

**Energy Infrastructure and Natural Resources:** the recent arrest of Venezuela's president by US special forces has driven speculation about potential impacts of a US-led revitalization of Venezuela's oil industry. Energy analysts are serial over-predictors of dramatic market shifts, declaring permanently changed supply-demand dynamics with every disruption from COVID to Russia-Ukraine to Israel-Iran. As usual suspects see radical change coming, Recurrent's framework remains consistent: Shale supply dynamics keep oil price pinned between \$55 and \$85; and resource businesses with low capex requirements remain best-positioned to generate free cash flow in a market defined by shorter, lower amplitude cycles. These low capex, long-life businesses are also more likely to benefit from episodic bursts of volatility (i.e. potentially increased availability of Venezuelan heavy crude). While other resource investors seek out companies who jump at these risky growth opportunities, we continue to seek out asset-heavy businesses capable of capturing market opportunities without spending an additional dollar. We also examine below which subsectors are most likely to see benefits from any Venezuelan oil industry resurgence.

[Click here for our white paper, "The Frack-tured Cartel: How Shale's elastic supply broke OPEC's grip on the oil market"](#)

#### **December 2025 Performance Summary and Market Commentaries**

Please find below performance and commentary for our strategies – [MLP & Infrastructure](#) and [Natural Resources](#). See performance tables at the bottom of the commentary. For additional information, please contact us at (832) 241-6400 or [info@recurrentadvisors.com](mailto:info@recurrentadvisors.com).

#### **MLP & Infrastructure Performance Review**

During the month of December 2025, the Recurrent MLP & Infrastructure Strategy generated net returns of -2.03%, slightly lagging the Alerian MLP Index's (AMZ) -1.62% return by 0.41%. Since the strategy's July 2017 inception, Recurrent's MLP & Infrastructure Strategy has outperformed the AMZ by +42.10% (+2.49% annualized), net of fees. On a gross basis, the Strategy has outperformed its benchmark by +69.07% and +3.89% respectively. See performance section at bottom for more detail, plus performance detail on the Recurrent Energy Infrastructure Strategy, which seeks to track the MLP & Infrastructure Strategy while excluding MLPs.

#### **Natural Resources Performance Review**

During the month of December 2025, the Recurrent Global Natural Resources Strategy generated returns of +4.09% net of fees, outperforming the S&P Global Natural Resources Index's +3.41% return. The Metals & Mining sector performed particularly well during the month, with portfolio holdings Alcoa (AA), Freeport McMoran (FCX), and Teck Resources (TECK) all rising more than 12%. In contrast, refining shares fell during the month, and the portfolio's underweight position in gold shares negatively impacted relative performance.

## Regime change in Venezuela: our non-consensus views on impacts to oil price and subsectors

As a result of this weekend's events in Venezuela, many investors have reached out to us, asking for our opinions on a variety of topics related to energy markets. In order to broadly offer our perspectives, we wanted to outline our thoughts in the form of our monthly commentary.

