

Energy Infrastructure: YTD 2025, midstream cash flow continues to grow, but midstream stocks have been stuck in the mud. Midstream has lagged the S&P by almost 10% YTD and by over 20% since “Liberation Day”. Midstream EBITDA growth is healthy (+7% YoY), but market caps are ~unchanged YTD. Utility EBITDA growth is comparable (+10%) but market caps are +25% YTD. This divergence reflects investor preference for stable operations: regulated revenues over oil and gas volumes. However, the market’s fixation on operating stability ignores utilities’ unprecedented reliance on external financing markets vs. midstream’s self-funding model. While the market may not care about free cash flow or inflation protection today, we continue to see midstream as well-positioned to weather a variety of capital market environments, while other sectors rely on easy money.

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

Natural Resources: For the last twelve months, one of the most prominent discussions in the energy industry has been the easily remembered tag line “drill baby drill”. In recent client discussions, the widely held investor assumption has been that North American drilling activity has accelerated since the beginning of the year. However, in contrast to investor perception, drilling activity has actually *declined* over the period.

September 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.

MLP & Infrastructure

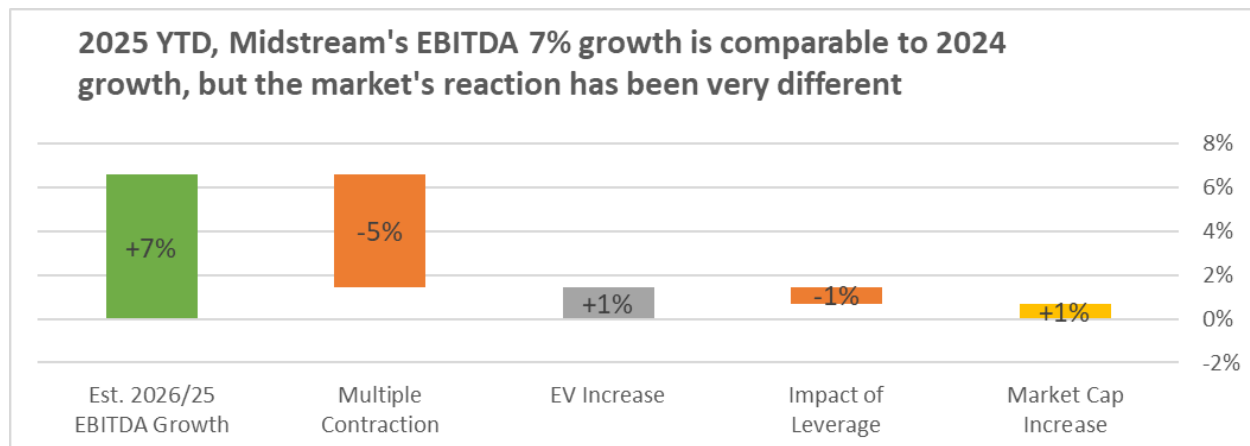
Performance review

During the month of September 2025, the Recurrent MLP & Infrastructure Strategy generated net returns of +1.82%, outpacing the Alerian MLP Index’s (AMZ) -3.70% return by +5.52%. Since the strategy’s July 2017 inception, Recurrent’s MLP & Infrastructure Strategy has outperformed the AMZ by +50.51% (+3.13% annualized), net of fees. On a gross basis, the Strategy has outperformed its benchmark by +78.86% and +4.54% 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.

Comparing Midstream’s stellar 2024 and tougher 2025 YTD – both years were built on similar fundamental growth

What’s the difference between 7% and 8% EBITDA growth?

The 2024 midstream market took 8% growth and turned it into a 34% increase in sector market cap, while the 2025 midstream market has taken 7% growth and turned it into flat YTD market cap as of October 15, 2025. But just as investors last year took a “glass half full” view of last year’s 8% growth, we would argue that investors today are being overly pessimistic on this year’s very healthy 7% growth, as we discuss below.



Source: Recurrent research, SEC filings, Bloomberg.

