

What LNG, data centers, and power demand mean for midstream energy

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Key Takeaways

Midstream energy companies may be less tied to oil prices than many investors assume. They have delivered positive performance even when oil prices dropped.

Data centers are driving natural gas-fired electricity demand, which has major implications for liquefied natural gas demand and facility expansion.

The fee structure for many midstream assets is tied to the Consumer Price Index or Producer Price Index, which helps provide relief in inflationary environments.

Think all energy-related companies are driven by the same market forces? It's time to rethink that view. Brian Watson of Invesco's SteelPath team joined the Greater Possibilities podcast to discuss the often-overlooked world of midstream energy infrastructure — the systems that help move, store, process, and export the oil and gas people rely on every day.

We discussed why these companies may be less tied to oil prices than many investors assume, how rising demand for liquefied natural gas and reliable power is shaping the long-term opportunity, and how midstream businesses can offer potential income, real asset exposure, and a differentiated role in diversified portfolios.

Listen to the full conversation and read the highlights from Brian below.

Transcript

Hello, I'm Danielle Singer, head of wealth management platforms at Invesco, and this is Rethink Portfolios, a series from the Greater Possibilities podcast. This show brings you inside the decision-making process of portfolio managers through in-depth conversations that explore how our experts manage risks, identify opportunities, and navigate ever-changing markets.

Our guest today is Brian Watson, a managing director and senior portfolio manager for the SteelPath team at Invesco. The SteelPath team invests in midstream energy infrastructure. These are the systems that move, store, process, and export oil and gas. Now, energy has been one of the biggest market stories of the year so far, and the midstream energy space represents a unique part of this industry. So let's welcome Brian to explain the ins and outs of midstream and how this year's geopolitical pressures have and have not had an impact.

Now, let's start with the basics. Your team, like I mentioned, focuses solely on midstream energy infrastructure. For the listeners' benefit, what does that mean? What's the role that these companies play in the space? And importantly, how do these businesses make money?

Yeah, so I think the easiest way to think about this for somebody who hasn't really thought through it yet is imagine you're a producer in West Texas and drill a well for oil. So out of that well is going to come oil

and then all this other stuff, and we'll say primarily natural gas. So that oil has to be gathered. That's a midstream function. There's a fee for that. And then that oil has to be moved for a long distance to a refining center. That's a fee for that. That's a pipeline, usually. It could be in a truck.

And that oil will have to be terminalled or stored and to be ready for the refinery to actually get around to using it. That's fee for terminaling, fee for storage. Sometimes there's blending, there's a fee for that. So that's that whole string of logistics to get that oil from the well to the refinery. And then think about the natural gas. So the producer's drilling for oil, but he gets natural gas. But that natural gas isn't ready to be used. The utility wants almost pure methane, and you and I, when we turn our stove top, we want just methane.

But in that natural gas is all these other hydrocarbons. So you've got to process that natural gas. That's a midstream service, that's a fee. That natural gas, once it's cleaned up and it's mostly methane, that makes its way, like oil does to its consumer — fee. It has to be stored ready for usage — fee. But then all that other stuff that was in the natural gas, these are propanes and ethanes, butanes, all that stuff has to be separated. Fractionation, that's a fee. All of those individual products have to make their way to their end markets — fee, fee, fee.

Those products are going to be terminalled and stored for their users to get around to using them and the time that they want to use them. That's a fee. And particularly for LPGs is what all those things are, propane, methane, butane. More and more, we're exporting those. And so you're going to need somebody that takes that to a dock and loads it onto a ship. That's often a midstream service. That's a fee, fee, fee.

And now think about the ... We left the oil in the refinery where that oil's going to come out of the refinery as gasoline or diesel, a handful of other products, and all that's going to make its way to its end markets. Gasoline has to make its way to the different cities, and the truck racks that load that to the truck that pulls up to the fuel station fee for the transportation fee for the truck rack. So you can see how this goes on and on. It's one of these enormous logistics chains that are ... No step can be missed, and they have to run 24/7, but people just don't think about it. But that's what midstream is.

As an investment character, the most important part is it's a must run, high utilization, fees almost entirely for the services offered. And there's a lot of operating leverage. So once you've built these big assets that do this stuff, incremental volume is very profitable.

Wow. I got a visual there. This fee collecting sounds like it should have maybe some cha-ching, cha-ching noises along the way. I loved your illustration of, picture yourself in West Texas. I think maybe I've been watching too much TV because I got some vivid imagery there.

If we talk about energy investments, I think a lot of people might assume then that there's a big linkage with oil prices. Can you maybe touch on what influence, if any, we do see between midstream companies and commodity prices?

