
InfraCap
MARKET & ECONOMIC OUTLOOK
JANUARY 2023 WEBINAR
An InfraCap Exclusive Discussion
w/ Special Guest Bryan Perry
THURSDAY, JANUARY 12
@ 1:30 PM ET
JAY HATFIELD
INFRACAP CEO, CIO &
PORTFOLIO MANAGER
BRYAN PERRY
SPECIAL GUEST & HIGH-YIELD
INVESTING EXPERT

Economic & Inflationary Outlook

Hawkish Fed Policy likely to cause a significant global recession in 2023 but the US is likely to stay out of a recession. The Fed continues to make major policy errors as it relies on lagging indicators such as CPI and the labor market to predict inflation vs. leading indicators such as the money supply, housing prices and energy/commodity prices.

- The **Infrastructure Capital Real Time CPI Index (CPI-R) turned strongly negative in October** coming in at a negative .35%/mm and negative 4.2%/annualized, signaling that inflation has peaked and will likely decline rapidly over the next 6-12 months.

- Housing prices started declining in July and will eventually be reflected in the lagging BLS CPI index. The **CPI shelter estimate has enormous lags** due to outdated survey methodology and is currently reflected in CPI at an annual rate of 9.6%. There is a 70% correlation between housing prices and shelter increases 12 months later, so housing prices are a better reflection of inflation than the reported shelter numbers in CPI.

- We do not expect a recession in the US in 2023 due to a **very resilient housing sector with an ongoing shortage of housing** and tail winds from the enormous **70% energy cost advantage relative to the rest of the world**.

- The Fed ignores the fact that **lower energy, commodity and shelter costs raise real wages** and reduce the need for employers to raise nominal wages.

The economic outlook and observations discussed here are the result of research conducted by the InfraCap portfolio management and research team. These observations reflect their industry expertise and 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.