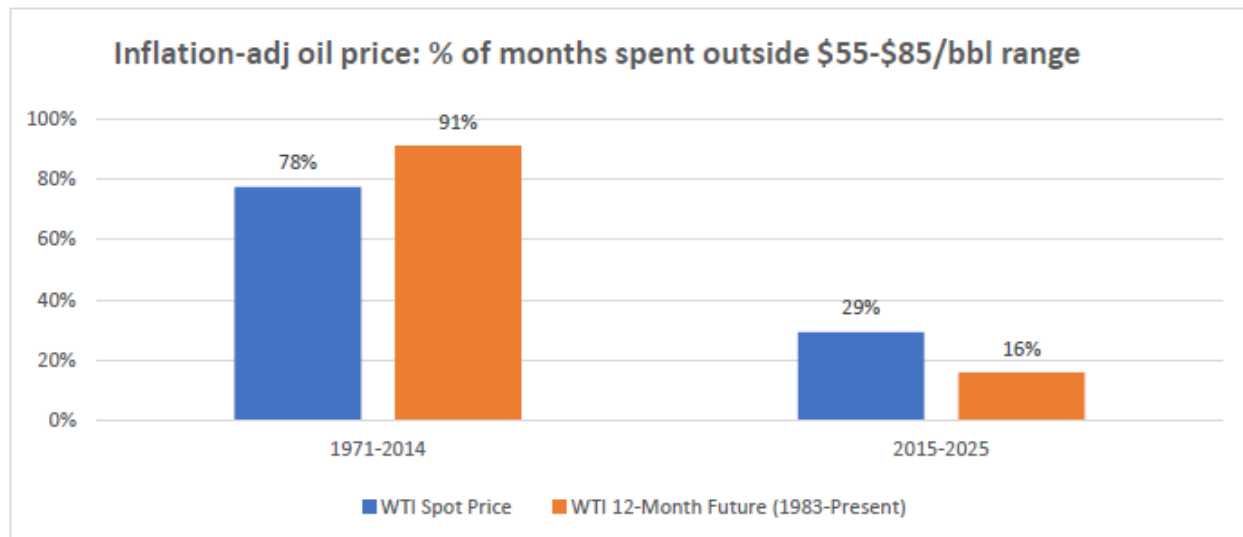
### Oil Price

In the immediate aftermath of Maduro's arrest, oil market analyses have been varied, but the long-term consensus view has been bearish, in anticipation of a rapid revitalization of Venezuelan oil fields. Venezuelan reserves are the among the largest in the world, on par with Saudi Arabia. However, due to widespread government mismanagement, Venezuela currently produces just under 1 million barrels of oil daily – less than 10% of Saudi production - down from > 3 million/day as recently as 2009. With the US government's proposal to introduce US companies into Venezuelan fields, analysts extrapolate that Venezuelan production can materially and rapidly increase, potentially to previous highs and beyond. The logic continues that low-cost Venezuelan barrels will cause oil prices to fall in the near- to medium-term.

While there remains significant uncertainty regarding the outlook for Venezuelan oil production, our perspective meaningfully diverges from the above consensus view.

**Regardless of the trajectory of Venezuelan production, the price-setting framework Recurrent has identified remains unchanged.** In our white papers from 1Q 2022 and 2Q 2025 – attached here ([2022](#), [2025](#)) – we outlined why US Shale acts as the world's marginal, price-setting barrel, as it is the only source of oil supply that can rapidly turn on and off to balance the market. The shape of energy cycles changed over the last decade as the marginal oil barrel shifted from long-term, price-inelastic OPEC barrels to price-elastic, short-term US Shale barrels. As a result, oil has been overwhelmingly rangebound since 2015 – almost always between \$55-\$85/barrel, as shown in the graph below. Even if Venezuelan oil production were to increase, we believe any increase would be more than offset by Shale declines at \$55/barrel. From a market perspective, a similar disruption occurred in the immediate aftermath of the US/Israel military action against Iran in 2Q 2025. At that time, many market observers expected declines in Middle Eastern exports could drive oil prices above \$100/barrel. However, after a short-lived rise to \$75/barrel, US Shale producers indicated a willingness to respond with increased drilling, and prices rapidly reverted to pre-conflict levels. Similarly, we would expect Venezuela to have similarly limited impact on oil prices.

As a refresher, the below chart is copied from [The Frack-tured Cartel](#) white paper, highlighting that prior to the onset of US Shale, oil prices were regularly outside the \$55-85/barrel range. Once shale production grew to scale, the oil price remained inside the \$55-85 range the vast majority of the time. Recent events in Venezuela remain well within the ability for US Shale to adjust production in reaction to price changes, and as such the \$55-85/barrel range should be broadly maintained.



