Monthly Economic & Markets Outlook

Infrastructure Capital Advisors

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OVERVIEW

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01 Hot Headlines

02 Stock Market

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04 Economic

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HOT HEADLINES

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01

The monetary base is down $30bn YoY (approximately 0.60%). Typically, the monetary base grows by approximately 5% YoY, growing at less than 1% indicates that the Fed's monetary policy maintained restrictive to keep rates high. This also indicated that the Fed has massive headroom to lower rates and increase the monetary base.

- We estimate that a full-scale war with Iran that interrupted oil exports of 3MM per day would likely cause global oil prices to rise to over $90 per barrel to bring the global oil market into balance. Stocks are vulnerable as we are at all time highs and valuations are stretched prior to the election.
- The recent rate cut in China validates our bullish view on the global stock and bond markets as the Global Monetary Base (www.infracapfunds.com) expands rapidly.
- The market has cut rates for the Fed. The 100bp reduction in the 10-year interest rate over the last six months has stabilized the housing market. We project that the economy will grow 2-3% this year (No Landing).
  - We believe the "Sahm" rule is not useful for predicting recessions as it follows a lagging indicator (unemployment). We follow the "Hatfield Rule" which states that a recession is indicated by housing starts (leading indicator) dropping below 1.1MM units. The recent increase in starts to 1.35MM from 1.25MM last month validates our view that we are not heading into a recession.
  - The recent 100bp decline in rates validates our non-consensus view that global monetary policy is far more important than ongoing Federal fiscal irresponsibility in determining rates.
  - The Fed is very unlikely to execute another 50bp cut this year as there are no signs of a recession, only a moderation in growth, and the Fed has limited ability to forecast inflation or economic growth, so it is likely to proceed cautiously. The first 50bp cut was an acknowledgement that the Fed made a policy error by not cutting rates in July and was bullish as it is the first time in 4 years that the Fed has exercised judgement vs. following rigid, outdated rules.
- We project that the election will be positive for the stock market as we are likely to have divided government utilizing gambling odds (80% probability divided, 12% Rep. sweep, 8% Dem sweep), which is usually positive for stocks as it tends to restrain spending and makes a significant corporate tax hike unlikely.

STOCK MARKET

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02

Reiterate S&P year end price target of 6,000 with risk to our target heavily biased to the upside and downside risk driven by potential democratic sweep due to associated corporate and cap gains taxes. The rally to 6,000 or above likely to take place as we head into earnings season and get more clarity on the election.

- We project that the election will be positive for the stock market and we reiterate our 6,000 target with risk to the upside as we are likely to have divided government utilizing gambling odds (78% probability divided, 13% Rep. sweep, 9% Dem sweep), which is usually positive for stocks as it tends to restrain spending and makes a significant corporate tax hike unlikely.
    - A democratic sweep would imply a 25% corporate tax rate (A compromise from the Harris 28% proposal) which drops our theoretical year-end target by 10% to 5,400 due to both a drop in earnings and a multiple drop as earnings growth is a function of the after-tax return on capital.
    - A democratic sweep would also likely result in a large increase in the capital gains rate that would trigger a wave of selling this year as 12/31/24 is likely to be the cut-off date for the increase, which could drive the market below our 5,400 target.
    - A Republican sweep that lowers the corporate tax rate to 15% would raise our year-end target to 6,700.
    - The political talking point that past democratic administrations were good for stocks is not relevant to the current situation as none of those governments raised corporate taxes, and the US has not raised corporate tax rates since 1949.
    - The last significant capital gains tax increase was 1986 and it triggered a wave of capital gains realizations.
    - Both parties are far more extreme than in the past so divided government is important for stocks.
    - Cutting corporate taxes is the most critical economic growth driver. Corporate taxes are 60% correlated with GDP growth.
- We are forecasting rate two additional cuts in November and December, which will be a big catalyst for the stock market during the 4th quarter.

FED & CENTRAL BANK

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03

The BOC and ECB rate cuts has started the global wave of rate cuts and will put pressure on other central banks to cut as currency moves reduce the growth of countries slow to cut. We project that there will be a $2 Trillion Injection of Liquidity into the Global Money Supply during 2024.

- We forecast that the Fed will cut rates 25bp two more times in 2024.
  - Inflation does not magically re-ignite or become "sticky'. Inflation is caused by excessive monetary stimulus and supply shocks. Current inflation is 1.5% if one utilizes market prices readily attainable from internet rental services.
  - Investors tend to overestimate the magnitude of Federal budget problems as they ignore the impact of Fed purchases of treasuries due to past QT and ongoing growth of the money supply and associated purchase of bonds.
    - Correcting for the Fed's normal purchased of treasuries due to the expanding money supply, the Federal budget deficit is 4.5% of GDP which is sustainable given that nominal GDP growth averages 5%.
    - Fiscal irresponsibility does reduce potential GDP growth by approximately 1% due to crowding out of private investment.
- Recent declines in oil prices are bullish for inflation prints for the rest of the year as energy prices bleed into core at approximately a 5% rate.
- The Fed's policy framework needs to be reformed.
  - The Fed's 2% target has been shown to be too low by academic research and the Core PCE index is highly flawed as the Shelter component lags by 18-24 months by design (6-month lag) and due to inclusion of lease renewals vs. new leases. The Fed should also adopt a nominal wage growth target and an employment target.

04

The US economy is stabilizing. We do not expect a recession as the housing sector likely to stabilize after the recent 100bp drop in the US 10-year rate.