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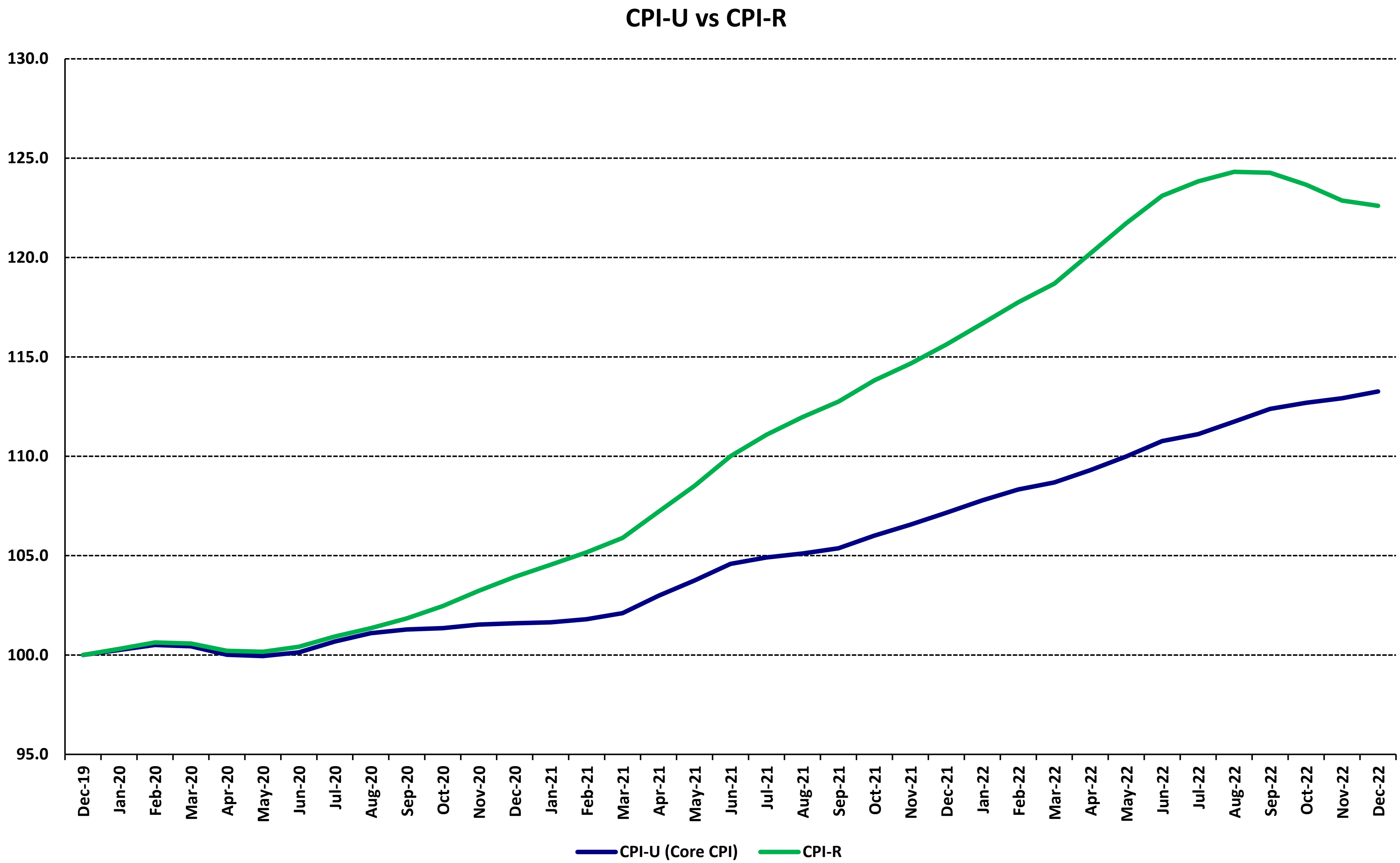
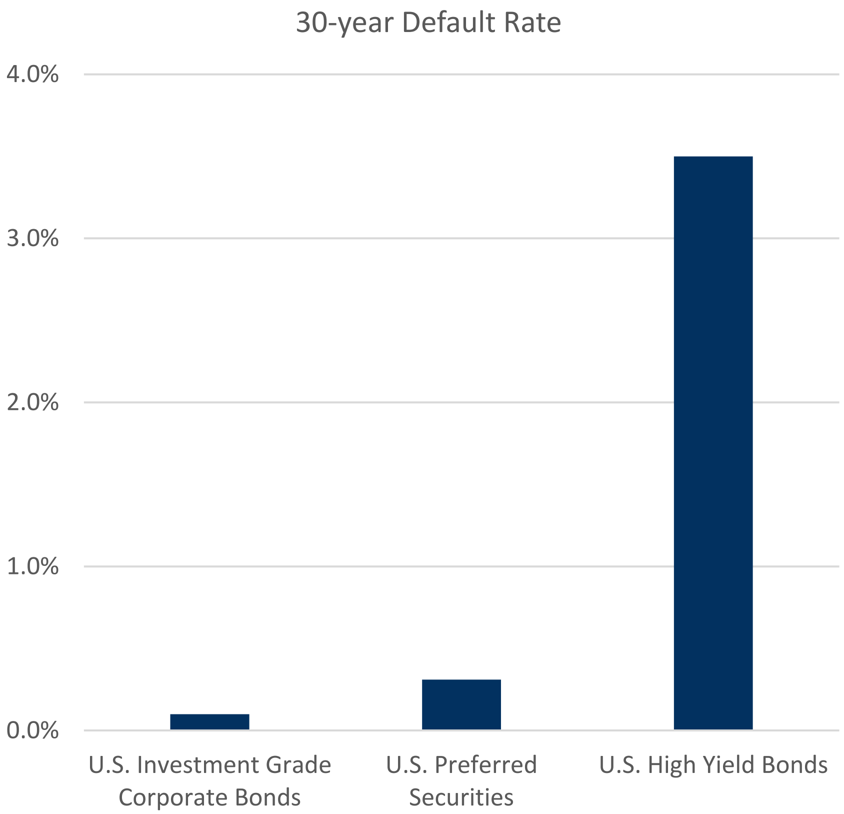