Source: Bureau of Labor Statistics (BLS), World Bank, Energy Information Agency (EIA), St. Louis Federal Reserve (FRED), Bloomberg, Recurrent research.

## Subsector discussions

### [Refining – a cheap call option on Venezuelan production, without risk of expropriation](#)

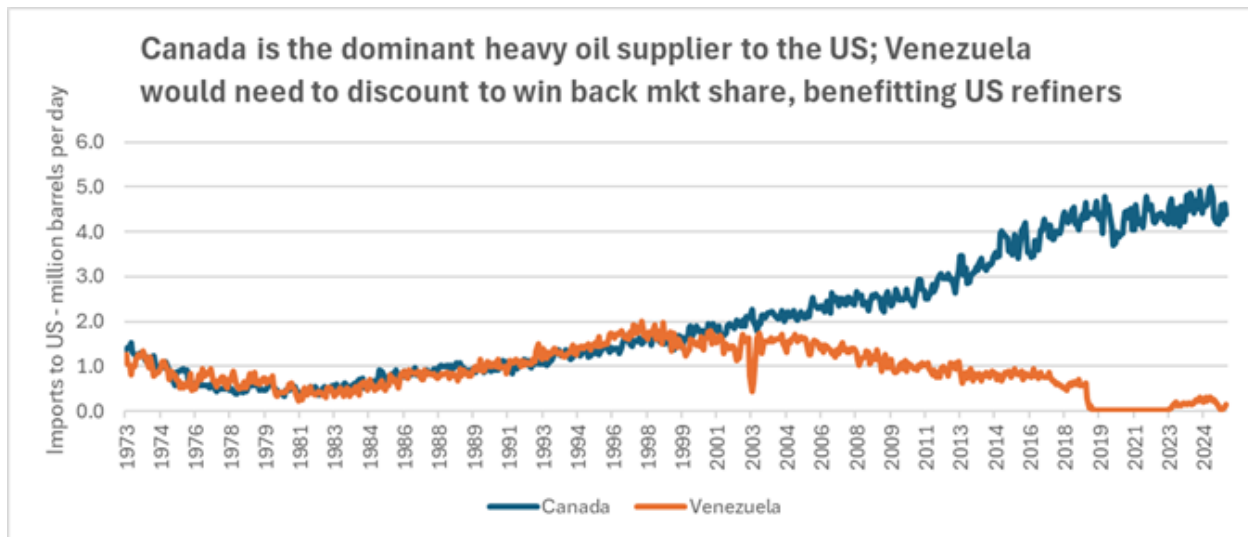
We noted in our [July 2025 letter](#), that while refining has become less of a focus for many energy investors, the value of global oil and refined products trade continues to dwarf all other seaborne commodity trade. Furthermore, US refining competitiveness continues to improve vs. Europe and much of the rest of the world, where refining capacity is unprofitable and shrinking. Today, most refining assets trade at a significant discount to replacement cost or book value, despite their vital importance to the global economy and the difficulty of replacing these assets. Given refining’s low maintenance capex requirements, and the ability for refining assets to take advantage of global commodity dislocations from the comfort of US soil, refining assets represent a low-cost “call option” on global volatility, in our view.

The current situation in Venezuela is a case in point: Before the emergence of US Shale, US refiners relied on imported crudes, maximizing competitiveness by investing in heavy oil processing capacity. These investments allowed US refiners to purchase low-value, asphalt-rich and sulfuric Latin American and Venezuelan crudes and convert them to

premium US-grade fuels. As Venezuelan and other LatAm heavy production collapsed in the 2000s, Canadian heavy crudes moved southward to fill the void, replacing most LatAm heavy crude.