Yeah, so I think as we discussed there, the majority of the times I said fee was related to helping that natural gas enter market. So if you look at the midstream sector, we calculated this not that long ago, and I'm pretty sure it's about the same, but 75% by market cap of midstream companies are involved in the natural gas side of things. It's moving the gas, handing the natural gas liquids, the LPGs, all that stuff.

So it's really mostly most of the guys are making money servicing natural gas comes out of the ground. So the price of crude really is less important to the industry. I would say we've had periods where the

price of crude, regardless of its impact on actual operating profits, has influenced stock price reactions, however. I think I've been doing this for, I guess, energy investing since the mid-90s and managing midstream portfolios for almost 20 years. And early in my career, I would say that if crude was up and down, a midstream company might be up and down similar but just way less impactful.

Then we went through this period where it was very volatile, and we can get into that. I've got my suspicions why, but really for the last four or five years, we haven't seen really either. And I don't know if that's because investors have gotten more smart on the asset class and they realize what's driving what. Maybe it's the ... We've talked a lot about in the broader investing world about natural gas demand and investors that understood that, but we've definitely seen a de-linkage in the equity prices to the price of crude.

I went back and looked. So if you look at 2021 through June quarter ended 2026, there are 11 negative WTI quarters and AMZ, which is the primary midstream index, was only down 36% of those instances. So, really, about a third of the time. And, in fact, if you averaged the AMZ performance for each of these negative WTI quarters, it was still positive, plus 1.5%. So ...

... it feels that way. And then we did a little analysis to see how we experienced it was true, and it is. So I'm happy to see it. For a long time, it was a frustration to see that sector reaction outsize the changes in crude prices when we knew, operationally, it wasn't as big of a deal, but we've really seen it here in the last few years.

That's interesting. What I'm picking up on is on some themes of diversification, and we're going to pick that back up when we start talking about portfolio construction a bit more in a few minutes. What I do want to focus on while we're still in the macro viewpoint on this asset class is that we hear in the news a lot about how important the US has been as one of the world's largest energy exporters. How does that change or does it change the long-term opportunity for midstream companies?

Yeah, it's driving, I think, sentiment currently. So if you look at the US, we are now I think the world's largest producer of oil, natural gas, and natural gas liquids that we talked about earlier. We are actually, I think, something like 16% of the total gasoline export market. US exports of gasoline have increased over 80% in the last 10 years. So that's great. It really acts as a clearing mechanism for the US producer. They know they're not trapped by just US consumption.

LPGs, I went through that scenario so people would think about what LPGs are, but we are the globe's dominant LPG exporter. Over 50% of the globe's export market is US LPGs. Represents a good portion of LPG production in the United States. So again, an outlet for US producers, very helpful. And then for LNG, we are the world's largest LNG exporter now and account for roughly 25% of exports, which is growing fairly rapidly. So all good for the US producer, all really good for the US, the global economies that have this to satisfy demand.

And I know we're going to talk about it a little bit more, but really that LNG export capacity and the planned additions we think are really, really meaningful for midstream because this provides a volume draw or volume certainty for all these midstream assets.

Yeah, and I think we get right into it. So when we're thinking about LNG or liquefied natural gas export growth, how is this impacting your outlook? Just to continue to pull on that thread a bit.

Yeah, so the country has had periods where natural gas volumes produced and then through midstream increased pretty rapidly. But if you think about it, it was really pushed through by producers. So the producers figured out how to access all this new production through shale development. It's a whole

different discussion, but essentially, we untapped the source rock for all oil and gas, which is shale. And through technology, the US went from being an assumed forever declines of production to dominating the globe as a producer.

But that natural gas volume had to force its way into the market through price. The producers were producing it. And so they just had to beat up price until consumers took it. And what we're looking at today is an expansion of demand through LNG facilities, which we talked about. LNG is how gas is exported. It has to be liquefied and, therefore, compacted to be efficiently put onto a boat. These LNG facilities are billions and billions of dollars and they don't build them until they have offtake agreements.

So once you've built it, it's going to go. And so the US is leading in that area. I think we've got about 18 BCF of export capacity now. We've got 18 BCF that's FID or ready to go that's under construction, and we're building probabilities behind that. So it's a very long runway for natural gas demand growth through LNG alone.

And then what's gained more notice in the last few years is the power generation growth the United States is experiencing after really flat electricity demand growth for decades. And this electricity is going to be met in large part by substantially through natural gas fire generation. We're already seeing those commitments. And that's a new source of natural gas demand. The data centers that are driving this must run 24/7 type power users, and so they need that kind of power.

