25. Companies include ConocoPhillips: COP, Diamondback Energy: FANG, EOG Resources: EOG, Occidental Petroleum Corp: OXY, Devon Energy Corp.: DVN, Coterra Energy Inc: CTRA, Oviativ Inc: OVV, Permian Resources Corp: PR, APA Corp.: APA, Matador Resources Co: MTRD, SM Energy Co: SM, & Vital Energy, Inc.: VTLE.
4. EIA U.S. Field Production of Crude Oil, 4/7/25
5. Citi, Positioning An Energy Portfolio During a Trade War, 4/9/25
6. Dallas Fed Energy Survey, 3/26/25
7. Morgan Stanley, Exploring Breakevens & FCF Sensitivities, 4/2/25

**Past performance does not guarantee future results.**

Debt-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) is a ratio that measures the amount of income generated and available to pay down debt before a company accounts for interest, taxes, depreciation, and amortization expenses.

The Dallas Federal Reserve conducts a quarterly survey of about 200 oil and gas firms located or headquartered in the Eleventh District—Texas, southern New Mexico and northern Louisiana—which operate regionally, nationally or internationally.

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.

The opinions referenced above are those of the author as of April 9, 2025. These comments should not be construed as recommendations, but as an illustration of broader themes. The opinions are based on current market conditions and are subject to change. They may differ from these of other Invesco investment professionals.