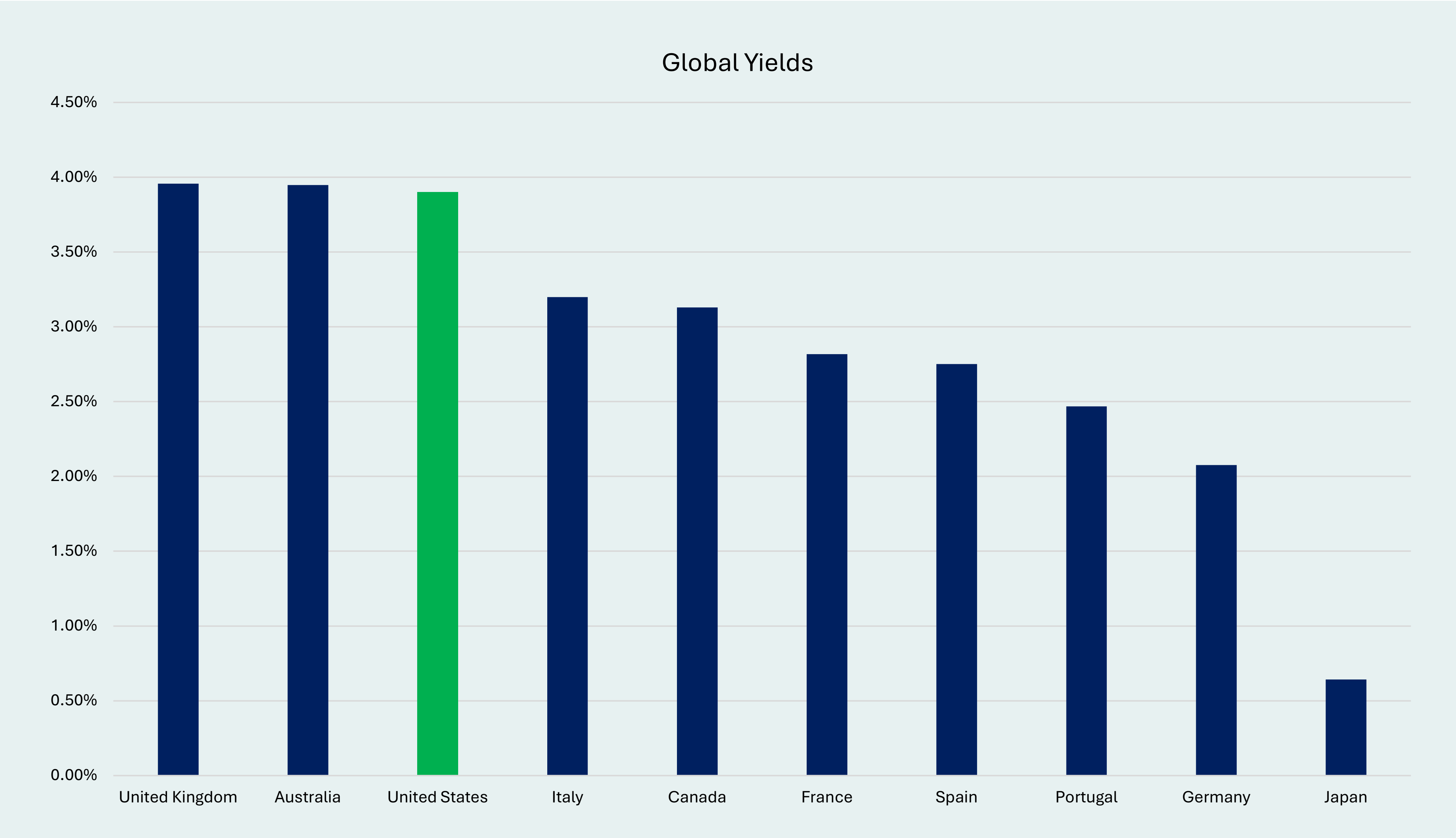
- Political Outlook
    - The math strongly favors the Republicans recapturing the Senate by taking West Virginia and Montana with the Democrats likely to retake the house due to NY redistricting and pro-choice suburban women turnout. The presidential is impossible to forecast accurately as it will be a turnout driven election.
    - Instead of both candidates focusing on the taxation of tips, both candidates should pledge to eliminate income taxes on those making less than $50,000.
- The hyper cyclical housing market was weakening with June new homes sales report plunging 11.3%, but after the dramatic decline in interest rates new home sales surged to a year high of 739k. In addition, homebuilders have indicated a surge in buyer's traffic in July and August.
    - 11 out of the last 12 recessions were precipitated by a collapse in the hyper-cyclical housing sector. We have been forecasting for the last three years that the US economy would not go into a recession due to the shortage of housing in the US, but as noted above the housing sector is cooling and the US could enter a mild recession if the Fed does not cut rates this year.
- Cutting corporate taxes is the most critical economic growth driver. Corporate taxes are 60% correlated with GDP growth.
    - Greece cut corporate taxes from 28% to 22% and economic growth surged.
    - Ireland has one of the lowest corporate tax rates in the EU and the highest economic growth rates.
    - The US has outperformed other OECD economies since cutting corporate tax rates to competitive levels in 2017.
    - Attempts to implement a global minimum corporate tax validates the importance of corporate tax rates to global competitiveness.

05

We estimate that a full-scale war with Iran that interrupted oil exports of 3MM per day would likely cause global oil prices to rise to over $90 per barrel to bring the global oil market into balance. Stocks are vulnerable as we are at all time highs and valuations are stretched prior to the election.

