SteelPath October MLP Market Update & News

October 2024

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Funds under management
Invesco SteelPath MLP Alpha

Invesco SteelPath MLP Income

Invesco SteelPath MLP Select 40

Invesco SteelPath MLP Alpha Plus

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Midstream equities underperformed the S&P 500 over the month of September as crude oil and natural gas liquids (NGL) prices declined and as midstream M&A activity continued. Natural gas demand growth driven by artificial intelligence (AI) models continued to drive conversations among market participants. While estimates vary, according to Goldman Sachs, data center market share of U.S. power demand may grow from 3% to 8% by 2030 driving 3.3 to 6.1 billion cubic feet per day (bcf/d) of incremental demand for natural gas.[1]

MLP market overview

Midstream MLPs, as measured by the Alerian MLP Index (AMZ), ended September down 0.3% on both a price basis and after distributions are considered. The AMZ underperformed the S&P 500 Index's 2.1% total return for the month. The best performing midstream subsector for September was the Marine group, while the Gathering and Processing subsector underperformed, on average.

Year-to-date through September, the AMZ is up 12.3% on a price basis, resulting in an 18.3% total return. This compares to the S&P 500 Index's 20.8% and 22.1% price and total returns, respectively. The Gathering and Processing group has produced the best average total return year-to-date, while the Other subsector has lagged.

MLP yield spreads, as measured by the AMZ yield relative to the 10-Year U.S. Treasury Bond, widened by six basis points (bps) over the month, exiting the period at 335 bps. This compares to the trailing five-year average spread of 627 bps and the average spread since 2000 of approximately 439 bps. The AMZ's indicated distribution yield at month-end was 7.13%.

West Texas Intermediate (WTI) crude oil exited the month at $68.17 per barrel, down 7.3% over the period and down 24.9% year-over-year. Natural gas prices ended August at $2.92 per million British thermal units (MMbtu), up 37.4% over the month and 0.2% lower year-over-year. Natural gas liquids (NGL) priced at Mont Belvieu exited the month at $24.86 per barrel, 9.3% lower than the end of August and 16.6% lower than the year-ago period.

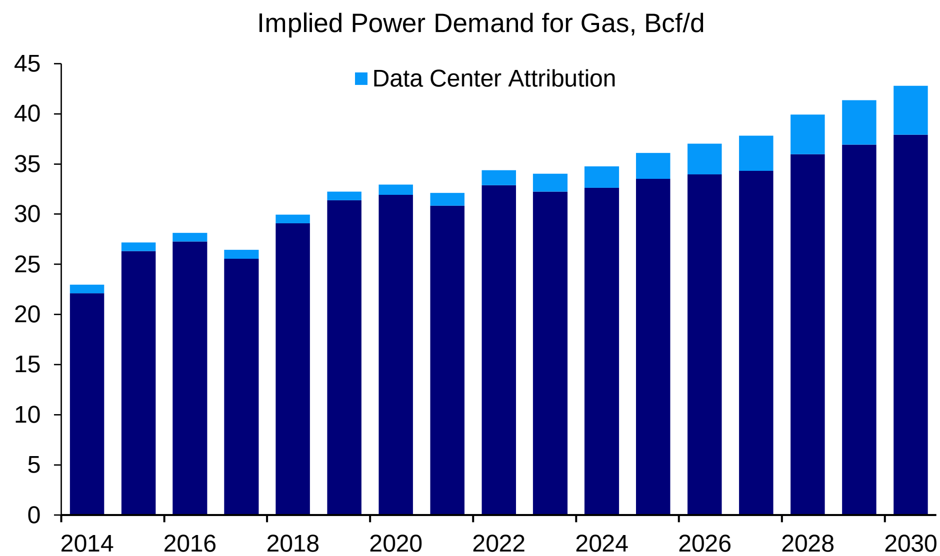
News

KNTK made an "EPIC" deal. Kinetik Holdings (NYSE: KNTK) announced a series of transactions to support the continued growth and financial profile of EPIC Crude Holdings, LP (Private: EPIC Crude). KNTK and Diamondback Energy (NYSE: FANG) acquired a 30% equity interest in EPIC Crude, increasing each partners' equity stake to 27.5%. KNTK and FANG each committed new or additional crude oil volumes to the pipeline. KNTK will also make a new connection between its crude gathering system and the EPIC Crude system, a 700-mile, 30" crude oil pipeline that extends from Orla, Texas to the Port of Corpus Christi. It will service the Midland, Delaware and Eagle Ford basins.