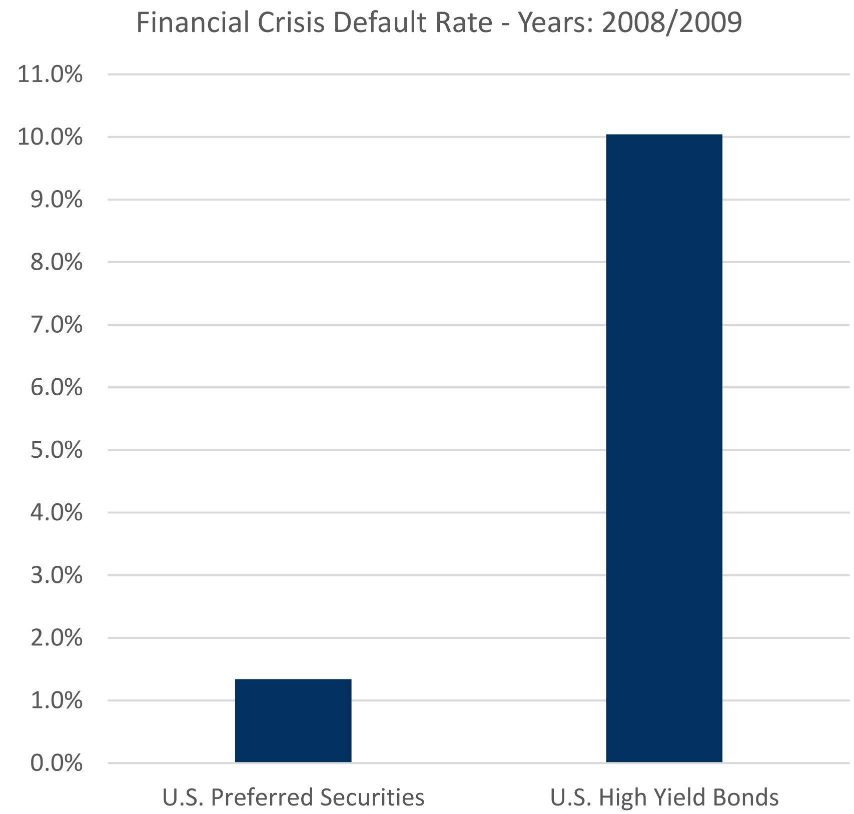
Infrastructure Capital Real Time Consumer Price Index: CPI-R