- The White House announced today that Iran was preparing to launch ballistic missiles on Israel. Oil prices reversed losses and are now up 3% to over $70 per barrel, and stock prices were down over 1% with treasuries rising .5% on a flight to safety.
- Pollution taxes are by far the most economic method to efficiently reduce carbon and improve the environment. Taxes on mercury, SoX, NoX and coal ash would cause most global coal fired power plants to close and dramatically reduce carbon and toxic emissions.
- Recent Oil Price Weakness Driven By seasonal factors and Negative OPEC Sentiment:
    - We maintain our $75-95 range estimate for oil in 2024 as continued production constraint from OPEC+ and steady demand growth support the price.
    - Middle east war providing only modest support to the oil market.
    - We attribute the recent weakness to seasonal/weather factors partially.
    - December of 2023 was the warmest in 150 years.
- <u>The utopian vision of an all-electric economy has now completely imploded</u> as average consumers have limited interest in all electric autos, and renewables development falters due to nimby opposition to offshore wind and massive cost over runs. Europe’s failed energy transition is likely to exacerbate a recession and lead to regime change in many countries.
    - The failed attempt to push an all-electric vision has hurt the environment as there was less focus on hybrid electric cars and using natural gas to supplant coal.

Global Interest Rates



The economic outlook and market observations discussed here have been prepared using sources of information generally believed to be reliable; however, their accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice.

Global Monetary Base

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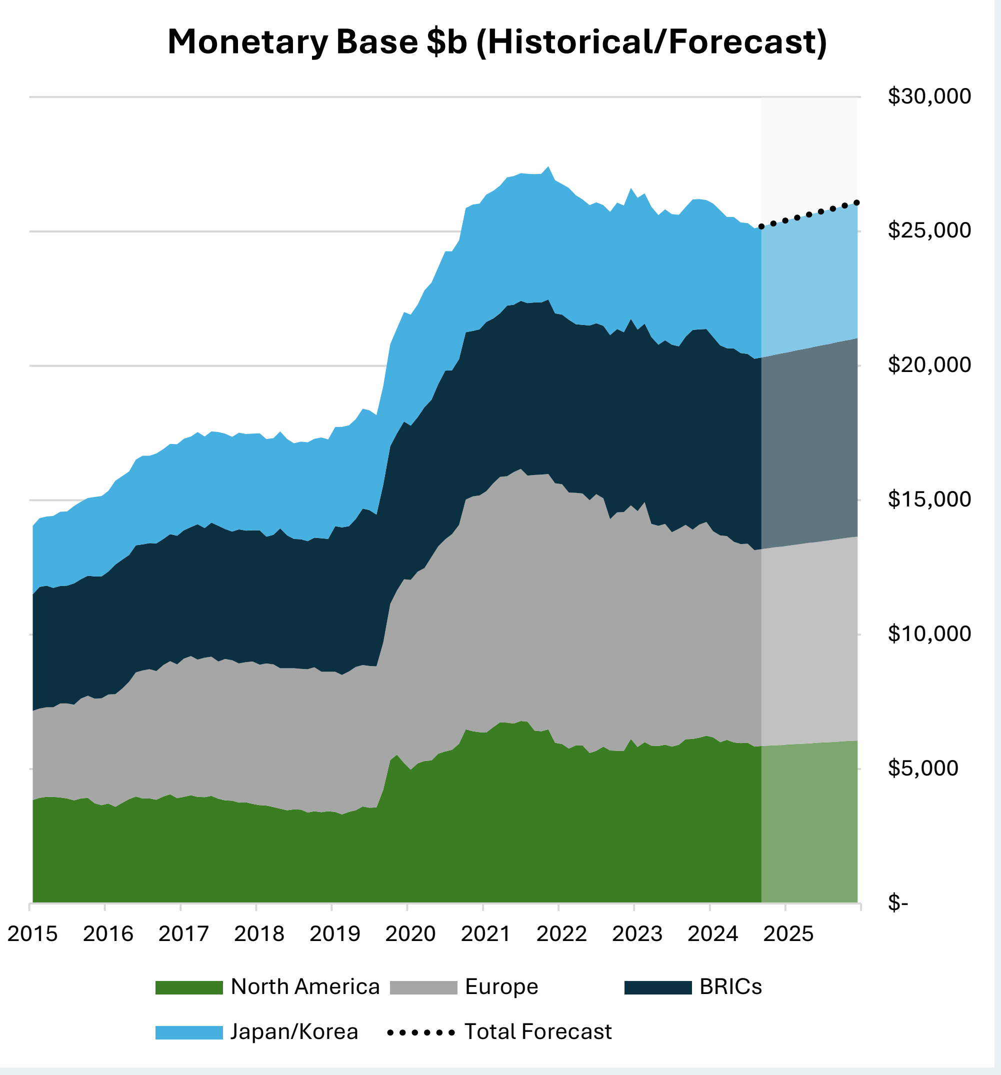

Global Monetary Base Index	North America	Europe/UK	BRICs	Japan/Korea	Total
Change in $ Billions (Through September 2024)					
1Mo	-142	-91	55	-10	-188
YTD	-282	-476	-310	-1	-1,069
TTM	6	-671	137	9	-520
Percent Change (Through September 2024)					
1Mo	-2.4%	-1.2%	0.8%	-0.2%	-0.7%
YTD	-4.6%	-6.1%	-4.2%	0.0%	-4.1%
TTM	0.1%	-8.4%	2.0%	0.2%	-2.0%
Annual Change %					
2018	-10.9%	2.1%	3.3%	5.3%	0.1%
2019	2.3%	0.8%	11.8%	3.1%	4.8%
2020	56.4%	50.1%	8.0%	19.2%	31.8%
2021	19.7%	16.0%	2.0%	8.7%	11.9%
2022	-15.8%	-6.0%	6.9%	-5.0%	-5.2%
2023	7.5%	-9.6%	8.4%	6.2%	1.8%
2024 (f)	-3.9%	-5.4%	-3.5%	0.7%	-3.4%
2025 (f)	3.0%	3.0%	3.0%	3.0%	3.0%