So put together, estimates are all over the place. LNG is fairly estimatable, but data center power generation growth is more of a guess. But we're looking at somewhere between 3% to 4% annual increases in natural gas demand just from this demand pool, really, for the foreseeable future for as long as people are trying to estimate. And that's really healthy because we're not having a producer that's shoving it into the market. This is going to be drawn by these users, which really underwrites all those assets we're talking about.

We can see today all these long-haul pipelines that are long lead time for construction being built and committed to. And what maybe is missing is that all that production is going to have to come from the equivalent of that example of that West Texas producer. So all of those assets along the line are going to be utilized to satisfy this very visible demand growth.

Yeah, it's a really interesting demand story. And we've just talked about it a little bit more with the US specifically, but maybe to put that into context and the role of the US energy infrastructure in context of recent geopolitical events, which I think have really propelled energy security back into the spotlight. So just any thoughts on the US's role vis-a-vis the broader relative global energy needs.

Yeah, I think, obviously, security of supply has become front and center for a lot of global users. What's happened with the Strait (of Hormuz) and conflict in the Middle East, I think you're already seeing some of those producers begin to pursue alternative routes, I guess, for the production, but we've seen interest in LNG offtake, US LNG offtake, potentially. Those are decisions that were driven by seeing the US as a safe exporter.

And I suspect those decisions are just now beginning. I mean, when you think about nation states and planning for their future, that will probably play out for years to come in those decision making. In the near term, we just know the globe has drawn down immensely on reserves, I think. I was trying to find a number for this and they're all over the place, but it looks like something close to a billion barrels of oil reserves have been drawn down since the beginning of the conflict.

So if nothing else, the globe is going to look to refill those reserves. And I know India and China have

both announced the intent to expand what they previously held as reserve. So I suspect, A, you'll have the ... I think US will likely benefit on the margin for becoming the new provider either through LPGs, or gasoline, or LNG, but also, it's just going to be a lot of demand globally to refill these reserves and potentially expand reserves to protect themselves the next time something like this might happen.

Yeah, very interesting macro story for this space. We've also now learned about how these companies make their money. Let's talk about the portfolio construction elements of this. Where do you think midstream fits within a diversified portfolio? Are your clients and investors thinking of them as stocks, real assets, income investments, alternatives, all of the above? How do we start to contextualize this for people trying to think about this for a portfolio?

Yeah, I guess all the above might be a decent answer, but historically, midstream companies are known for their healthy dividends. That's what originally attracted investors to them. That's still really important part of their story. As growth opportunities arise, sometimes these guys might hold off on growing their dividends as aggressively as they could. But once those things are completed, they usually go back to that dividend growth.

So, ultimately, they're, I think, mostly known as dividend payers where that dividend grows pretty reliably. Some of these guys are structured as partnerships. And so I've gotten the question, do those trade like the C corps just in case somebody's wondering. They do. Companies in this sector, some are corps, some are partnerships, but all the ones that we invest in are publicly listed, trade on major exchanges. So they trade like any other public equity, but the characteristics would definitely lean towards that healthy dividend payer.

I would say historically would compete with utilities and an investor's portfolio, particularly with the disconnect we've been able to see to broader energy group and crude oil prices. Hopefully, a little bit of an alternative nature there as it doesn't get pulled around so much with the price of crude or how the NASDAQ's doing or whatever. It's disconnected from those influences.

So you touched a lot on income. When we speak to investors, another topic that comes up is inflation. So if we think about this as that real asset exposure, how might you think about its characteristics in an inflationary environment?

Yeah, historically, the sector has had a good run in an inflationary environment. I mean, I think part of that is the commodity price environment's usually healthy. So even though we pointed to really not a lot of direct connection, I think from a market sentiment perspective, that sometimes helped.

These are real assets. So if you've got a gathering system or storage tanks, all that kind of stuff, and you're in an inflationary environment, well, it's difficult two years down the road for some competitor to try to beat you out because it would cost them more to build that asset. So there's a natural inflation hedge there. And then a lot of these assets have quite literal components of their fee structures that are tied to CPI or PPI that allow relief in inflationary environments.

So usually, the sector does well in that environment. We've looked at it numerous times. I think the correlation isn't really one way or the other, but I think there's an underlying operational benefit that can help.

Very interesting. Now, we've talked about this space in more broad brush strokes, but not all of these companies, I assume, are created equal. So when you're selecting investments, what separates a high-quality midstream company from the rest?

We've always used a scenario analysis heavy process. So I've done this long enough to know that

nobody knows what the price of these commodities are going to be tomorrow or almost anything what's going to be tomorrow. So you have to think about how these assets might perform in different macro environments. And so we always run a bear case and what we think the world's going to look like case.