Credit Outlook





30-Year default rates are sourced from Moody's Investor Services. Default rates during the financial crisis are compiled using Bloomberg. The bond market outlook and observations discussed here are the result of research conducted by the InfraCap portfolio management and research team. These observations reflect their industry expertise and 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.

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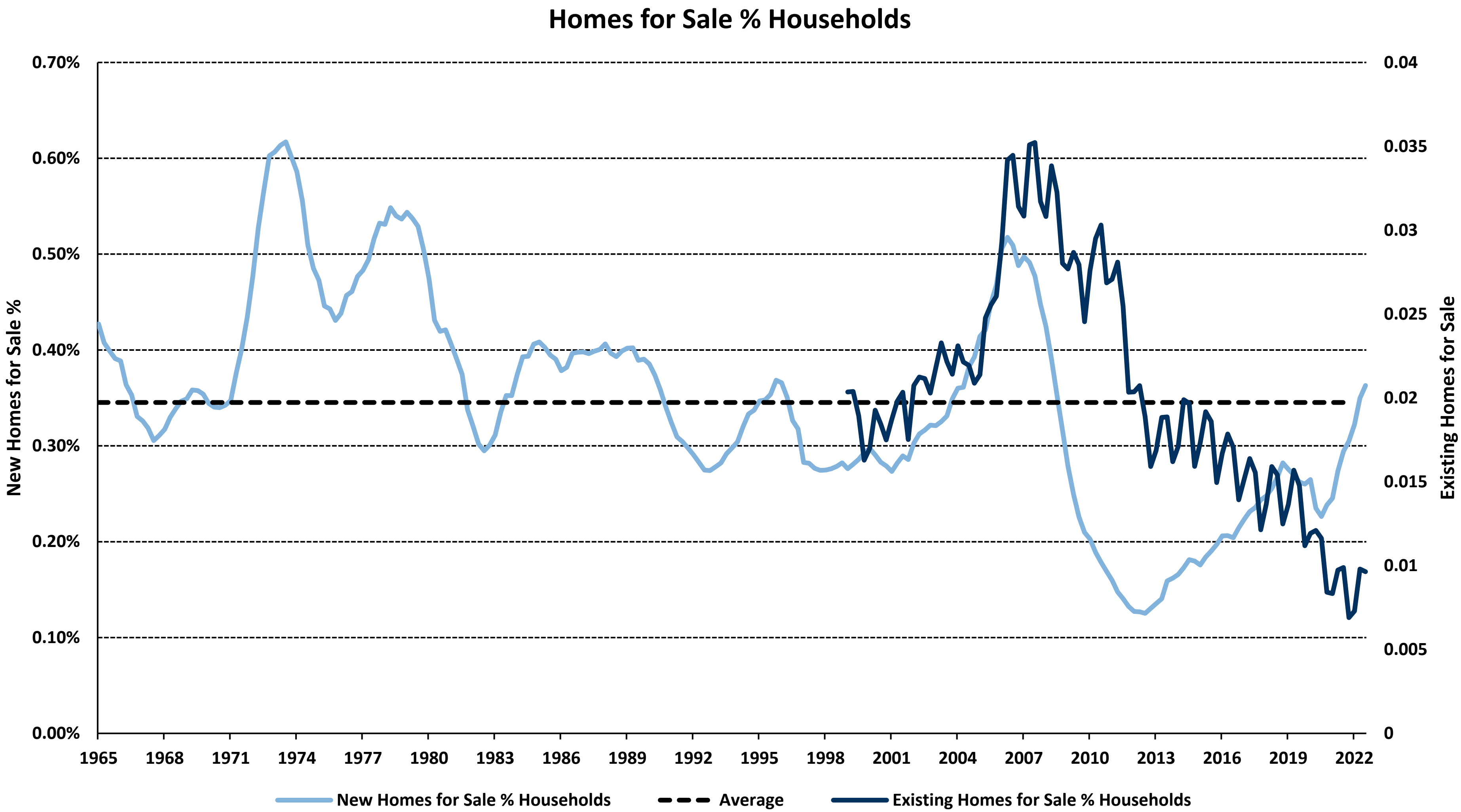
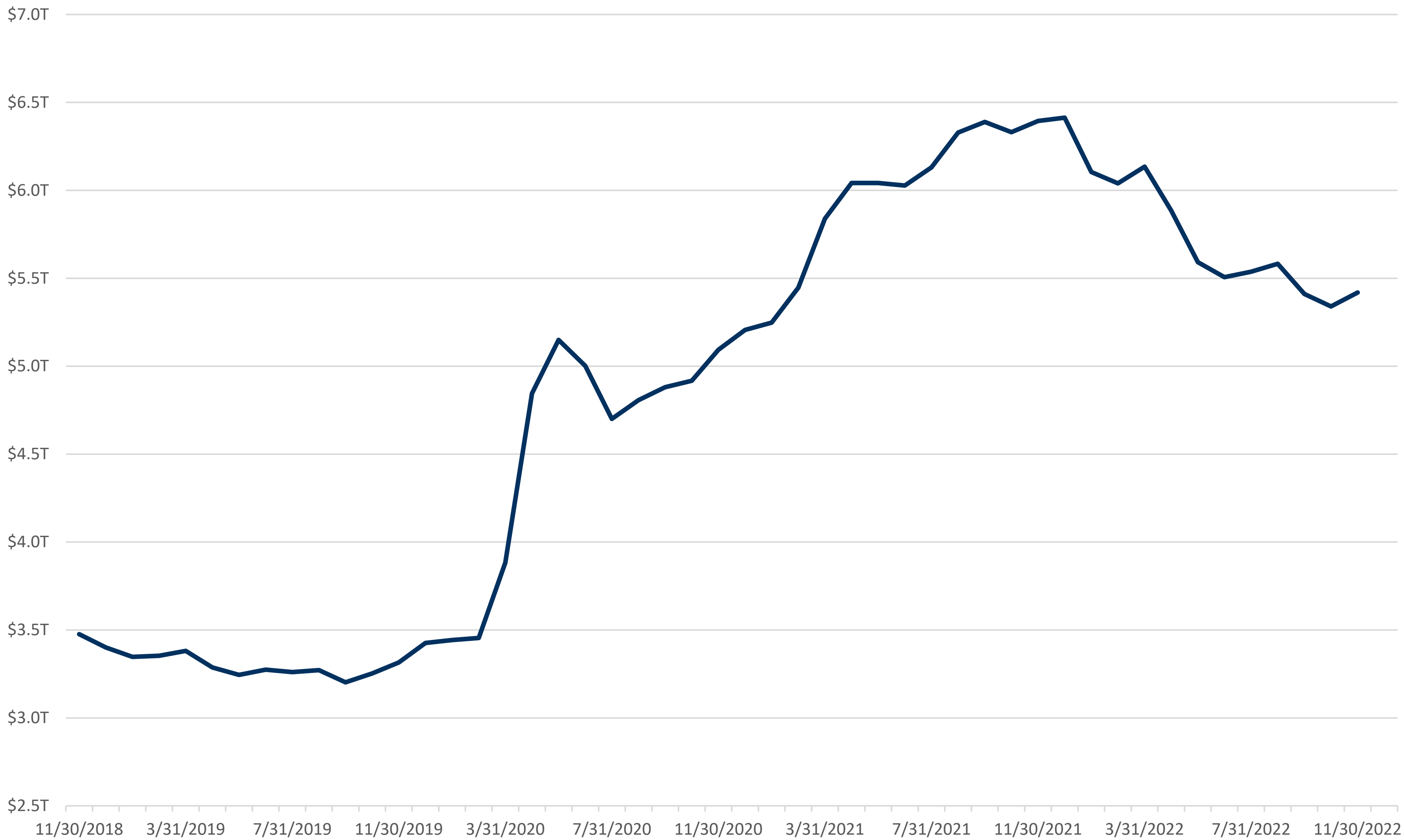
Housing Shortage



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. The comparative data is provided for information purposes only and should not be relied upon for making comparative investment decisions.

