

## Monthly Economic and Markets Outlook from InfraCap

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## Headlines

- **The cool inflation print, combined with a weakening economy and labor market, indicates that the Fed should cut in July, but probably won't due to its flawed policy framework and propensity to be behind the curve. The decline in shelter is very bullish for future inflation prints as that was the one component of inflation that had not declined due to a BLS methodology flaw. We do believe that the Fed will definitely cut by September.**
- **Raising S&P year end price target to 6,000** on broadening AI boom (AAPL, AVGO, ADBE) and increased conviction on global rate cuts due to declining inflation and slowing economic growth. (See Stock Market Outlook, and Fed / Central Bank Outlook below for details)
- **The US economy is slowing as the hyper cyclical housing sector is rolling over and the foreign sector detracts from growth. The US will enter a recession in 2025 if the Fed does not cut rates.** (See Economic & Bond Market Outlook below for details)
- **We favor the US over the rest of the world due to superior direct and indirect upside from AI/super computers.** Despite Euro Zone rate cuts, we expect the US AI based economy to outperform Europe's cappuccino driven growth. (See Stock Market Outlook, and Fed / Central Bank Outlook below for details)
- **We project that global currency moves will drive further global interest rate cuts.** Currency appreciation is disinflationary and a large drag on GDP for countries holding rates steady. (See Fed / Central Bank Outlook below for details)
- **Cutting corporate taxes is the most critical economic growth driver. Corporate taxes are 60% correlated with GDP growth.** (See Economic & Bond Market Outlook below for details)
- **Pollution taxes are by far the most economic method to efficiently reduce carbon and improve the environment.** Limiting natural gas production is highly destructive to the global environment and has led to regime change in Europe. (See Commodity Outlook below for details)

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



## Stock Market Overview & Outlook

**Reiterate \$6,000 S&P target based on AI Boom, resulting increase in S&P EPS estimates and long-term growth rate, and Increased Conviction on Global Summer Rate Cuts:**

- Recent earnings reports and updates from NVDA, AAPL, ADBE, and AVGO validated that the AI boom is sustainable. During technology booms, it is optimal for companies with promising technology to become overvalued to attract capital and reduce the time to market.
- We are increasingly confident that the Fed will cut rates in September and November of this year as the US economy slows and inflation stabilizes in the 2.6% range.

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## Economic & Bond Market Outlook

### The US Economy is Starting to Slow:

- The hyper cyclical housing market is weakening with the latest new homes sales report plunging 11.3% and inventory rose 481k and is now approaching the great financial crisis peak of 580k. There is 9 months of supply vs. an average of 6 months and a GFC peak of 12 months. The most recent housing start data was weak at 1.36MM units down from recent averages above 1.5MM.
  - **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 rate.
  - 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.
- A decline in personal consumption has never caused a US recession. Consumer spending is 95% driven by employment and wages. Consumer spending only declines when the decline in investment spending on housing and other durables leads to mass layoffs, which causes consumers to reduce spending.
  - **The average post WWII recession had over a 10% decline in investment but personal consumption was on average flat.**
  - The Chips Act and other infrastructure spending from the government is very counter cyclical as it supports investment.
  - The Chips Act is an urgent national security priority as over 90% of advanced chips are produced in Japan.
  - If the Fed does not cut this year we likely to have a recession as both the housing sector and autos have started to show some softening.