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Market Implied Policy Rates

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Market Implied Policy Rates (09/30/2024)					
Americas	**Current**	**3M**	**6M**	**1Y**	**Chg 1Yr (Bps)**
United States	4.88%	4.36%	3.96%	3.47%	(141)
Canada	4.25%	3.60%	3.20%	2.85%	(140)
Mexico	10.50%	10.13%	9.59%	8.65%	(185)
Chile	5.50%	5.05%	4.56%	4.26%	(124)
Brazil	10.75%	11.76%	12.78%	13.17%	242
EMEA	**Current**	**3M**	**6M**	**1Y**	**Chg 1Yr (Bps)**
Eurozone	3.50%	3.00%	2.45%	2.06%	(144)
United Kingdom	5.00%	4.65%	4.31%	3.96%	(104)
Switzerland	1.00%	0.62%	0.47%	0.37%	(63)
Norway	4.50%	4.42%	4.06%	3.30%	(120)
Sweden	3.25%	2.66%	2.14%	1.72%	(153)
Denmark	3.10%	2.56%	2.14%	1.72%	(138)
Czech Republic	4.25%	3.77%	3.51%	3.38%	(87)
Poland	5.75%	5.52%	5.32%	4.98%	(77)
Asia / Pacific	**Current**	**3M**	**6M**	**1Y**	**Chg 1Yr (Bps)**
Australia	4.35%	4.26%	4.03%	3.59%	(76)
New Zealand	5.25%	4.31%	3.78%	3.03%	(222)
Japan	0.25%	0.32%	0.39%	0.50%	25
China	1.50%	0.94%	0.64%	0.66%	(84)
India	6.50%	6.49%	6.22%	5.94%	(56)
Korea	3.50%	3.38%	3.02%	2.66%	(84)

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SMALL CAP BENEFITS

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1

EARLY IN BUSINESS LIFE-CYCLE

Small cap companies have the ability for more sustained growth than their large cap counterparts because they are often in the early stages of their business life-cycle

2

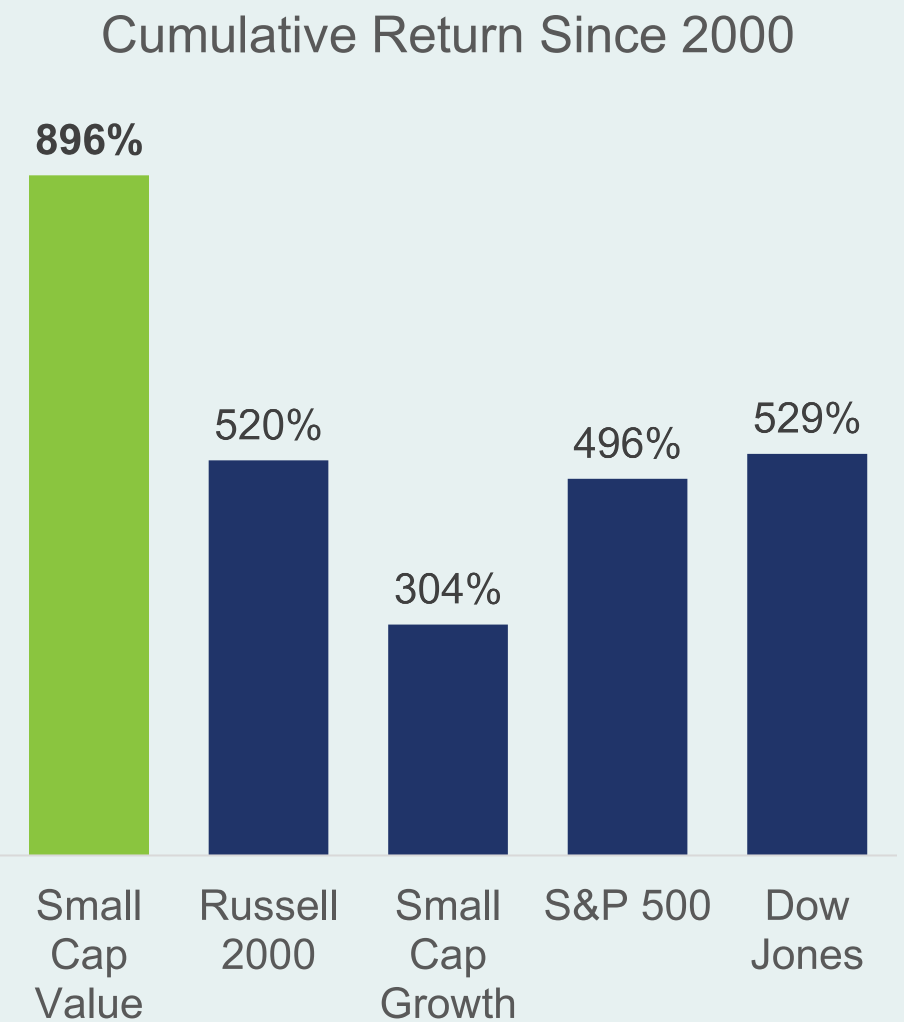
LACK OF SELL-SIDE COVERAGE

A lack of analyst coverage can cause truly high-quality businesses to go unnoticed, thus presenting attractive long term investment opportunities

3

HISTORICAL OUTPERFORMANCE

Despite underperforming the past 5 years, Small Cap Stocks were the best performing asset class since 2000. And within Small Cap Stocks, value-oriented stocks have an even more pronounced track record of outperformance



*All figures shown are total return. 12/31/1999 – 12/31/2023. **Past Performance does not guarantee future performance.** Small Cap Value: Russell 2000 Value Index, Small Cap Growth: Russell 2000 Growth Index. From Bloomberg. This data was prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The comparative data is provided for information purposes only and should not be relied upon for making comparative investment decisions.