Monetary Base



From Bloomberg: ARDIMBAL Index, 11/30/2018 – 11/30/2022

Stock Market Outlook

We believe that the stock and bond markets have found a bottom and 2023 will be a strong year for stocks and bonds with gains of more than 10% as inflation declines rapidly in the first 6 months of the year and bond yields also decline.

- **Our models show that the S&P is approximately fairly valued at 3,700,** based on the current 10-year interest rate of 3.60%, implying no upside. But if the 10-year returns to 3% yield out target rises to **4,300. Our near-term target assumes S&P 2023 earnings of $225**
- **Many strategists/investors are more bearish than we are** and projecting the S&P goes to 3,000 as they believe inflation will be persistent, the Fed will be forced to move rates higher and higher and the US will have a deep recession.
- **There will be ongoing headwinds from misguided Fed policy and sluggish growth, which is likely to make the market volatile for the first 6 months of the year.** The Fed will have to capitulate on its "Persistent" theory of inflation just as it did with its "Transitory" theory.
- **The average recession produces a 24% decline in the stock market and a 13% decline in earnings estimates, implying we likely have already made a market bottom.**
- **Preferred stocks should be attractive with lower volatility and high yields.**
  - **The 30-year average default rate for preferred stocks in only .33%/year vs. over 4% for high yield bonds**
  - The higher yielding segment of the market has lower interest rate sensitivity and many issuers of preferred benefit from inflation such as REITs.

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Bond Outlook

We expect that the 10-year treasury bonds will find a bottom in the 4% yield area and potentially rally into the 3-3.25% range during 2023

- Tighter Fed policy is likely to **flatten the yield curve** which will keep a lid on long term rates.
- There are **$52 trillion of global pension assets with only 28% allocated to bonds** which will rebalance and reallocate into treasuries if yields are significantly above 3% capping the potential rise in rates
- The Fed has reached a level of **maximum hawkish rhetoric** so can no longer drive long term rates higher with Fed speak ("Open Mouth Operations")
- Global growth and demand for credit likely to be sluggish in Europe due to the energy crisis, in China due to regulatory crackdown and in the US due to hawkish Fed policy and a large reduction in the government budget deficit. **The US 10yr is 1.5% higher than German 10yr. and Japanese bonds are near zero.**

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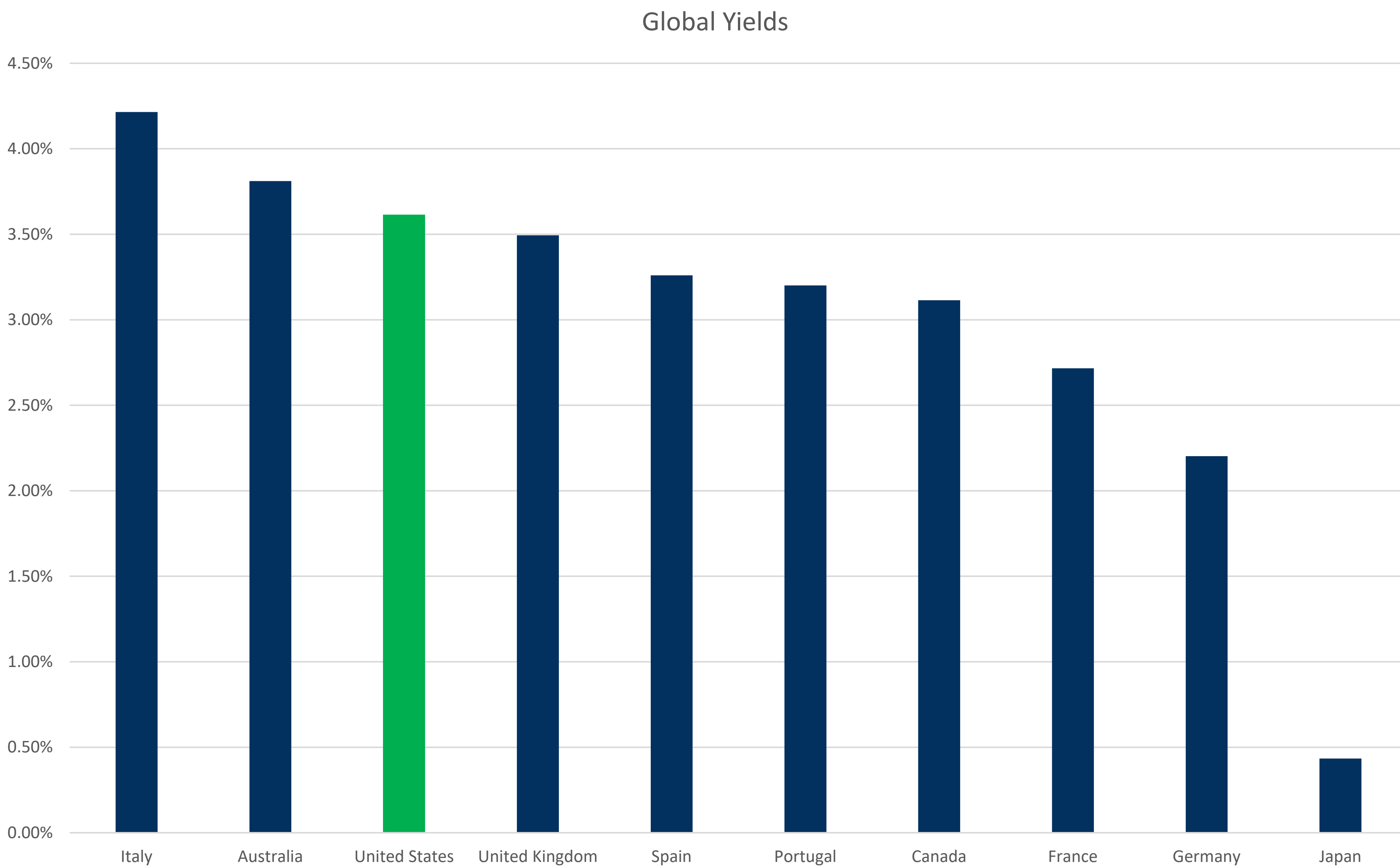
Global Interest Rates