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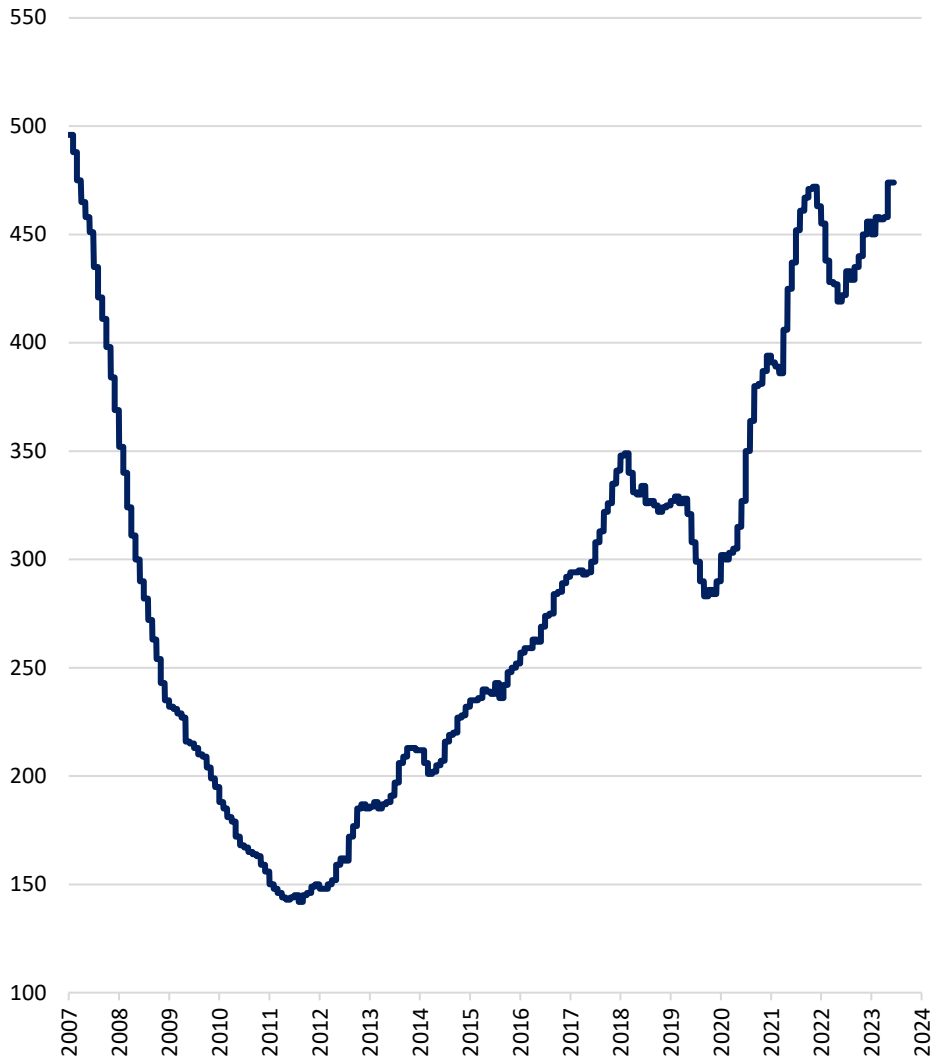
## Commodity Outlook

- **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 hang over from Warm Winter 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.
- **China's Industrial Economy is Way More Resilient Than Perceived which Benefits Commodities:**
  - China is the only major global economy that is loosening monetary policy. China increased its monetary base over \$140 billion in September representing a 2.9% increase vs. a \$300 billion drop in the Global Monetary Base.
  - China is projected to grow by 5% this year.
  - **China saves 45% of GDP vs. less than 20% in the US**, which results in much higher long-term growth as the critical driver of economic growth is savings and investment.
  - **The property crisis is a concern, but if it starts to generate contagion, the central government is likely to intervene. The crisis impacts luxury goods companies vs. the industrial sector.**
- **The utopian vision of an all-electric economy has now completely imploded** 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.

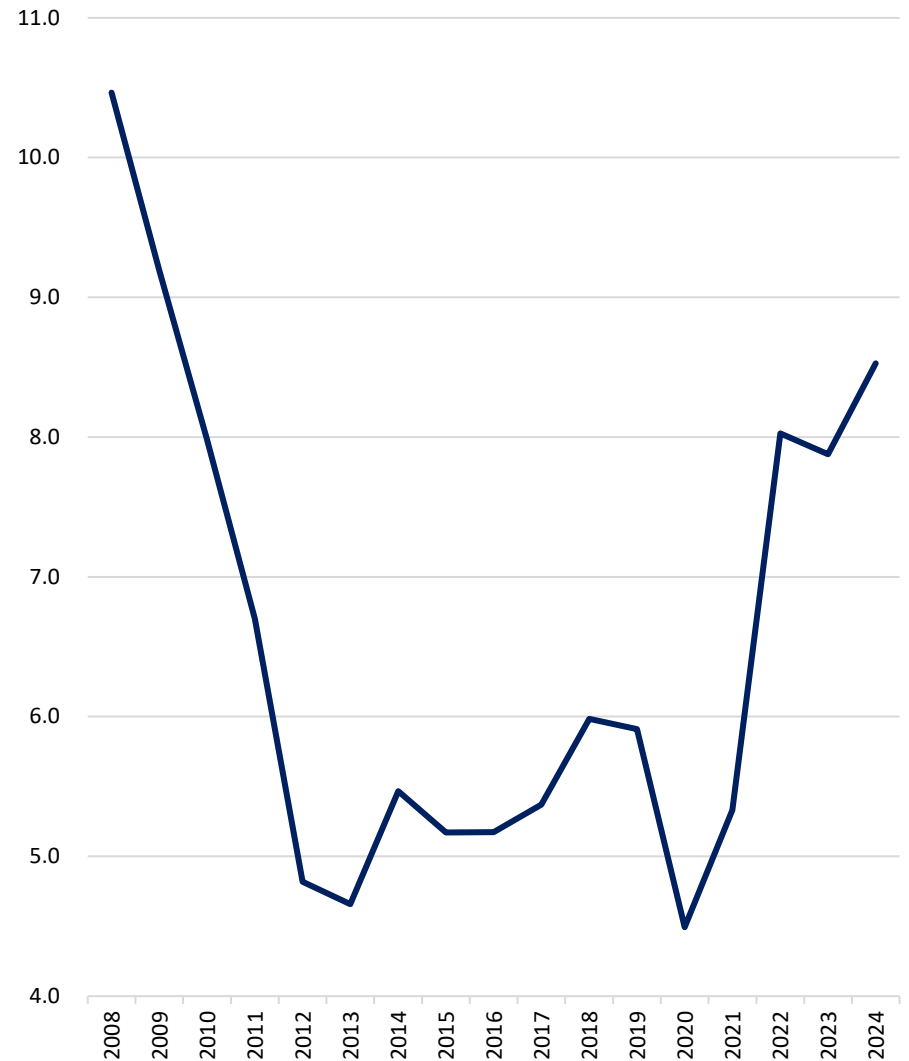
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## Rising Homes for Sale