That creates this range of understanding we think of it as, and we want to see how that valuation that we're getting in those two scenarios compares to how it's trading. And when we see that there isn't very much downside to our bear case compared to where the stock is trading today, we view that as an attractive opportunity. If we see a big gap, we'll get more nervous about that and maybe won't be as interested. So that's how we look at it.

When you do that long enough, you start to see there are certain asset types that perform really well in those analyses and some asset types that don't. But ultimately, we're going to rely on this scenario analysis to make sure we really understand how these different businesses might perform. We want to take an asymmetric exposure, asymmetric risk. We want to own the names where we see if things work out, we got a lot more upside in the name, at least fundamentally, than downside if the basic macro factors go against us.

Sure. And thanks for sharing with the listeners that disciplined approach. Maybe just a couple more things as we start to wrap this up. We talked about partnerships. What do you believe is the most misunderstood aspect of MLP investing today?

Yeah. To me, it's the ... We went through this period, I guess I don't know how to define exactly, 2014 to 2018, '19, where as I was alluding to before, there's a lot more volatility in the sector. I think probably there's a lot of investors that were involved then that don't realize that really that hasn't happened so much anymore. I think the reasons for that are many, but I'm sure part of it is that back in that time, a lot of these midstream guys paid most of their free cash as dividends.

And so when there was disruptions in the market, investors would get very nervous that something might happen to that dividend. Didn't want to be around for the market reaction to that. And today, we see that we just don't have that much of a concern in that regard. Most of these guys have very healthy dividend coverage. So, in other words, when you look at the free cashflow being earned versus that being paid out, go back six, seven, eight years ago, there's 1.1, pretty tight coverage today, that group is averaging close to two. So just a really healthy coverage.

I think that's a big difference and probably one of the reasons why we see so much less correlation to the commodity in the last few years. Balance sheets are healthy. I think maybe some people remember a time where they levered up more, didn't have as much of that free cash flow to help pay for capital spending. So I think probably just these basic, not business structure, but the operating practices of the industry, I think maybe people don't realize it's changed as drastically as it has in the last decade or so.

And probably the exposure that the group has to what I think is a very low-risk ramp of natural gas production demand growth and production growth to meet it.

Sure. And maybe related to that question, not that you do have a crystal ball, but you have lots of experience and wisdom in this space. If you think out three, five years and look back, what opportunity in the midstream space do you think investors are most under-appreciating? Or what would you say to maybe some of the skeptics in the listener cohort about this space in the next few years?

Yeah, I guess it would be ... I mean, the big picture of just what this demand growth means, I think, is probably being underestimated how profitable it can be. We talked about it for a moment, but there's this concept of operating leverage, and it's really powerful. So even just year-to-date, a lot of these

midstream guys have started to take up current year EBITDA growth from a 2% or 3% to 4% or 5%. Well, we believe that kind of trend is going to keep going. 3% or 4% underlying growth in the volume for natural gas, we believe, is materially more than that for EBITDA.

So I think that the exposure, the profitability of this outlook for natural gas demand growth, is probably being underestimated. And then also I think the breadth of the beneficiaries is perhaps being a little bit underestimated. Not to get too much into the weeds, but we see some of these companies that have very visible long-haul pipelines were labeled to tell the market, "We've signed this customer, we're going to build it. Here's the end service date." They're starting to get some credit for that, maybe not as much as they ought to.

But then you see companies that are closer to the wellhead who are more dependent upon that producer telling them what their plans are for the next six months or 12 months that aren't quite getting that credit in our opinion, but obviously, it's not going to make it to that long-haul pipeline unless it comes out of the ground. So I think there's a bit of a disconnect there that we're trying to take advantage of. So generally speaking, how profitable I think this phase can be and then also how broad the beneficiaries are likely to be from this as things people are missing.

Well, much appreciated, and we'll hopefully check back with you before the next three to five years. But for now, it's been an absolute pleasure. For those of us in New York and outside of Texas, this may not be an area that we think of every day. So thanks for sharing your insights and much appreciated. Catch you all next time.

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A master limited partnership (or MLP) is a publicly traded limited partnership in which the limited partner provides capital and receives periodic income distributions from the MLP's cash flow, and the general partner manages the MLP's affairs and receives compensation linked to its performance.

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 to 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.

Commodities may subject an investor to greater volatility than traditional securities such as stocks and bonds and can fluctuate significantly based on weather, political, tax, and other regulatory and market developments.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

Discussion of midstream companies involved in natural gas sourced from Bloomberg L.P. as of June 30, 2026.