Commodity Outlook

We expect oil to trade in the $80-100 range while the Ukrainian war continues with European natural gas prices at the energy equivalent of oil being at over $150/barrel

- **The takeover of the house will preclude any legislation to implement a windfall profits tax or an export ban on oil or refined products.**
    - Biden Administration is likely to double down on its "whole of government" approach to climate change now that the Midterms are over
    - The house will have limited ability to stop administration de facto bans on new pipelines and offshore drilling.

- **The key global energy/climate opportunity is to rapidly develop US natural gas transmission and export capacity of the US.**
    - There is an 70% discount of US natural gas prices relative to European prices.
    - Expanding natural gas consumption reduces the consumption of coal, and coal represents over 44% of global carbon emissions.

- It is not possible for the US to stop using hydrocarbons as **wind and solar only represent less than 6% of US energy production** and are **extremely difficult to expand rapidly as siting/NIMBY issues are huge barriers to expansion. The fastest way to reduce carbon emissions is drill for more natural gas which will displace coal.**

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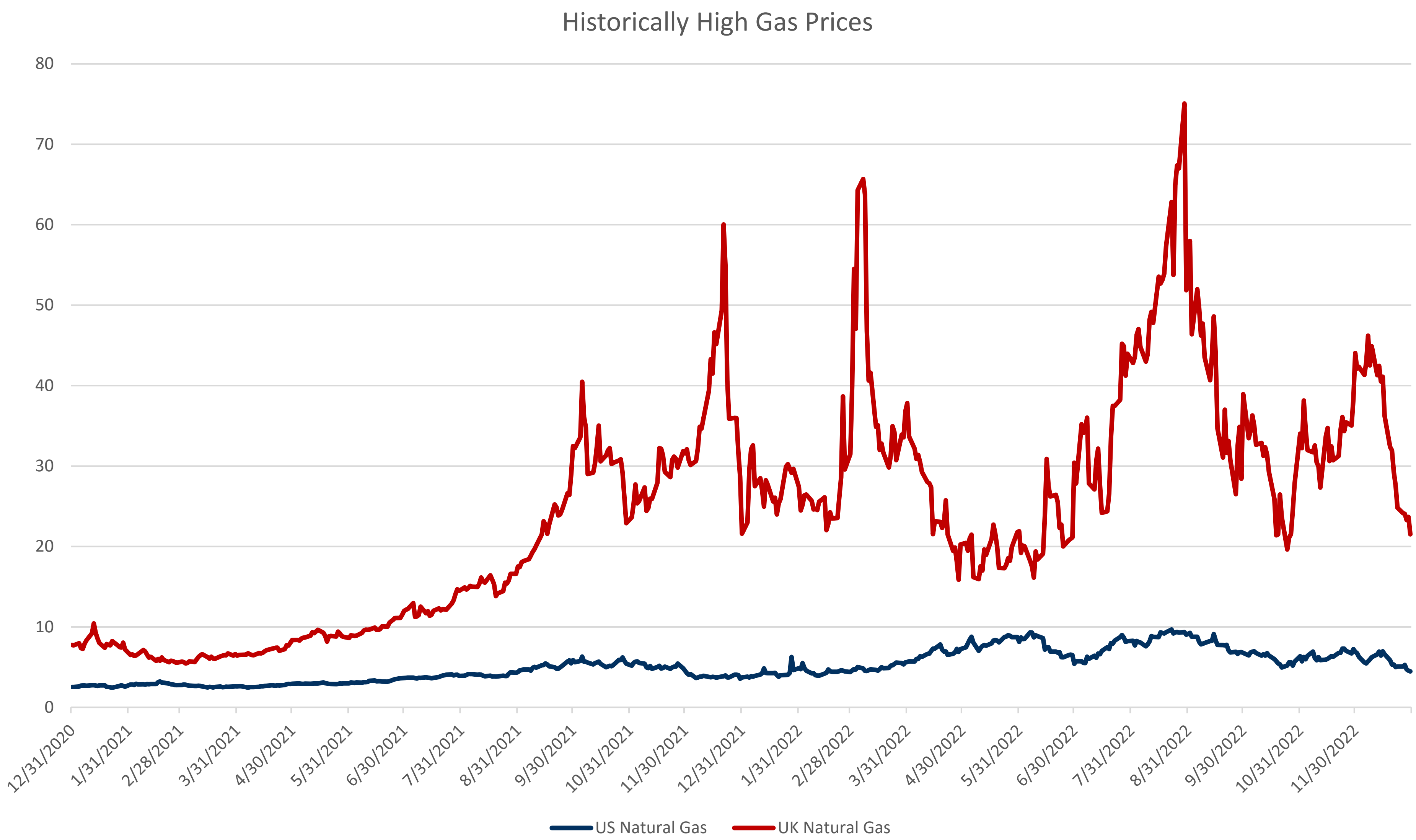
Worldwide Natural Gas Prices