SMALL CAP ADVANTAGE

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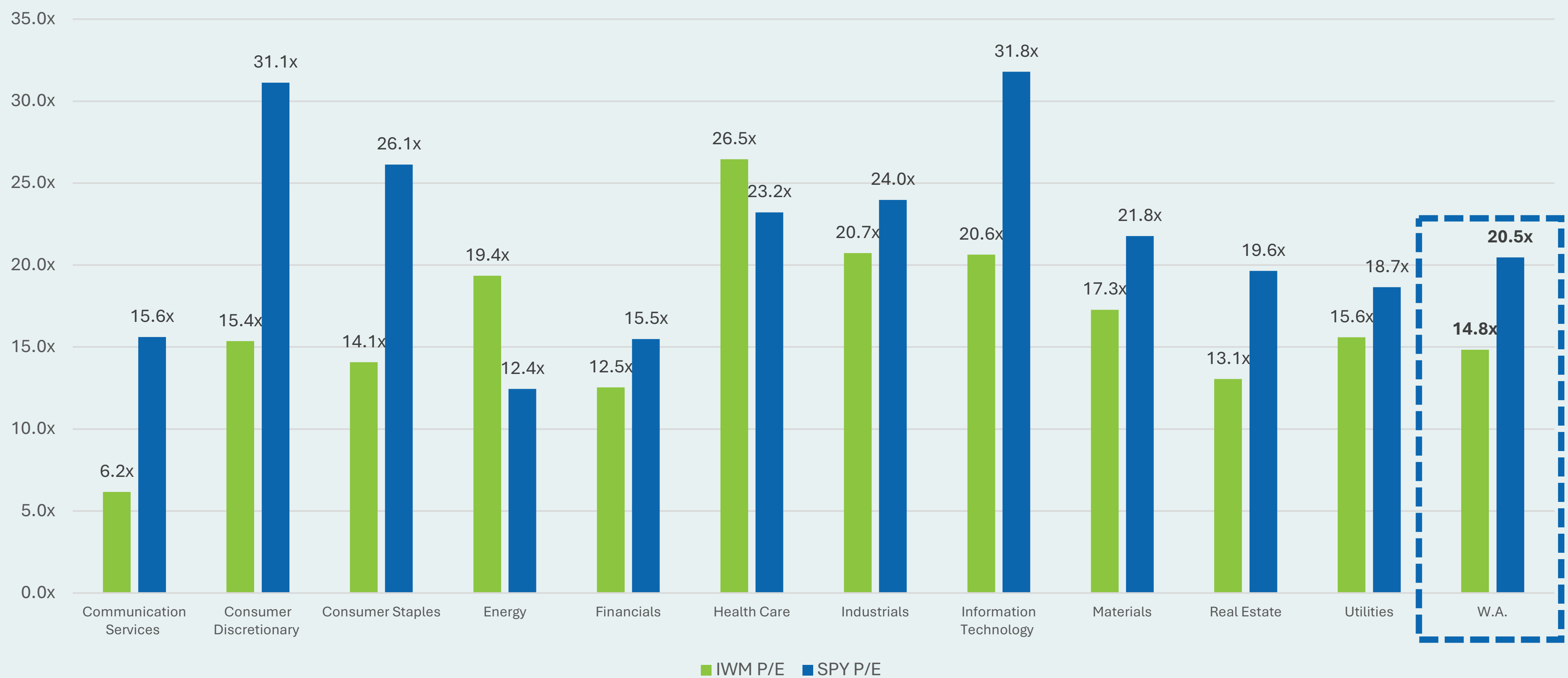
LARGE CAP VS SMALL CAP P/E



Small Cap stocks consistently trade at lower P/E multiples in almost every sector. On a weighted average basis, Small Caps trade at a 3.2x lower multiple, making a compelling investment case. Small Caps can provides diversified exposure to small-cap stocks, positioning investors to benefit from their long-term growth potential.

From Bloomberg. This data was prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The comparative data is provided for information purposes only and should not be relied upon for making comparative investment decisions. The Sharpe ratio is a measure of risk-adjusted return that compares an investment's excess return to its standard deviation of returns. It's often used to gauge the performance of an investment by adjusting for its risk. *All figures shown are total return. 12/31/1999 – 12/31/2023. Past Performance does not guarantee future performance. Small Cap Value: Russell 2000 Value Index, Small Cap Growth: Russell 2000 Growth Index. The price-to-earnings ratio (P/E) is a way to value a company by comparing its stock price to its earnings . It's calculated by dividing the price of a stock by the company's earnings per share. P/E Median is calculated based on the median P/E for index, P/E current is calculated based on the current P/E for index. Delta is a theoretical estimate of how much an option's value may change based on a $1 move up or down in the underlying security. It's also called the hedge ratio and applies to derivative products.