New Homes for Sale



Months of Supply



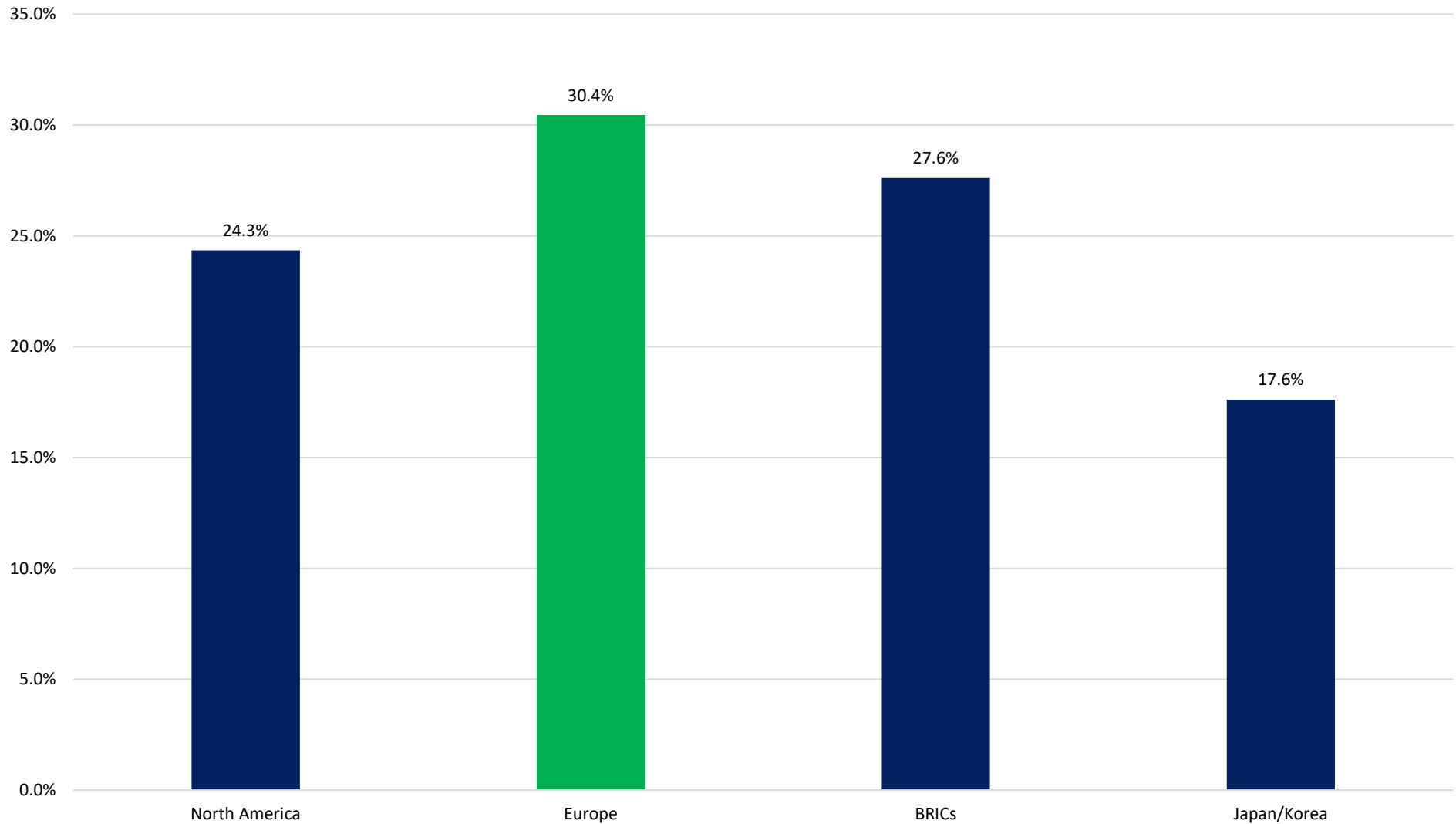
From Bloomberg: NHSLTOT Index. 12/31/2007 – 07/08/2024

