

# BCA Market Perspective ©

## It's About Oil

January 2014

The nation's trade deficit again declined for the quarter, with exports rising to a record high in November. It is all about crude oil.

Total imports fell to \$229 billion in November from \$233 billion in October – a 1.5% decline due in large part to a sharp drop in crude oil imports. The U.S. produces about 7.4 million barrels of oil per day (bopd) and consumes 18.3 million per day. During the past five years, domestic production is up 44%, and imports have dropped from 55% to 40% of domestic consumption.

The Bakken Shale in North Dakota is the largest oil discovery in U.S. since Prudhoe Bay, Alaska - holding an estimated 7.4 billion barrels of recoverable oil. The region's oil boom produces 900,000 bopd or 8.3% of domestic production and is expected to reach 14% in the next several years.

The U. S. is becoming more energy independent, and with that comes the cost and need for energy infrastructure. Energy companies are set to spend close to \$1 trillion on oil and gas pipelines, storage, processing and transportation upgrades over the next decade. According to a report released by the American Petroleum Institute and HIS Global Insight, these capital projects will support more than 900,000 jobs nationwide.

The surge in U.S. oil production has shed light on a once orphaned asset class, Master Limited Partnerships, which has been gaining popularity among Institutional investors for the following reasons:

- Strong historical performance
- Low correlation to stocks<sup>1</sup> and bonds<sup>2</sup>
- Consistent yield and stable distribution growth
- Inflation hedge
- Infrastructure is in the national interest
- U.S. energy renaissance and the increase of energy exports

In November, Goldman Sachs launched its first ever Closed-End Fund, selecting MLPs as the core asset. Goldman's rationale echoes a thesis of the underlying asset class, which is to benefit from the tremendous expansion of energy infrastructure in the U.S. This new closed-end fund raised more than \$826 million in 2013.

The Alerian MLP index experienced a total return of 27.6%<sup>3</sup> (including a 6% yield) for the year 2013, a year in which fixed income<sup>4</sup> was down 2.0%. During 2013, there were 20 MLP initial public offerings, topping the previous record of 13 IPOs in 2007. Mergers and acquisitions, strength in commodity prices, and solid distribution growth were all tailwinds for the asset class during 2013. If MLPs continue their course in 2014, investors can expect another great year despite an environment of rising interest rates.

<sup>1</sup> 0.4 correlation against S&P 500; since 1996

<sup>2</sup> 0.0 correlation against Barclays Agg; since 1996

<sup>3</sup> Measured by the Alerian MLP Index

<sup>4</sup> Measured by the Barclays Agg.