The most likely scenario we see is US involvement increasing Venezuelan production modestly (less than 0.5 mmbpd within 5 years), and eliminating China as an outlet for Venezuelan exports. This would give the US refining industry a near-monopoly on stranded, low-cost Venezuelan crude. Of the >4mm heavy oil barrels imported to the US per day in 2024, only 3% came from Venezuela, while >75% came from Canada. If Venezuela were to revert to early 1990s peak exports to the US, that figure could grow tenfold, benefiting Gulf Coast refiners by increasing supplies of low-cost heavy barrels. However, such growth would require significant time and capital expenditure increases to broadly improve infrastructure.

It is important to note that within the energy industry, the refining industry maintains uniquely low capital expenditure requirements. With the vast majority of physical plant already built, changes in profitability can be most directly converted to free cash flow. As a result, the US refining industry is a surprising beneficiary of geopolitical disruption such as in Venezuela today.



Source: Energy Information Agency (EIA), Recurrent research

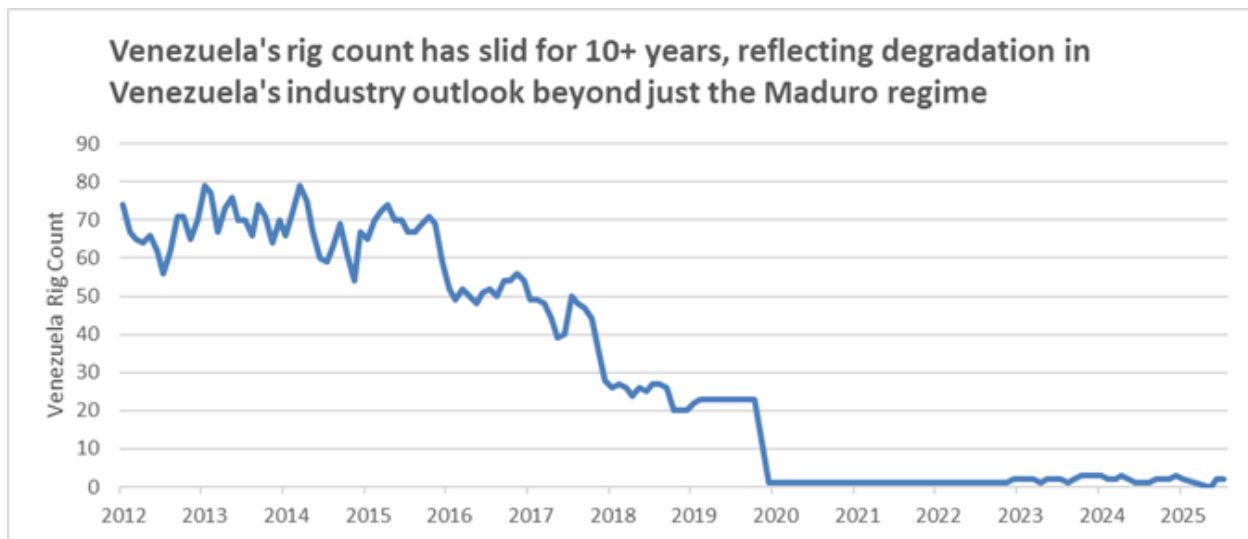
### **Oil services – could re-enter Venezuela rapidly, but the same old risks remain**

As outlined in the previous comment, in order to grow Venezuelan oil production using Western standards, significant capital expenditures are required. This would be unequivocally positive for oil services companies which specialize in increasing production and profitability for Exploration and Production (E&P) clients. Even in the

absence of western E&P clients, services companies have historically worked with PDVSA, the Venezuelan state oil company. However, as recently as 2017, Schlumberger and Halliburton effectively ceased operations in Venezuela due to chronically unpaid bills. As a result, going forward opportunities must be sufficiently attractive to entice future investment. Should terms be attractive enough, Venezuela could offer oil services companies an international growth opportunity, albeit with much higher risk than in the Middle East, where western services activity has grown as Shale opportunities have dwindled.