Notes: Compares public companies as of 12/31/23 and 12/31/24 and 10/15/25, along with next twelve month Bloomberg consensus EBITDA estimates as of those same dates. Study contains the 28 largest publicly traded North American midstream companies by market cap, including KMI, ET, LNG, EPD, OKE, CEQP, WMB, TRGP, NS, MMP, WES, MPLX, PAA, DCP, ENLC, SUN, TRP CN, ENB CN, PPL CN, GEI CN, ALA CN, KEY CN, KNTK, HESM, DTM, ENBL, EQM, ETRN.

Midstream fundamentals keep defying pessimistic forecasts – and other pessimistic narratives have been debunked in previous Recurrent Research

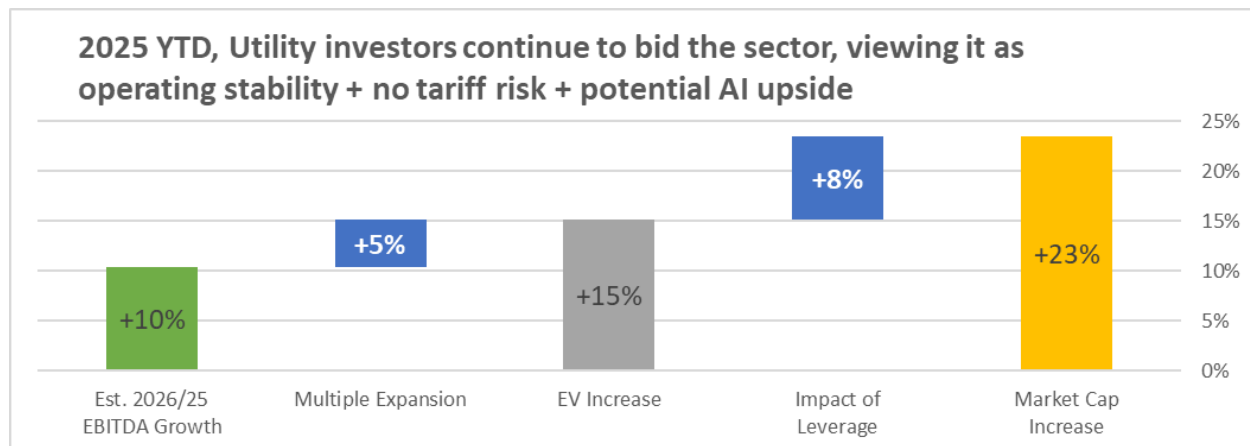
Even if EBITDA and cash flow growth has been solid, sentiment in YTD 2025 has clearly shifted from Trump-related excitement to concerns about declining drilling activity in the US and lower commodity prices. We have spent previous monthlies and white papers addressing and debunking some of the pessimistic narratives prevalent today:

- In our [recent white paper](#), we explained how Shale, far from dying, has become an essential stabilizing mechanism in the global oil market. The world market needs Shale rig count to move up and down dynamically to keep markets balanced – a sustained decline in Shale production is not in the cards.
- Investors have expressed concern that lower gas prices will lead to slowing volume growth, putting future Midstream EBITDA at risk. In our [December 2024 monthly](#), we show that low gas prices have historically coincided with higher volume growth –as gas demand is stimulated by affordability.
- Finally, we detailed in our [May 2025 monthly](#) how concerns about future midstream volume declines are overblown, because even as some Shale oil fields plateau, associated natural gas production from these mature fields continues to grow, requiring increased midstream services over time even in areas no longer growing.

Investors have punished midstream for potential operating risk (i.e. potentially lower volumes), opting instead for the perceived lower operating risks of utilities

What's the difference between 7% and 10% EBITDA growth?

With midstream EBITDA expected to grow 7% and utility EBITDA expected to grow 10% in the next year, markets today have continued to push utility valuations higher, viewing utilities as an attractive combination of limited operational risk + limited tariff risk + upside from AI-related power demand.