THE NEW ISSUE MARKET

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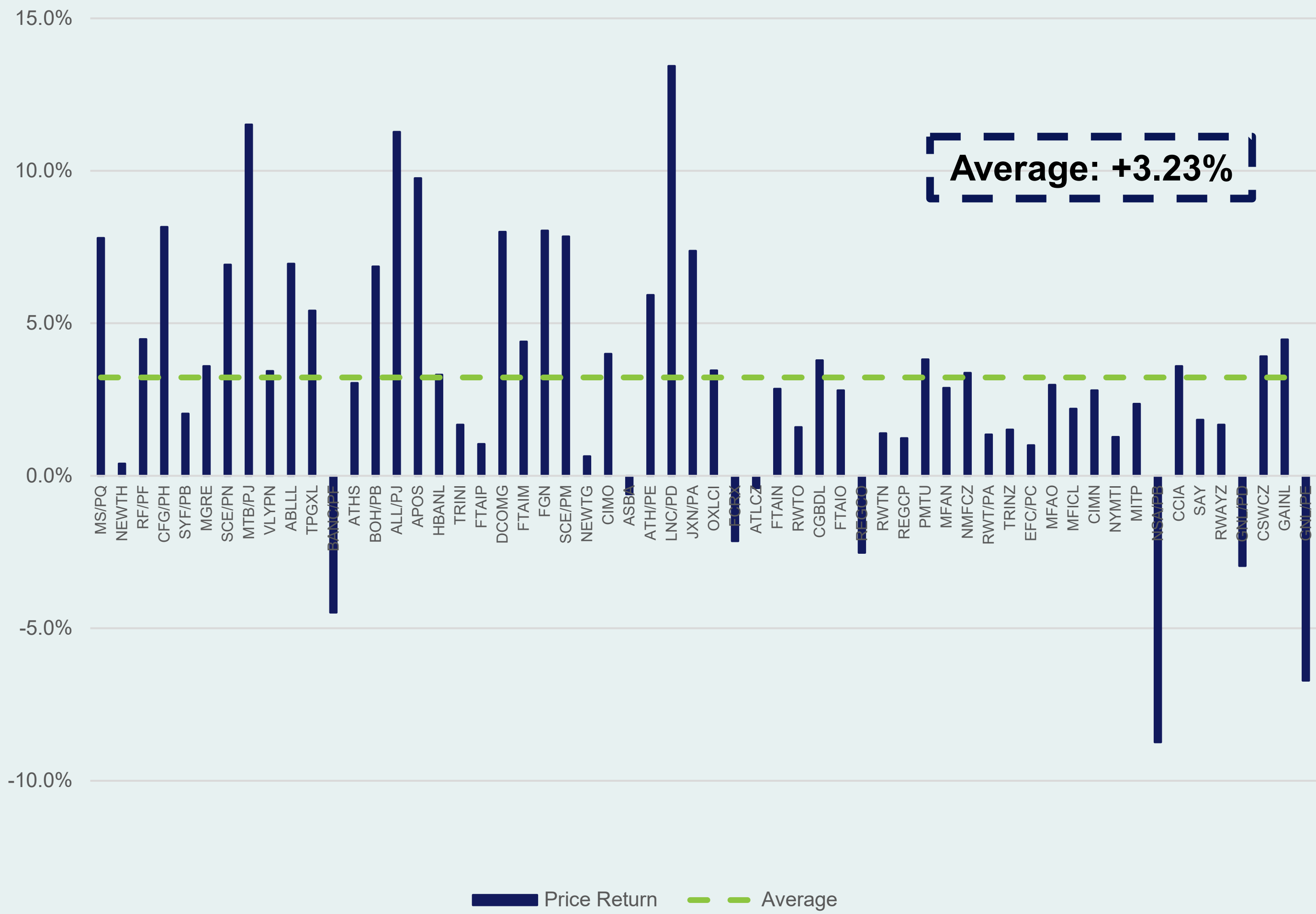
New Issue Price Return



Within the past year, new issues preferred stocks have appreciated 3.23% on average after issuance and over 86% of new issues have traded up.

As we enter a lower rate environment, we anticipate issuers to refinance outstanding preferreds. There is over $17bn of preferreds that will become callable in 2024 and 2025 that is currently trading above par

From Bloomberg as of 7/31/2024. This data was prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice. Individual new issued tickers are displayed to reflect price trend data as group for 2024. The data is not intended to be an endorsement or investment advice for any specific company, issuer, or preferred stock new issue; the data displayed is limited to new issued preferred parity securities for 2024. Please reach out to us to obtain more information regarding the underlying data