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## Components of the Monetary Base

% of GMB



## Market Implied Policy Rates

### Market Implied Policy Rates (07/08/2024)

Americas	Current	3M	6M	1Y	Chg 1Yr (Bps)
United States	5.38%	5.19%	4.89%	4.27%	(111)
Canada	4.75%	4.37%	4.14%	3.72%	(103)
Mexico	11.00%	10.80%	10.56%	9.96%	(104)
Chile	5.75%	5.44%	5.27%	5.04%	(71)
Brazil	10.50%	10.58%	10.97%	11.78%	128

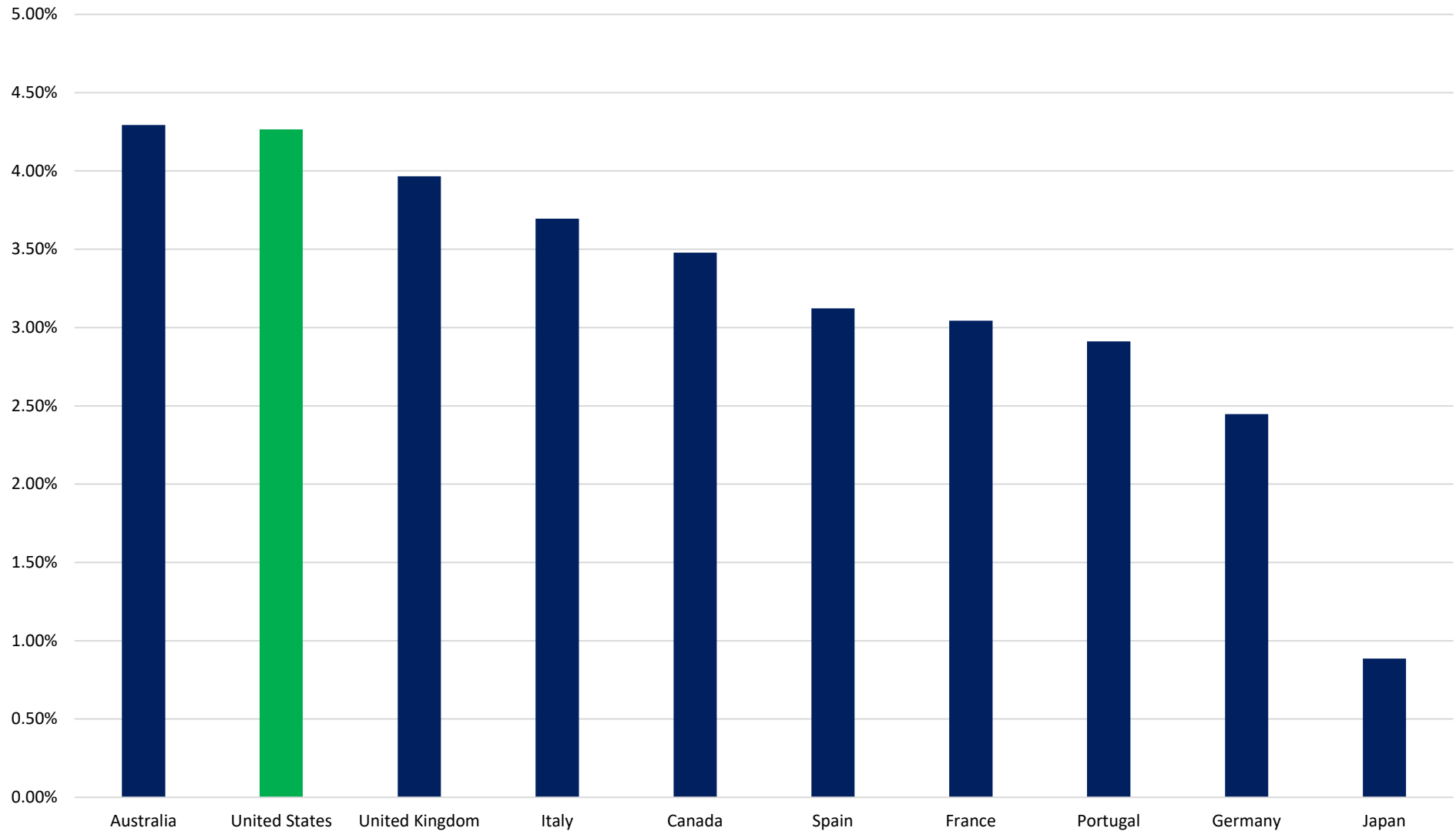
EMEA	Current	3M	6M	1Y	Chg 1Yr (Bps)
Eurozone	3.75%	3.54%	3.33%	2.90%	(85)
United Kingdom	5.25%	5.03%	4.78%	4.32%	(93)
Switzerland	1.25%	1.05%	0.94%	0.84%	(41)
Norway	4.50%	4.45%	4.44%	3.98%	(52)
Sweden	3.75%	3.40%	3.10%	2.72%	(103)
Denmark	3.35%	3.16%	2.99%	2.66%	(69)
Czech Republic	4.75%	4.39%	4.01%	4.05%	(70)
Poland	5.75%	5.73%	5.57%	5.63%	(12)