From Bloomberg: US Natural Gas (NG1 COMB Comdty), UK Natural Gas (FSFUM1 Index). 12/31/2020 – 12/31/2022

Inflation Might Already be at the Fed's Target Rate

Brian Perry

For over a decade, Bryan Perry has brought his expertise on high-yielding investments to his *Cash Machine* subscribers. Before launching the *Cash Machine* advisory service, Bryan spent more than 20 years working as a financial adviser for major Wall Street firms, including Bear Stearns, Paine Webber and Lehman Brothers.

Bryan co-hosted weekly financial news shows on the Bloomberg affiliate radio network from 1997 to 1999, and he's frequently quoted by *Forbes*, *Business Week* and CBS' *MarketWatch*. He often participates as a guest speaker on numerous investment forums and regional money shows around the nation.

With over three decades of experience inside Wall Street, Bryan has proved himself to be an asset to subscribers who are looking to receive a juicy check in the mail each month, quarter or year.

Bryan's experience has given him a unique approach to high-yield investing: He combines his insights into dividend-paying investments with in-depth fundamental research in order to pick stocks with high dividend yields and potential capital appreciation.

With his reputation for taking complex investment strategies and breaking them down to easy-to-understand advice for investors, Bryan also provides an upgrade to *Cash Machine* called *Premium Income PRO* which gives subscribers a unique way to generate additional income on the *Cash Machine* stocks. He also has three other services to generate a juicy income flow and quick capital gains by using a variety of other strategies in his *Quick Income Trader*, *Breakout Profits Alert*, and *Hi-Tech Trader* services.

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Notes from Alan Blinder

Princeton economics professor and former Vice Chairman of the Fed, Alan Blinder, weighed in on the current rate of inflation:

- “the U.S. economy got there by averaging an appalling 10.6% annualized inflation rate over the first seven months and a mere 2.5% over the last five,“
- “Over the past five months (June to November 2022), **inflation has slowed to a crawl**." Whether measured by the CPI, which most people watch, or the price index for personal consumption expenditures, or the **PCE, a preferred measure of the Federal Reserve prefers, the annualized inflation rate has been around 2.5% for these five months.”**

https://www.wsj.com/articles/inflation-sudden-drop-12-5-month-cpi-pce-energy-food-new-year-price-federal-reserve-11672914903

Upcoming Catalyst Opportunities

The rest of January will be huge for market sentiment, since the **inflation data for December** will be released, as well as **fourth-quarter earnings**. This will speak volumes as to the health of the domestic economy and the global economy.

- The cost of energy has declined further this month versus December, thanks to a wave of warmer weather
- Retail sales many contract this month, as consumer surveys are showing a more cautious outlook for discretionary spending
- Falling gasoline prices, fuel oil prices and a slowdown in the price of food, used cars and trucks

All these factors are part of the Fed's plan to induce an economic slowdown that may cost the economy several million jobs before the Fed's 2% inflation target is realized.

Money Supply

As storied NYSE floor broker Art Cashin recently stated, **“Keep your eye on the money supply.”**

- the money supply (M2) has turned negative for the first time in 33 years.

