DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

Energy Investor Monthly: October 2022

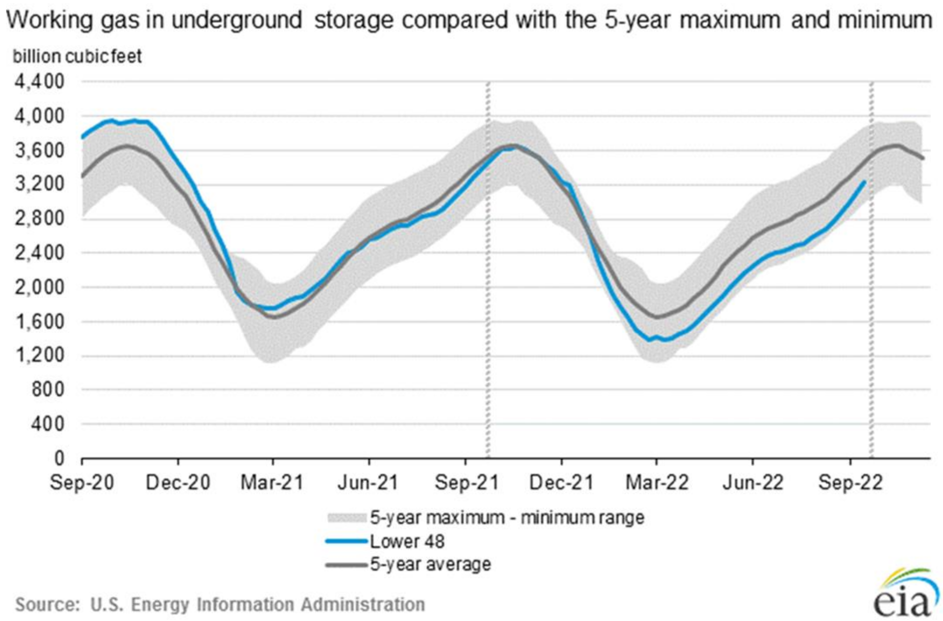
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

Insights of the Month: An Update on the Global Energy Markets

Over the last month, the energy markets seem to have been overwhelmed by news of many market-moving events. Ranging from the more mundane to major breaking news items, these events have shown just how important U.S. energy production has become to the health of the global economy.

At the 33rd OPEC and non-OPEC Ministerial meeting (also known as OPEC+), which took place on October 5th, the consortium agreed to reduce their production target for the period from November 2022 through December 2023 by two million barrels per day from the levels previously agreed to in August of this year. This cut was double the size that the markets anticipated. More specifically, the planned reduction will be spread across 19 of the 20 nations that participated in the meeting (Mexico is the only nation that is not required to reduce its production). A little more than half, or 1,090 thousand barrels per day (mb/d), of the two million barrels in OPEC+ cuts will come from the OPEC+ members in the Middle East, with former Soviet satellite countries accounting for the next largest block of 637 mb/d. On an individual level, Saudi Arabia and Russia agreed to the largest production cuts, of 526 mb/d each. All of this comes after a highly publicized effort by the Biden Administration to get OPEC+, and Saudi Arabia in particular, to agree to less than one million barrels per day in overall production cuts, preferably after the upcoming U.S. midterm elections.

It is also worth noting that these most recent production cuts represent a significant change in OPEC policy. For the last few decades, OPEC quotas were designed around maintaining member states' share of the global oil markets. This recent production cut, however, indicates that the Organization has shifted its policy focus from market share to maintaining price stability. Many experts believe that Saudi Arabia initiated this change in direct response to the West's increasingly alarmist rhetoric over Climate Change and for supporting legislation that seeks to end the use of fossil fuels across the global economy. By publicly calling for the phase-out of fossil fuels over the next 50 years, these experts believe that the West has shifted the thinking of OPEC, leading them to seek higher prices in the near term rather than focus on maintaining long-term market share.