Asia / Pacific	Current	3M	6M	1Y	Chg 1Yr (Bps)
Australia	4.35%	4.43%	4.46%	4.26%	(9)
New Zealand	5.50%	5.40%	5.08%	4.47%	(103)
Japan	0.10%	0.20%	0.31%	0.43%	33
China	1.80%	1.83%	1.85%	1.76%	(4)
India	6.50%	6.48%	6.45%	6.26%	(24)
Korea	3.50%	3.42%	3.22%	3.03%	(47)



## Global Interest Rates

Global Yields



## Consumer and Investment Spending

### Investment Vs Consumption During Recessions (2012 Dollars)

Dates	Private Investment % Chg	Personal Consumption % Chg
Sep-49	-23.9%	2.7%
Mar-54	-9.8%	-0.5%
Mar-58	-12.0%	-0.6%
Dec-60	-19.6%	1.0%
Sep-70	-6.0%	2.8%
Mar-75	-22.2%	-1.0%
Jun-80	-9.1%	-2.4%
Sep-82	-8.6%	1.5%
Mar-91	-10.5%	-0.7%
Sep-01	-6.5%	0.9%
Jun-09	-30.3%	-1.9%
Mar-20	-1.3%	-1.6%
<b>Average</b>	<b>-13.3%</b>	<b>0.0%</b>

From Bloomberg: Private Investment (GPDITOTC Index) and Personal Consumption (GDPCTOT Index)

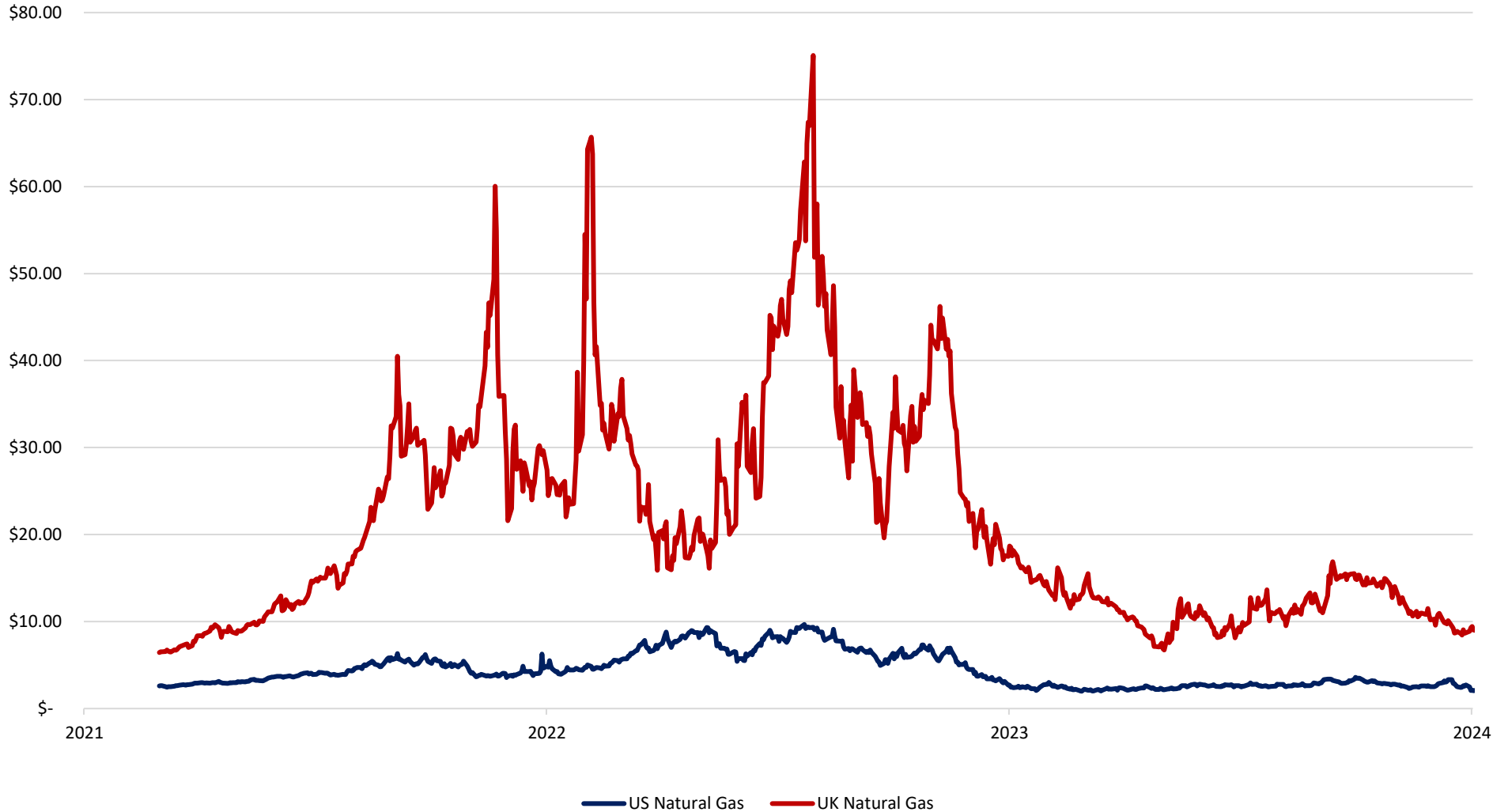
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## Worldwide Natural Gas Prices