- Money supply growth can often be a helpful measure of economic activity and an indicator of a coming recession. During periods of economic boom, the money supply tends to grow quickly as commercial banks make more loans. Recessions, on the other hand, tend to be preceded by slowing rates of money supply growth. However, money supply growth tends to begin growing again *before* the onset of recession.

- The drawdown on M2 can easily reflect the rebalancing of all the stimulus money injected into the system that was a catalyst to current inflation that the Fed wants to drain while raising short-term rates.

ABOUT INFRASTRUCTURE CAPITAL ADVISORS

Infrastructure Capital Advisors, LLC (ICA) is an SEC-registered investment advisor that manages exchange traded funds (ETFs) and a series of hedge funds. The firm was formed in 2012 and is based in New York City. ICA seeks total-return opportunities driven by catalysts, largely in key infrastructure sectors. These sectors include energy, real estate, transportation, industrials and utilities. It often identifies opportunities in entities that are not taxed at the entity level, such as master limited partnerships ("MLPs") and real estate investment trusts ("REITs"). It also looks for opportunities in credit and related securities, such as preferred stocks.

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.

The links to the fund fact sheets will provide standardized performance and risk disclosures. Investors should consider each Fund's investment objectives, risks, charges, and expenses carefully before investing. For a prospectus with this and other information about the Fund, please visit each fund page.. Please read the prospectus carefully before investing.

A word about ICAP Risk: Investing involves risk, including possible loss of principal. An investment in the Fund may be subject to risks which include, among others, investing in equities securities, dividend-paying securities, utilities, preferred stocks, leverage, short sales, small-, mid- and large-capitalization companies, real estate investment trusts, master limited partnerships, foreign investments and emerging, debt securities, depositary receipts, market events, operational, high portfolio turnover, trading issues, options, active management, fund shares trading, premium/discount risk and liquidity of fund shares, which may make these investments volatile in price. Foreign investments are subject to risks, which include changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, and changes in currency exchange rates which may negatively impact the Fund's returns. Small and Medium-capitalization companies, foreign investments, options, leverage, short sales, and high-yielding equity and debt securities may be subject to elevated risks. The Fund is a recently organized investment company with no operating history. Please see the prospectus for a discussion of risks. Beta is a measure of a stock's volatility in relation to the overall market. Diversification does not guarantee a profit or protect against loss. **ICAP fund distributor, Quasar Distributors, LLC.**

PFFA: Exchange Traded Funds**:** The value of an ETF may be more volatile than the underlying portfolio of securities the ETF is designed to track. The costs of owning the ETF may exceed the cost of investing directly in the underlying securities. **Preferred Stock:** Preferred stocks may decline in price, fail to pay dividends, or be illiquid. **Non-Diversified:** The Fund is non-diversified and may be more susceptible to factors negatively impacting its holdings to the extent that each security represents a larger portion of the Fund's assets. **Short Sales:** The Fund may engage in short sales, and may experience a loss if the price of a borrowed security increases before the date on which the Fund replaces the security. **Leverage:** When a Fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **No Guarantee:** There is no guarantee that the portfolio will meet its objective. **Prospectus:** For additional information on risks, please see the Fund's prospectus.

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You should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. Contact ETF Distributors LLC at 1-888-383-4184 or visit www.virtusetfs.com **to obtain a prospectus that contains this and other information about the Fund. The prospectus should be read carefully before investing.**

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AMZA: Exchange Traded Funds**:** The value of an ETF may be more volatile than the underlying portfolio of securities the ETF is designed to track. The costs of owning the ETF may exceed the cost of investing directly in the underlying securities. **MLP Interest Rates:** As yield-based investments, MLPs carry interest rate risk and may underperform in rising interest rate environments. Additionally, when investors have heightened fears about the economy, the risk spread between MLPs and competing investment options can widen, which may have an adverse effect on the stock price of MLPs. Rising interest rates may increase the potential cost of MLPs financing projects or cost of operations, and may affect the demand for MLP investments, either of which may result in lower performance by or distributions from the Fund's MLP investments. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Short Sales:** The Fund may engage in short sales, and may experience a loss if the price of a borrowed security increases before the date on which the Fund replaces the security. **Leverage:** When a Fund leverages its portfolio, the value of its shares may be more volatile and all other risks may be compounded. **Derivatives:** Investments in derivatives such as futures, options, forwards, and swaps may increase volatility or cause a loss greater than the principal investment. **MLPs:** Investments in Master Limited Partnerships may be adversely impacted by tax law changes, regulation, or factors affecting underlying assets. **No Guarantee:** There is no guarantee that the portfolio will meet its objective.

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Disclosure

Indices / Performance Terminology Used:

- 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.