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OFFICE REAL ESTATE

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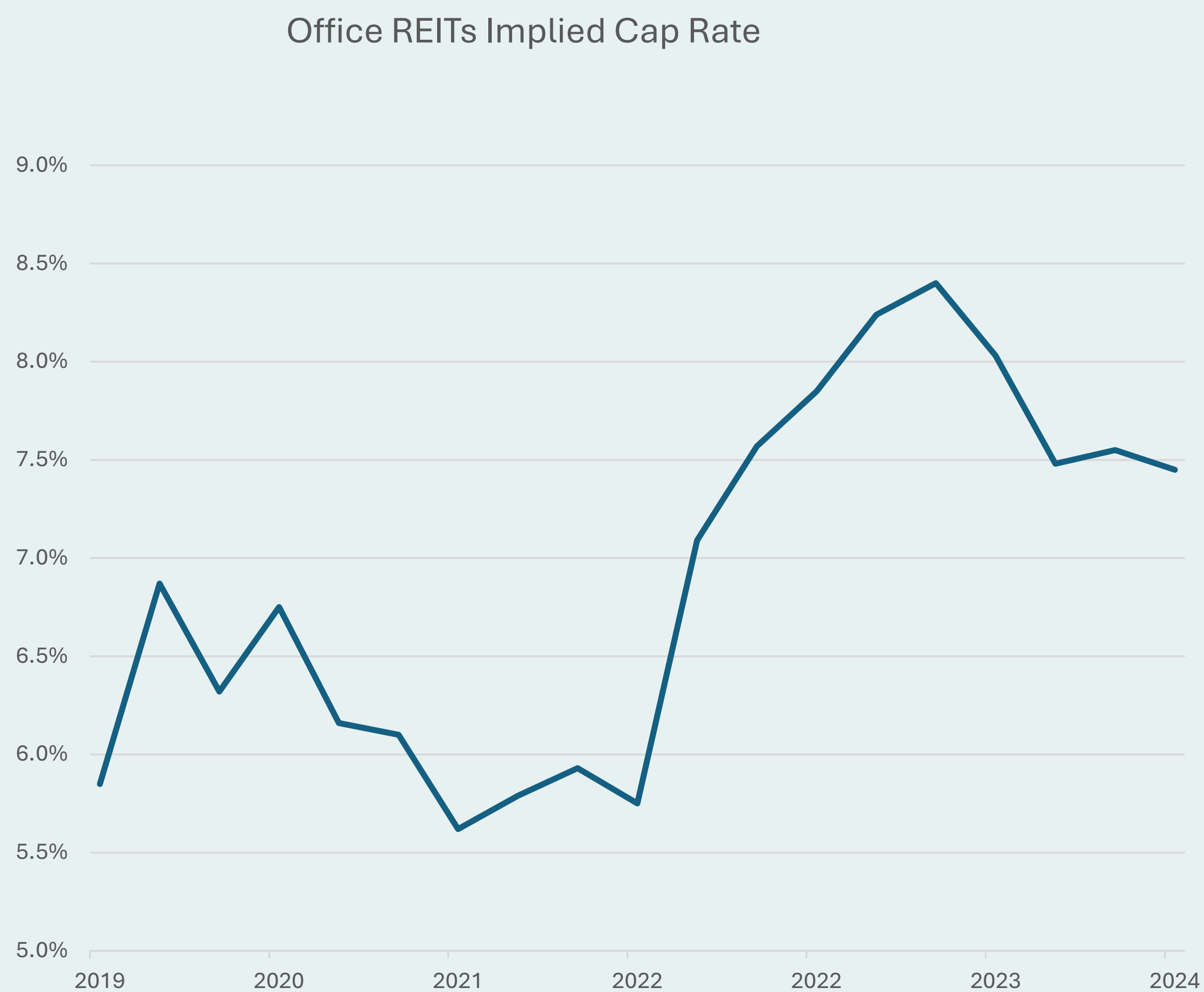

While headline risk remains for commercial office space, we have seen implied cap rates lower from historical highs near 8.50% to 7.50%. The combination of lower cap rates in addition to increased return to office mandates (e.g. Amazon) and limited new supply should continue to lead to further cap rate compression for high quality offices. We feel this compression is being led by high quality offices as the market has realized its mistake of grouping all assets together. The return of VNO and SLG preferred stock illustrates this.

We feel that the market is starting to correct itself for grouping all office into one bucket and quality, Class A office buildings will continue to experience cap rate compression while lower quality office will feel the opposite.

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Worldwide Natural Gas Prices