Historically High Gas Prices



From Bloomberg: US Natural Gas (NG1 COMB Comdty), UK Natural Gas (FSFUM1 Index). 03/31/2021 – 06/30/2024

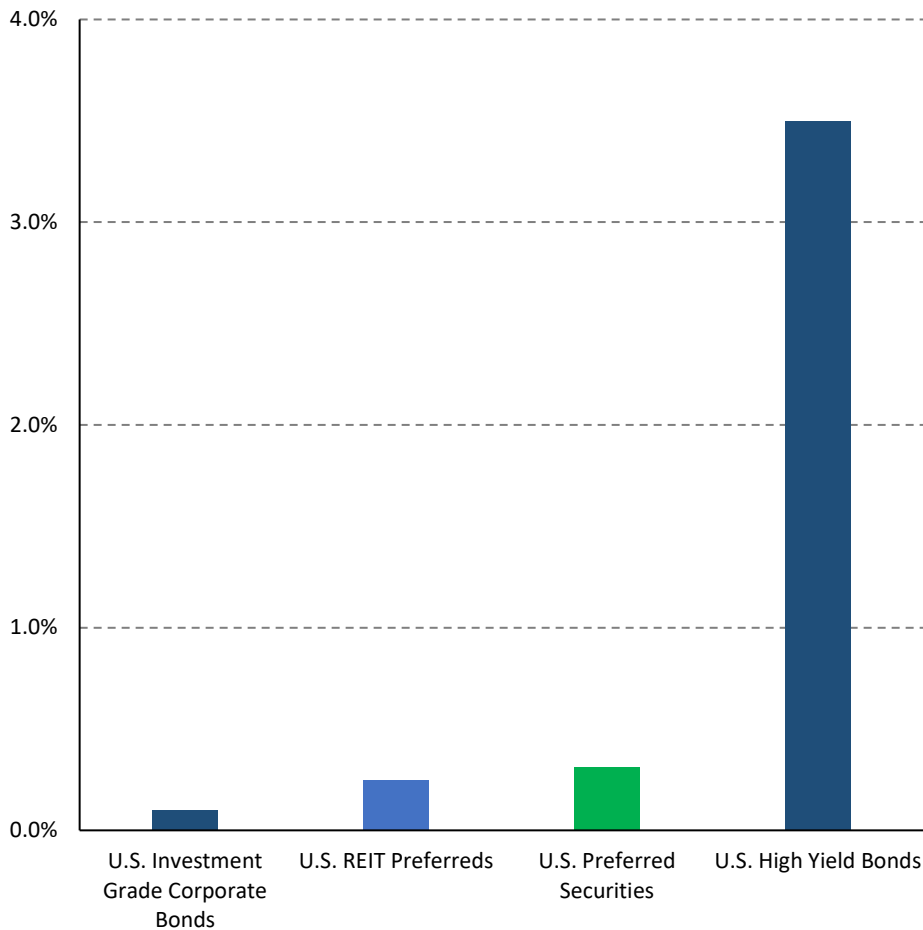
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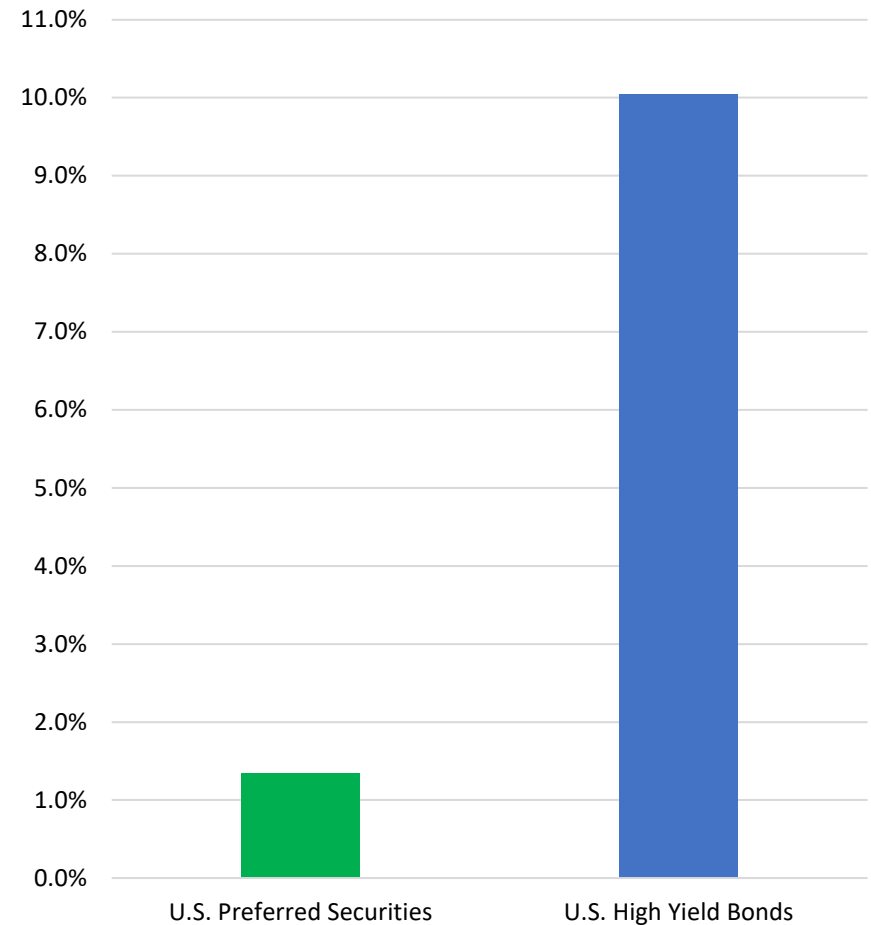
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## Credit Outlook