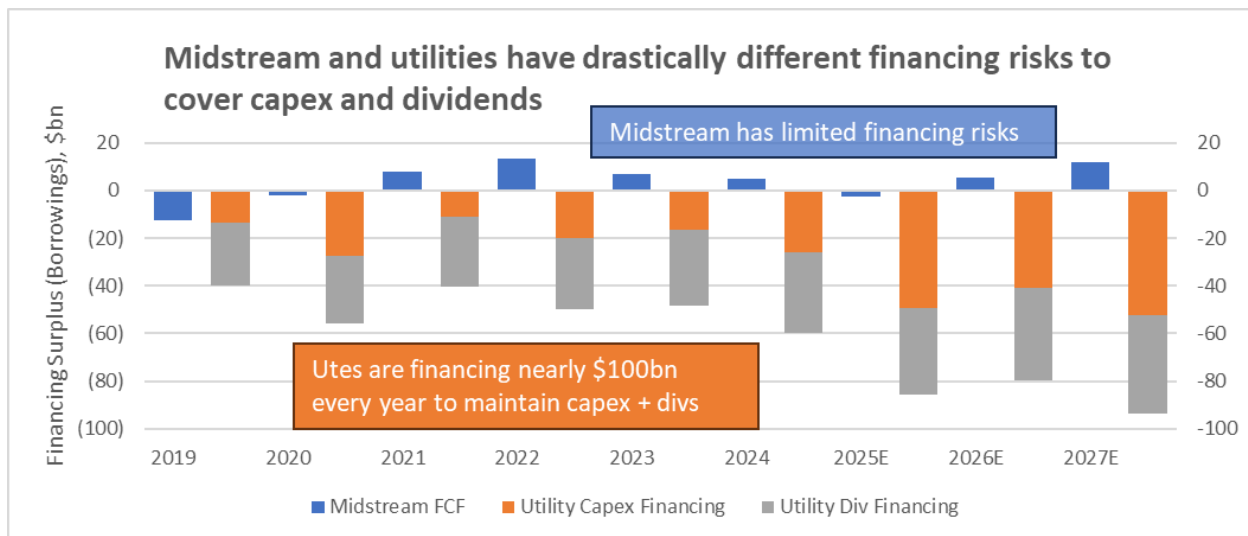
Source: Recurrent research, SEC filings, Bloomberg.

Notes: Compares public company EV as of 12/31/24 and 10/15/25, along with Bloomberg consensus EBITDA estimates as of those same dates. Study contains the 29 largest members of the S&P Utilities Index by market cap, including NEE, SO, DUK, SRE, AEP, D, PEG, PCG, EXC, ED, XEL, EIX, WEC, ETR, DTE, FE, PPL, AEE, ES, ATO, CMS, CNP, LNT, NI, EVRG, AES, VST, CEG, NRG.

Perhaps understandably, given the frothy environment in broad markets today, today's investors are largely unconcerned about external financing needs. Accordingly, companies who are able to self-fund capital expenditures and dividends (like midstream) have seen valuations fall this year, while cash-strapped companies (like utilities) have done well, as the market seems happy to fund any AI-related capital expenditure, at least for now. But it may not always be so.

Is the fixation on sectors with lower operating and tariff-related risks causing investors to overlook Utilities' greater capital market risks?

As midstream and energy investors know, external markets' willingness to finance growth can change quickly, and the market can impose higher costs on capital at inconvenient times. When markets experience turbulence, operating risks - such as single-digit declines in volumes or cash flows - can pale in comparison to financing risks, such as borrowing to pay a dividend or assuming that the market will fund a multi-year outspend as capital expenditures exceed cash flow. Today, while midstream generates FCF after dividends, utilities' annual funding needs are approaching \$100bn, or >50% of total sector cash from operations (CFFO).



Source: Recurrent research, SEC filings, Bloomberg. Includes companies listed in footnotes above.

To be fair to utility bulls, they have been right in YTD 2025. We have previously noted that during periods of time when inflation expectations and interest rates are rising, midstream performance tends to be more resilient (and on balance stronger), especially compared to a rate-sensitive and inflation-exposed sector like utilities.

So far in 2025, conditions have been favorable for utilities: investors have shunned operating volatility, but embraced financing risks; the direction of travel for inflation expectations has been volatile but relatively stable; interest rates have fallen as expectations of rate cuts have taken hold.