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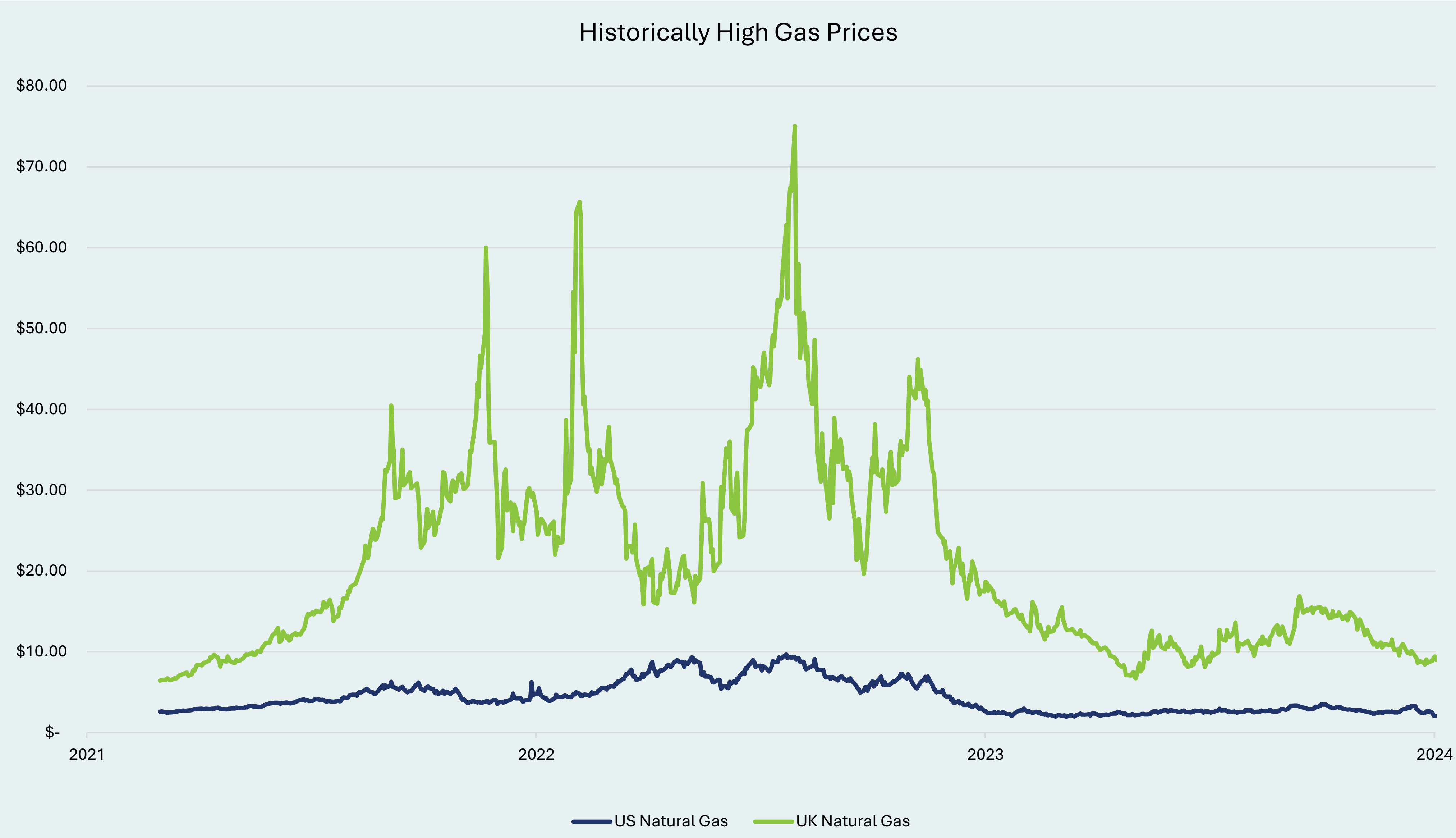

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ABOUT INFRASTRUCTURE CAPITAL ADVISORS

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Current income is a primary objective in most, but not all, of ICA's investing activities. Consequently, the focus is generally on companies that generate and distribute substantial streams of free cash flow. This approach is based on the belief that tangible assets that produce free cash flow have intrinsic values that are unlikely to deteriorate over time. For more information, please visit infracapfunds.com

Disclosure: Opinions represented above are subject to change and should not be considered investment advice. Past performance is not indicative of future results.

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Indices / Performance Terminology Used: https://www.infracapfunds.com/terminology

- MLP (AMZI Index) - The Alerian MLP Infrastructure Index is a composite of energy infrastructure MLPs. The cap-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, was developed with a base level of 100 as of December 29, 1995.
- Telecoms (S5TELS Index) - Standard and Poor's 500 Telecommunication Services Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period. The parent index is SPXL1. This is a GICS Level 1 Sector group. Intraday values are calculated by Bloomberg.
- REIT (REIT Index) - Dow Jones EQUITY REIT Total Return Index. This index is comprised of REITs that directly own all or part of the properties in their portfolios. Dividend payouts have been added to the price changes. The index is quoted in USD.
- Dividend Arist. (SPDAUDP Index) - The S&P 500 Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years.
- S&P500 (SPX Index) - Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period.
- The S&P 500 High Dividend Index (SPXHDUT Index) serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.
- Treasury 2-Yr (H15T2Y Index) - US Treasury Yield Curve Rate T Note Constant Maturity 2 Year compiled from the Board of Governors Federal Reserve System.
- Treasury 10Yr (H15T10Y Index) - US Treasury Yield Curve Rate T Note Constant Maturity 10 Year compiled from the Board of Governors Federal Reserve System.
- Barclays US Treasury Total Return USD (LUATTRUU Index) - The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.
- Municipal (049M10Y Index) - Fair market value indices are derived from data points on Bloomberg's option-free Fair Market Curves prior to 11/13/14. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board.
- BofA Merrill Lynch US Corporate BBB Effective yield - This data represents the effective yield of the BofA Merrill Lynch US Corporate BBB Index, a subset of the BofA Merrill Lynch US Corporate Master Index tracking the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market. This subset includes all securities with a given investment grade rating BBB. When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month ending accrued interest adjustments
- Preferreds - The S&P U.S. Preferred Stock Index is a benchmark representing the U.S. Preferred stock market. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets.
- Bloomberg Barclays High Yield Spread - Bloomberg Barclays CDX HY Basket OTR Current Spread
- High Yield (LF98TRUU Index) - The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.
- Current yield is an investment's annual income (interest or dividends) divided by the current price of the security; Volatility is the standard deviation of monthly returns for the respective index; Correlation to Gov't bonds is the correlation between the respective index and the US Treasury Index (LUATTRUU Index), i.e. the correlation coefficient is able to determine the relationship between two properties; Beta to S&P 500 is the measure of the volatility of a respective index compared with the volatility of the S&P 500 Index (SPXT Index), calculated using the SLOPE function on Excel to measure a regression/best fit line between the two return series.
- 30-day SEC Yield – Standardized yield calculated according to a formula set by the SEC, and is subject to change
- Correlation – Shows the strength of a relationship between two variables and is expressed numerically by the correlation coefficient. The correlation coefficient values range between -1.0 and 1.0. A perfect positive correlation means that the correlation coefficient is exactly 1. Volatility is a statistical measure of the dispersion of returns for a specific security or index.