**Oil producers (E&Ps) – given undercapitalized oilfields, long-term value is possible, but near-term value is limited**

Among large-cap western oil production companies, only Chevron remains active in Venezuela, after the nationalizations and expropriation that drove Exxon, Shell, Conoco and others out of the country. While Chevron has the benefit of incumbent operations, other producers are unlikely to rapidly re-enter the country as Venezuela's oil industry sits under billions of unpaid bills and international arbitrations, including a \$9bn penalty that Venezuela still owes ConocoPhillips. The status of these legal liabilities would have to be clarified before Venezuelan oil reserves were to have real value to an international oil producing company.

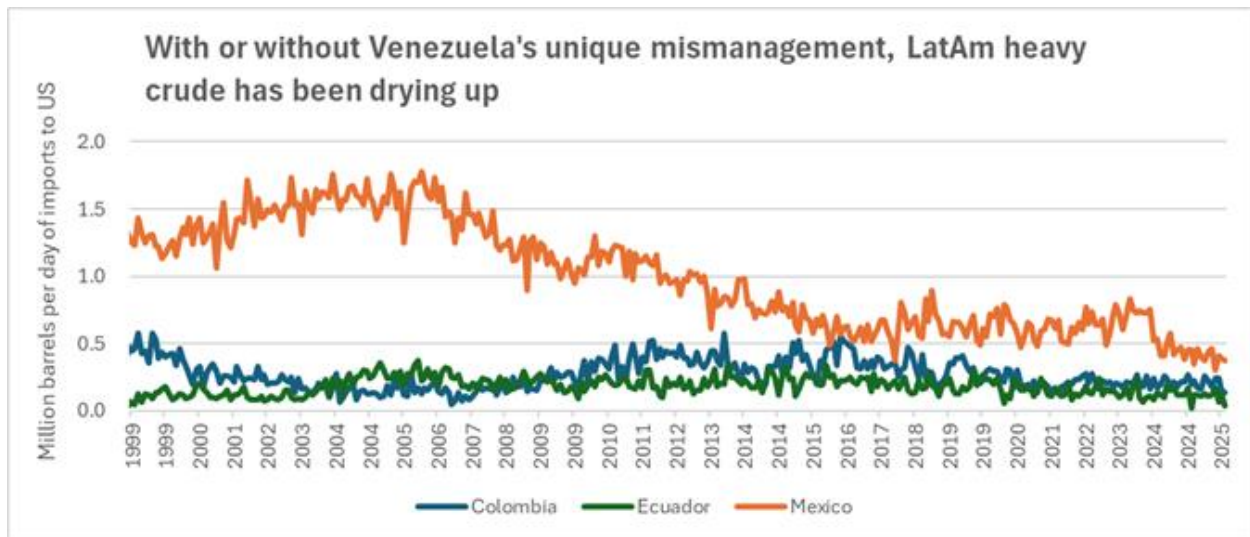


Source: Baker Hughes rig count, Bloomberg, Recurrent research

**Canadian heavy oil – concerns seem overblown as Venezuela's erratic 150kbpd oil trade competes with ~4mmbpd of Canadian piped imports, as other heavy oil exporters fade**

In a volatile, “shoot first and ask questions later” energy tape, where oil prices slid during much of Q4 2025, it is perhaps understandable that the prospect of Venezuelan oilfield

revitalization would trigger worries about Canada's role as the US's sole heavy oil supplier. However, this Venezuela-centric view overlooks two key facts: 1) Canada has become the dominant provider of heavy oil to US refineries throughout the country, with market share protected by physical pipeline linkages in many locations and 2) heavy oil has been declining not only in Venezuela, but across Latin America, where geological challenges, displacement by US Shale, and poor economic management (even outside of Venezuela) has reduced heavy oil production. In effect, 100,000 additional barrels from Venezuela are more likely to displace Mexican or Colombian or even Brazilian barrels in coming years, than to replace physically connected Canadian barrels.



Source: Energy Information Agency (EIA), Recurrent research

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