Adding to the increased potential for future energy shortages, particularly this winter, on September 26th, a series of explosions in the Baltic Sea resulted in four confirmed leaks of the Nord Stream 1 and 2 pipelines, which transport natural gas from Russia to Germany. While neither pipeline was in operation at the time of the explosions - Nord Stream 1 was offline for maintenance, and Nord Stream 2 hadn't yet officially been put into service - both pipelines were under pressure. As the image below shows, the gas bubbles created as a result of the pipeline ruptures were so large that they could be seen from space.

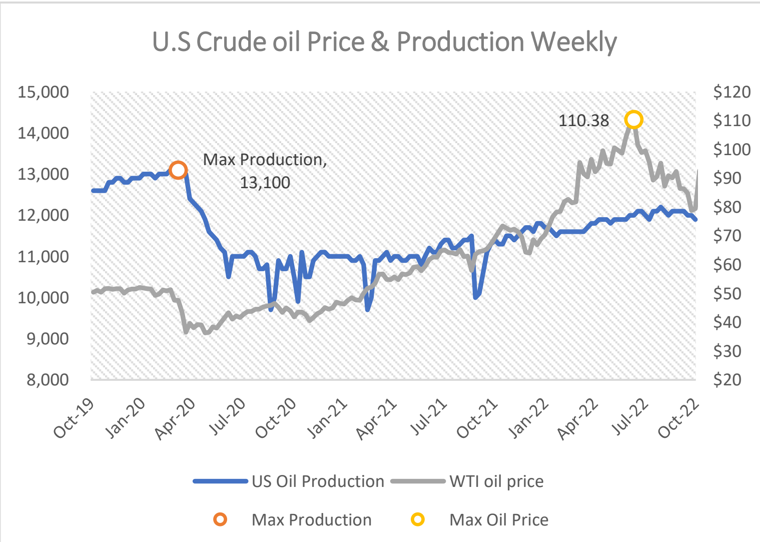
While the exact cause of the explosions is still under investigation, there is ample evidence to suggest it resulted from an intentional act of sabotage, with Russia and the United States accusing each of being the culprit. Unfortunately, all of this has placed increased pressure (no pun intended) on natural gas supplies in Europe, which in turn has raised prices across the globe. From a domestic supply standpoint, this disruption comes at the same time that natural gas supplies in the United States are running near their 5-year lows – and, just as North America is on the cusp of the winter heating season.

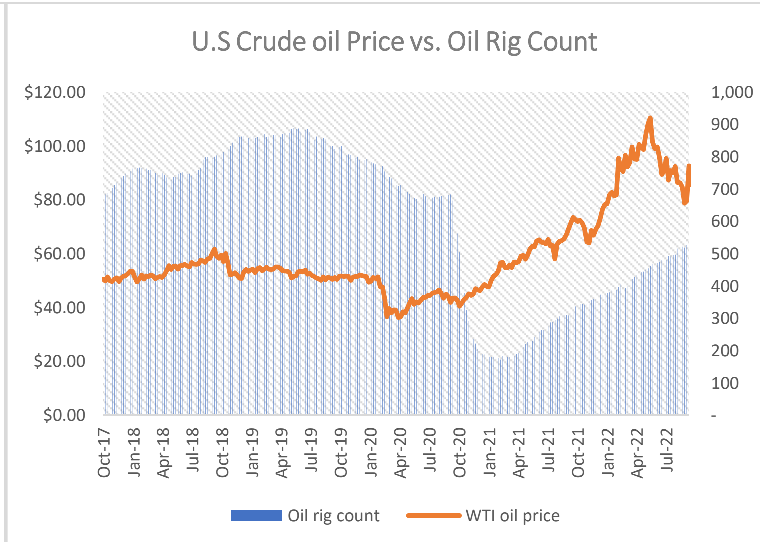
A Dove cubesat operated by the San Francisco company Planet spotted methane gas bubbling to the Baltic Sea surface from a breached pipeline on Sept. 26, 2022. (Image credit: Planet Labs PBC)