Canada contributed a new public midstream name. On September 25th, shares in South Bow Corporation (NYSE: SOBO), a liquids pipeline focused spin-off of TC Energy (NYSE: TRP), began trading on a "when-issued" basis with regular way trading to begin in early October. SOBO's extensive pipeline infrastructure connects critical western Canadian crude oil supplies to the strongest demand and refining markets in the U.S. Midwest and Gulf Coast. This includes the Keystone Pipeline System which spans 4,324 km (2,687 miles). Keystone plays a key role in delivering Canadian and U.S. crude oil supplies to U.S. refining markets in Illinois, Oklahoma and Texas.

Chart of the month: Implied power demand for natural gas is rising due to AI

In our recent blog, Midstream energy to fuel growth in AI, we highlighted midstream as a critical component in meeting the rising demand for natural gas for electricity generation, and how artificial intelligence (AI) models are increasing the expected growth in power generation.



Source: Goldman Sachs Investment Research, "Generational Growth AI, data center and the coming US power demand surge" 4/28/24

Important information

Source: All data sourced from Bloomberg L.P. as of 9/30/2024 unless otherwise stated.

[1]Goldman Sachs, "Generational Growth AI, data center and the coming US power demand surge" 4/28/24

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.

The opinions referenced above are those of the author as of October 1, 2024. These comments should not be construed as recommendations, but as an illustration of broader themes. 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. The opinions are based on current market conditions and are subject to change. They may differ from these of other Invesco investment professionals.

Midstream companies are engaged in the transportation, storage, processing, refining, marketing, exploration, and production of natural gas, natural gas liquids, crude oil, refined products or other hydrocarbons.

Marine companies are dedicated to marine transportation of oil and natural gas.

Gathering companies involve connecting oil and/or natural gas wells to major pipelines through a series of small pipelines. Processing is required for natural gas and involves the removal of potential contaminants and separation of NGLs so that the gas can meet purity standards for pipeline transmission.

Other Energy companies include companies that do not fit into the core midstream subsector categories (natural gas transportation, petroleum transportation, gathering and processing, etc.) and include, but are not limited to, companies that focus on compression and shipping.

The mention of specific companies, industries, sectors, or issuers does not constitute a recommendation by Invesco Distributors, Inc. A list of the top 10 holdings of each fund can be found by visiting invesco.com. Holdings are subject to change and are not buy/sell recommendations.

As of 6/30/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Income Fund, Invesco SteelPath MLP Select 40 Fund and Invesco SteelPath MLP Alpha Plus Fund held 0.99%, 0.41%, 0.45% and 0.95% respectively in Kinetik Holdings.

As of 6/30/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Income Fund, Invesco SteelPath MLP Select 40 Fund and Invesco SteelPath MLP Alpha Plus Fund held 0.00%, 0.00%, 0.90% and 0.00% respectively in TC Energy.

As of 6/30/2024, the Invesco SteelPath Funds have no position in EPIC Crude Holdings LP.

As of 6/30/2024, the Invesco SteelPath Funds have no position in Diamondback Energy.

As of 6/30/2024, the Invesco SteelPath Funds have no position in South Bow Corporation.

The S&P 500 Index is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. The Alerian MLP Index is a float-adjusted, capitalization-weighted index measuring master limited partnerships, whose constituents represent approximately 85% of total float-adjusted market capitalization. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. An investment cannot be made into an index. Past performance does not guarantee future results.

A yield spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, issuer, or risk level, calculated by deducting the yield of one instrument from the other.

A basis point is one hundredth of a percentage point.

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.

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their financial professionals for a prospectus/ summary prospectus or visit invesco.com.

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