30-year Default Rate



Financial Crisis Default Rate - Years: 2008/2009



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. U.S. REIT Preferred Securities are calculated using the 15yr default rate.

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## Cash Dividend Coverage vs. Taxable Income Coverage

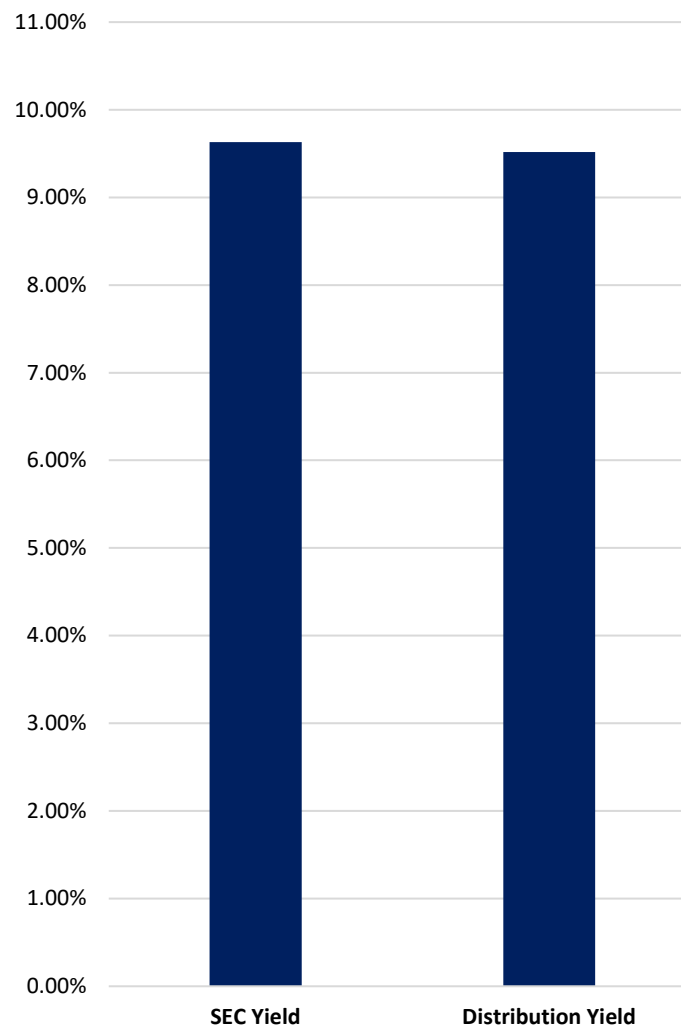
### Cash Coverage

- The best way to estimate cash coverage of dividends is by looking at the SEC yield of a fund.
  - This measurement looks only at cash received and not the tax characteristics of the distribution.