As a result of these policy and supply disruptions, it is no surprise that U.S. production is urgently needed to meet global energy demand. Over the 10-year period from 2011 to 2021, U.S. exports of petroleum liquids, including crude oil, finished motor fuel, and natural gas liquids, increased by 186%, with the bulk of the increase coming from crude oil. Over the same period, however, natural gas exports increased by 342%, with LNG finally surpassing pipelines as the largest source of exports in 2020. As the world increasingly relies on U.S. production to meet its growing energy needs, investment opportunities for energy infrastructure have also increased – whether it is in storage, transportation, processing, or, ultimately, exports. It also underscores just how critical U.S. energy production has become to the overall health and well-being of the global economy.

U.S. Total Crude Oil Production and U.S. Crude Rotary Rig Count (as of October 7, 2022):

1. West Texas Intermediary (WTI) oil price was $92.64 per barrel (+7.3% m/m).
2. U.S. oil production was 11.9 mm bbl/d (-1.7% m/m).
3. U.S. oil rig count was 602 (+1.9% m/m).

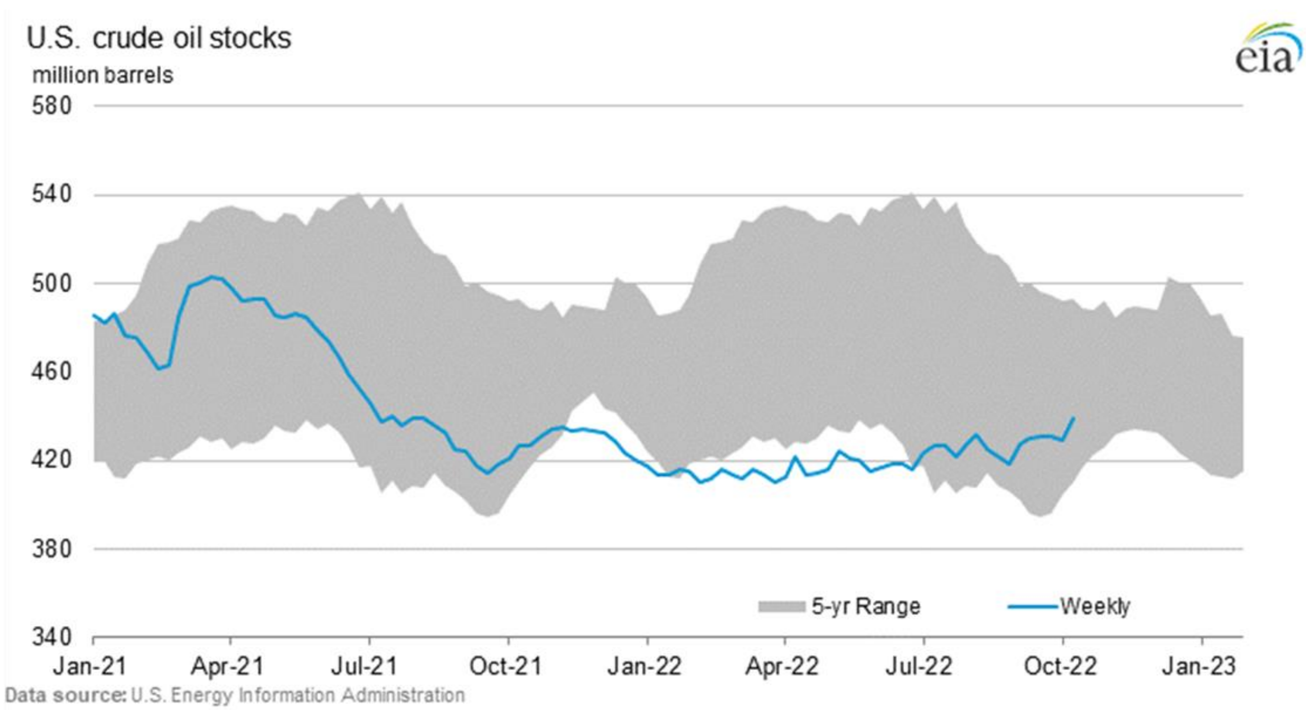




Source: Bloomberg, Dividend Assets Capital

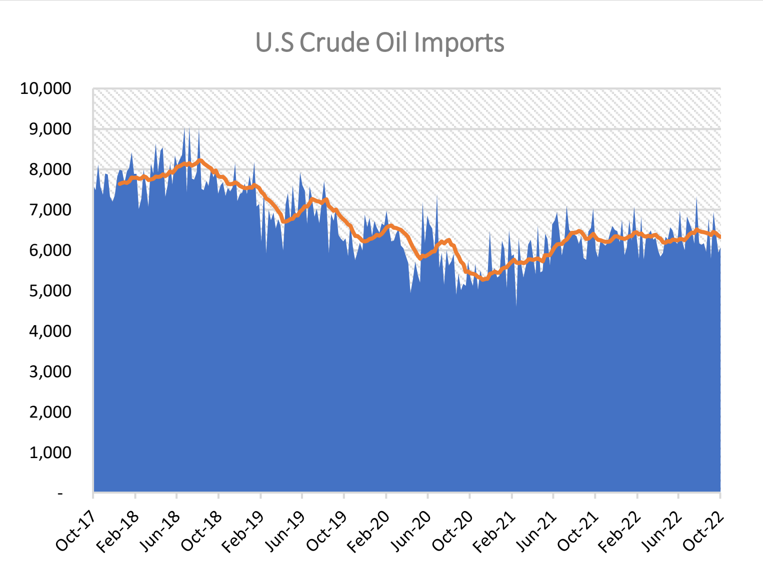
The U.S. Commercial Crude Oil Inventories (excluding those in the Strategic Petroleum Reserve) and Inventory Changes (As of October 7, 2022 – see chart on next page):

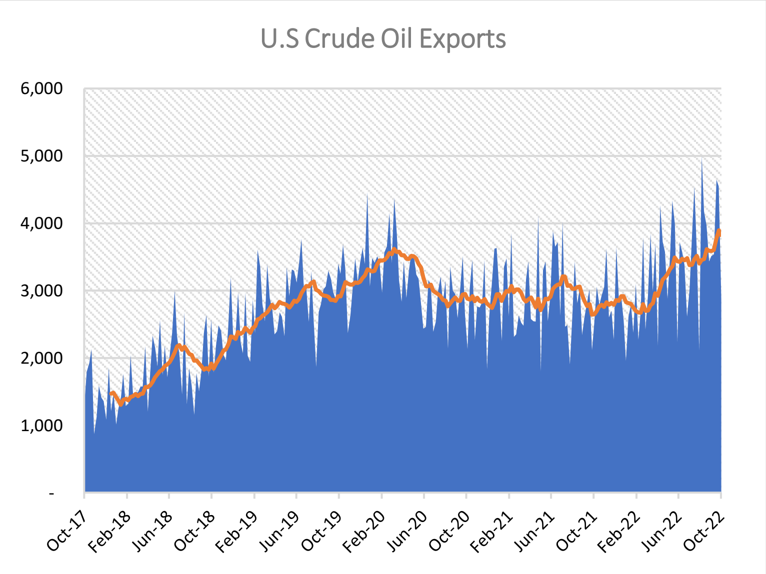
1. Inventory increased by 9.4 million barrels from the previous month to 439.1 million barrels, 2.3% below the 5-year average.
2. Total crude stockpiles including the Strategic Petroleum Reserve ("SPR") declined 15.9 million barrels month over month, to 847.8 million barrels



U.S. Imports and Exports (as of October 7, 2022):

1. U.S. crude oil 4-week average imports were 6.4 mm bbl/d, up 2.9% month over month.
2. U.S. crude oil 4-week average exports were 3.9 mm bbl/d, up 3.4% month over month.