Accordingly, perhaps the self-funding business models and inflation protections of midstream are viewed as less valuable today. But in a world where inflation is very much still alive, albeit muted, we view the midstream sector's ability to pass through inflation, fund capex and dividends, all while avoiding external capital markets dependence, as an undervalued option.

Natural Resources

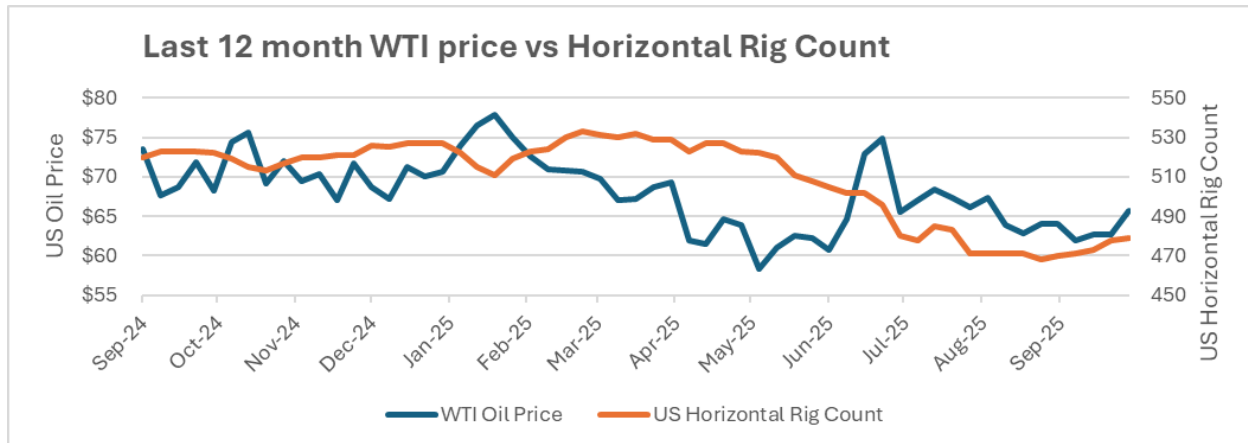
Performance Review

During the month of September 2025, the Recurrent Global Natural Resources Strategy rose +3.07% net of fees, outpacing the S&P Global Natural Resources Index's +1.93% return. The portfolio's underweight and stock selection in the paper and plastic packaging sector added nearly 100 basis points of value relative to the benchmark. Additionally, stock selection in the integrated oil sector significantly benefited relative performance. On the other hand, continued strong performance in the gold sector detracted from relative performance, due to the portfolio's underweight positioning.

Portfolio Discussion

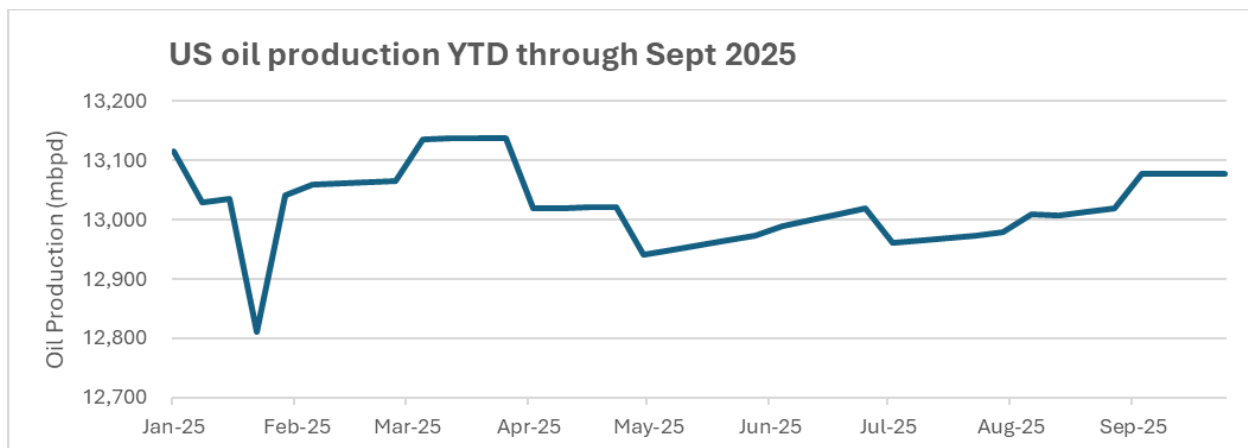
In recent client discussions, one of the most widely cited rationales for investor optimism is the "drill baby drill" mantra cited by the current Presidential administration. While the common impression of energy companies is rapidly increasing drilling activity to increase production, the reality is simply different.