Discussion of the performance of the AMZ Index during quarters when oil prices dropped sourced from Bloomberg L.P. as of June 30, 2026.

Statistics about the size of US gasoline exports sourced from the US Energy Information Administration as of June 30, 2026.

Statistics about the size of US LPG and LNG exports sourced from S&P Global Commodities at Sea as of April 2026, and the US Energy Information Administration as of June 30, 2026, respectively.

Statistics about US LNG export capacity under construction sourced from the International Energy Agency as of June 2026.

Statistics about natural gas demand from data centers sourced from RBC Capital Markets as of May 2026.

Statistics on oil reserve drawdowns during the Middle East conflict sourced from Reuters, the US. Energy Information Administration, and the International Energy Agency as of July 2026.

During periods since 2020 when inflation exceeded 3%, the Alerian MLP Infrastructure Index (or AMZ Index) outperformed the S&P 500 in seven of eight periods, according to Bloomberg L.P. as of December 2025.

The 10-year average yield for midstream MLPs is 8.5% with 3.1% annual distribution growth. Sourced from Wells Fargo Securities as of June 30, 2026, for the 10-year period ending December 31, 2025.

Comments on midstream company EBITDA growth sourced from company reports and earnings reports as of July 2026.

Statistics on dividend coverage sourced from Wells Fargo Securities as of June 30, 2026

The Alerian MLP Infrastructure Index is a composite of energy infrastructure Master Limited Partnerships.

The Consumer Price Index (or CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output.

Correlation is the degree to which two investments have historically moved in relation to each other.

EBITDA is the acronym for earnings before interest, taxes, depreciation, and amortization.

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Operating leverage measures a firm's reliance on fixed and variable costs.

West Texas Intermediate (or WTI) is a type of light, sweet crude oil that comes from the US.

FID stands for final investment decision, meaning that a construction project has received investment approvals.

A basis point is one-hundredth of a percentage point.

Cash flow is the net amount of cash and cash equivalents generated by a business.

Leverage measures a company's total debt relative to the company's book value.

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Midstream companies have performed even when oil prices dropped

Seventy-five percent, by market cap, of midstream companies are involved in the natural gas side of things.¹ It's moving the gas, handing the natural gas liquids, the liquified petroleum gases ... so the price of crude really is less important to the industry. If you look at 2021 through the quarter ending in June 2026, there are 11 negative West Texas Intermediate oil price (WTI) quarters. The Alerian MLP Infrastructure Index (AMZ), which is the primary midstream index, was only down in 36% of those instances.² So about a third of the time. And, in fact, if you averaged the AMZ performance for each of these negative WTI quarters, it was still positive, plus 1.5%.²

Data centers are driving natural gas-fired electricity demand

The country has had periods where natural gas volumes increased pretty rapidly. But it was really pushed through by producers — the producers figured out how to access all this new production through shale development. But that natural gas volume had to force its way into the market through price. The producers were producing it and they just had to beat up price until consumers took it. What we're looking at today is an expansion of demand through liquified natural gas (LNG) facilities ... The data centers that are driving this are must-run, 24/7-type power users, and so they need that kind of power. And that's really healthy because we're not having a producer that's shoving it into the market. This is going to be drawn by these users, which really underwrites all those assets we're talking about.

Demand growth may translate into increased profitability

The big picture of just what this demand growth means, I think, is probably being underestimated — how profitable it can be. Even just year-to-date, a lot of these midstream guys have started to take current year EBITDA growth up from 2% or 3% to 4% or 5%.³ Well, we believe that kind of trend is going to keep going.

Midstream assets can have natural hedges against inflation

These are real assets. If you've got a gathering system or storage tanks, all that kind of stuff, and you're in inflationary environment, it's difficult two years down the road for some competitor to try to beat you out because it would cost them more to build that asset. So there's a natural inflation hedge there. And then a lot of these assets have quite literal components of their fee structures that are tied to the Consumer Price Index or Producer Price Index that allow relief in inflationary environments.

We assess the potential of companies in various macro environments

You have to think about how these assets might perform in different macro environments. And so we always run a bear case and a “what we think the world's going to look like” case. That creates this range of understanding, and we want to see how that valuation that we're getting in those two scenarios compares to how it's trading. And when we see that there isn't very much downside to our bear case compared to where the stock is trading today, we view that as an attractive opportunity. If we see a big gap, we'll get more nervous about that and maybe won't be as interested. So that's how we look at it.

Get the SteelPath team's monthly commentary on the midstream energy industry and explore various strategies from the team.

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Source: Company reports and earnings reports as of July 2026.

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