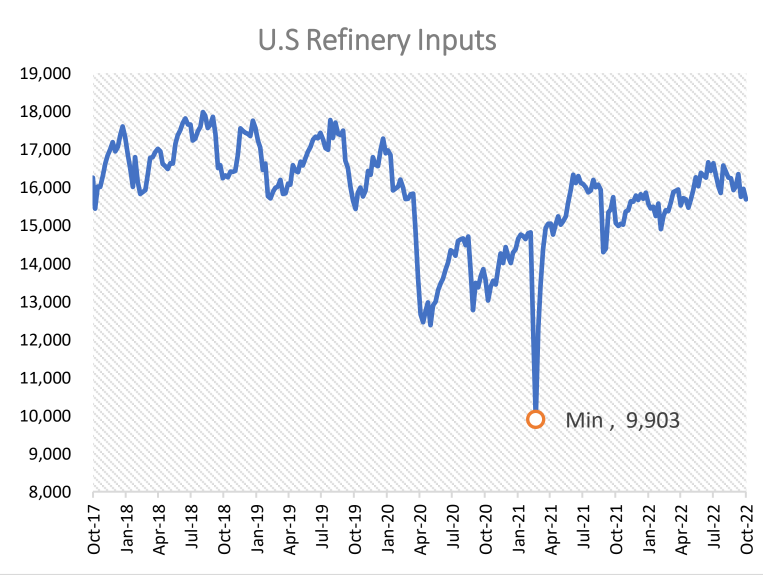


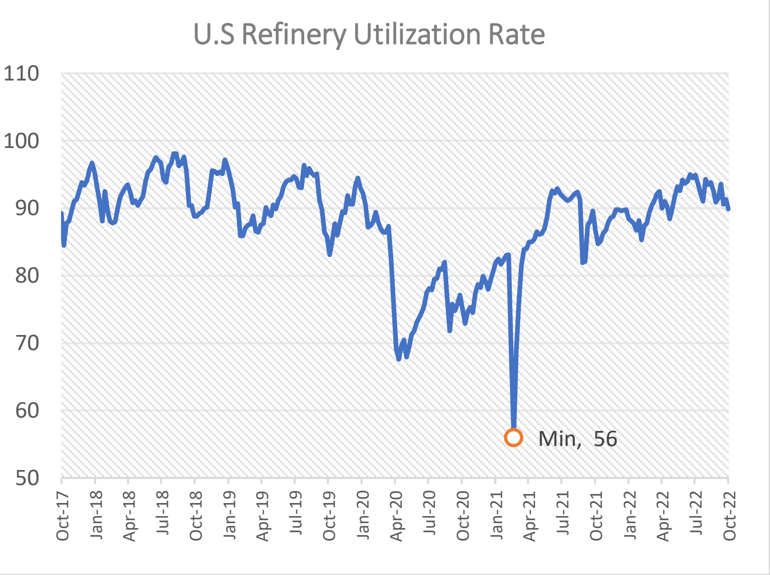


Source: Bloomberg, Dividend Assets Capital

U.S. Refinery Inputs and Utilization Rates (as of October 7, 2022):

1. U.S. crude oil refinery inputs averaged 15.7 million bbl/d for the week ending October 7, 2022. Four-week inputs averaged 15.9 million bbl/d, 3.5% higher than the same time a year ago.
2. Refinery Utilization Rate was 89.9%, down from 91.5% for the previous month. This is still higher than the same period last year, which was an 86.7% utilization rate.





Source: Bloomberg, Dividend Assets Capital

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Clarity: A transparent and understandable approach to portfolio management.	**Simplicity**: We believe dividends are the best indicator of the future price performance of a stock.	**Devotion**: We build confidence through a disciplined process and strong devotion to our investment philosophy and clients.

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