In fact, the industry's US activity has actually declined in the last 12 months. While oil prices have fallen slightly, the number of active horizontal drilling rigs has fallen 8% in the 12 month period ending September 2025. The particularly interesting element to this data is the idea that horizontal drilling represents drilling in shale, which generally is a shorter investment cycle. Given the Administration's consistent comments, the 12 month period represents ample time to accelerate drilling. However, the economic conditions have not been deemed as sufficiently attractive to increase spending.



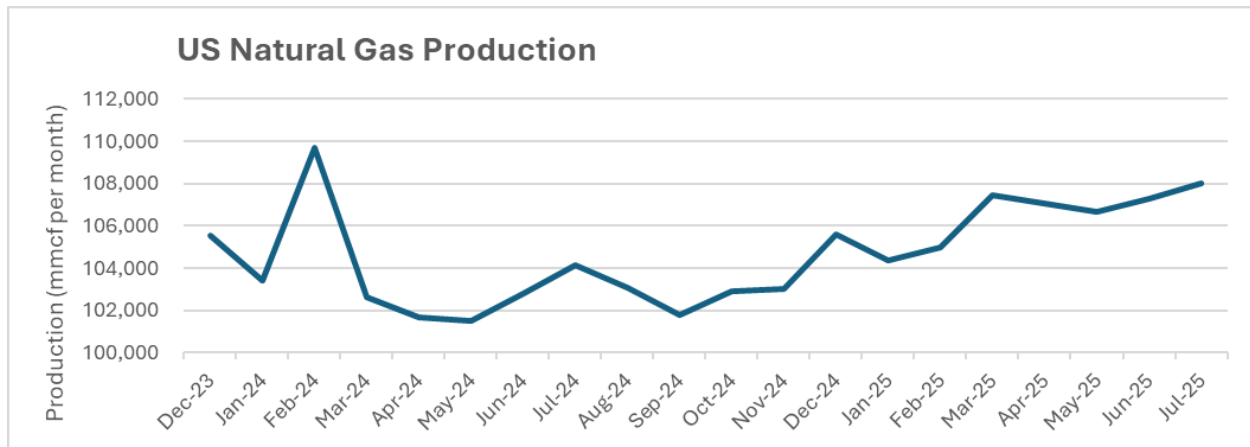
Source: Bloomberg, Recurrent research

While activity has fallen, US oil production remains relatively flat. So drilling productivity continues to improve, with more production per unit of drilling activity.



Source: Bloomberg, Recurrent research

While oil production remains flat on a YTD basis, natural gas production data shows noteworthy growth. In the 12 month period ending July 2025 (the latest data), US natural gas production has increased 3.7%, despite natural gas prices which remain below \$4/mcf.



Source: Bloomberg, Recurrent research

Lastly, in a pre-election speech, Treasury Secretary Bessent outlined what became known as the 3/3/3 plan, which called for oil production growth (actually oil barrel equivalent growth) of 3 million barrels per day during President Trump's 4 year term. As we mentioned earlier, oil production is flat since the beginning of the year. However, through the end of July 2025, natural gas production has grown 2.3% year to date, or nearly 400,000 barrels of oil equivalent. Given the only 7 month time period, the increase in natural gas production is generally on pace to grow the 3 million oil equivalent barrels announced in the 3/3/3 plan. Importantly, the natural gas price remains at relatively low levels, below \$4/mcf for much of the period.

In sum, despite the narrative of "drill baby drill", the energy industry has shown capital discipline. Despite commodity price levels which have moderated capital spending, the combination of oil and natural gas production has incrementally grown, highlighting the industry's maturation to a more returns based financial reality.

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