### Tax Coverage

- At year end, funds are required to report the tax characteristics of distributions. **Even if the distributions are covered by cash received by the fund, many funds, report a significant amount of Return of Capital or "ROC".**
  - Preferred stocks have a tax advantage over other fixed income securities as they are treated as stocks and not bonds. Consequently, they benefit from excess tax depreciation that are associated with the common stock of MLPs and REITs. In addition, the distribution is sheltered from tax due to REIT 144a deductions and QDI.
- **A large amount of reported ROC is a good thing for the investor as less tax is owed, but does not indicate that the dividend was not covered by cash.**

Preferred Stock ETF Yields - As of 6/30/2024



*Preferred Stock ETF Yields are compiled using Bloomberg. The cash dividend vs. taxable income coverage 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. We cannot advise you or your client regarding personal tax, legal, or investment needs; please consult a tax attorney or your financial advisor.*

# Small Company Stocks Primer

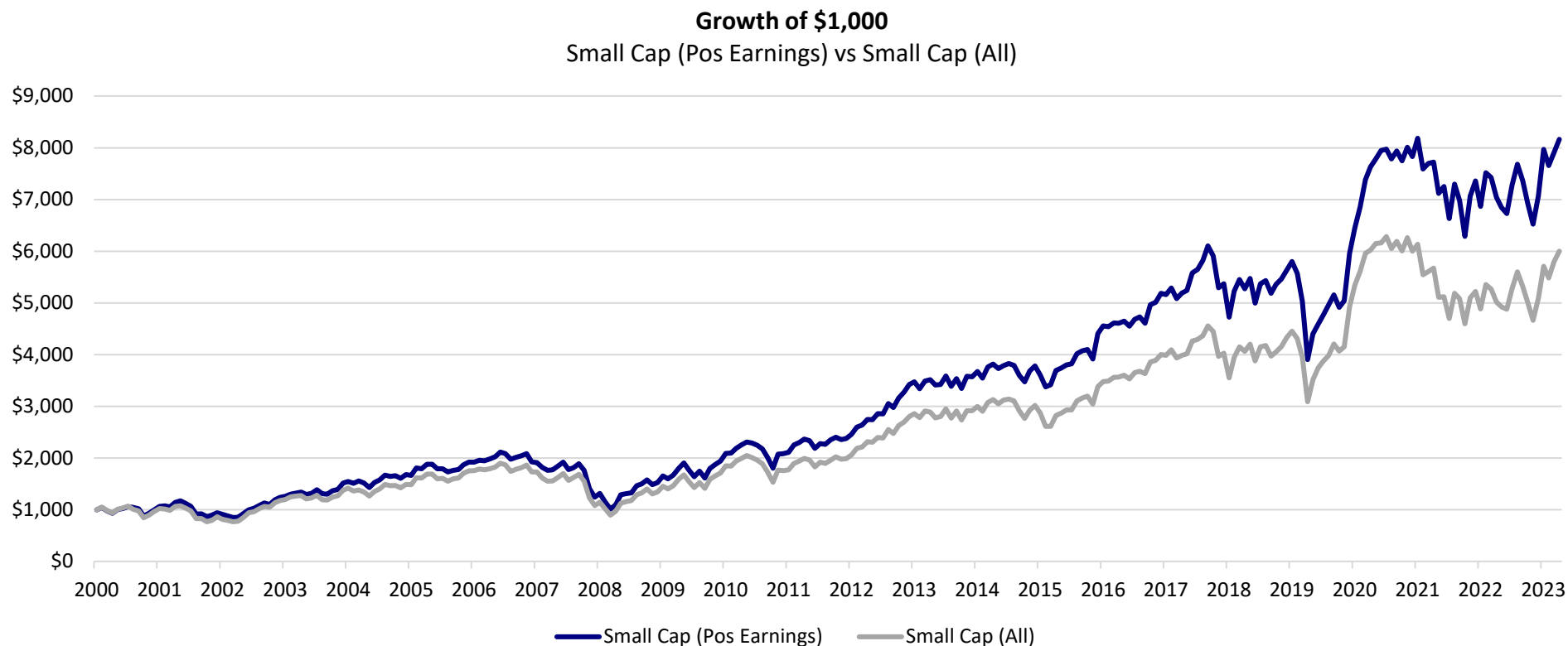
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## Small Caps – Profitable vs. Unprofitable

Our analysis of the returns of profitable companies vs. unprofitable companies indicates that **profitable companies outperformed the unprofitable companies by 1.51% per year since 2000.**

In addition, the **profitable companies were less volatile than unprofitable companies** with a volatility of 19.50% vs. 20.11% for unprofitable companies over the same period.



## Small Caps - Asset Class Overview

Small cap stocks are generally defined as companies with market capitalizations below \$2bn.  
 Due to their relatively small size, exploitable opportunities exist:

### 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

### M&A Targets

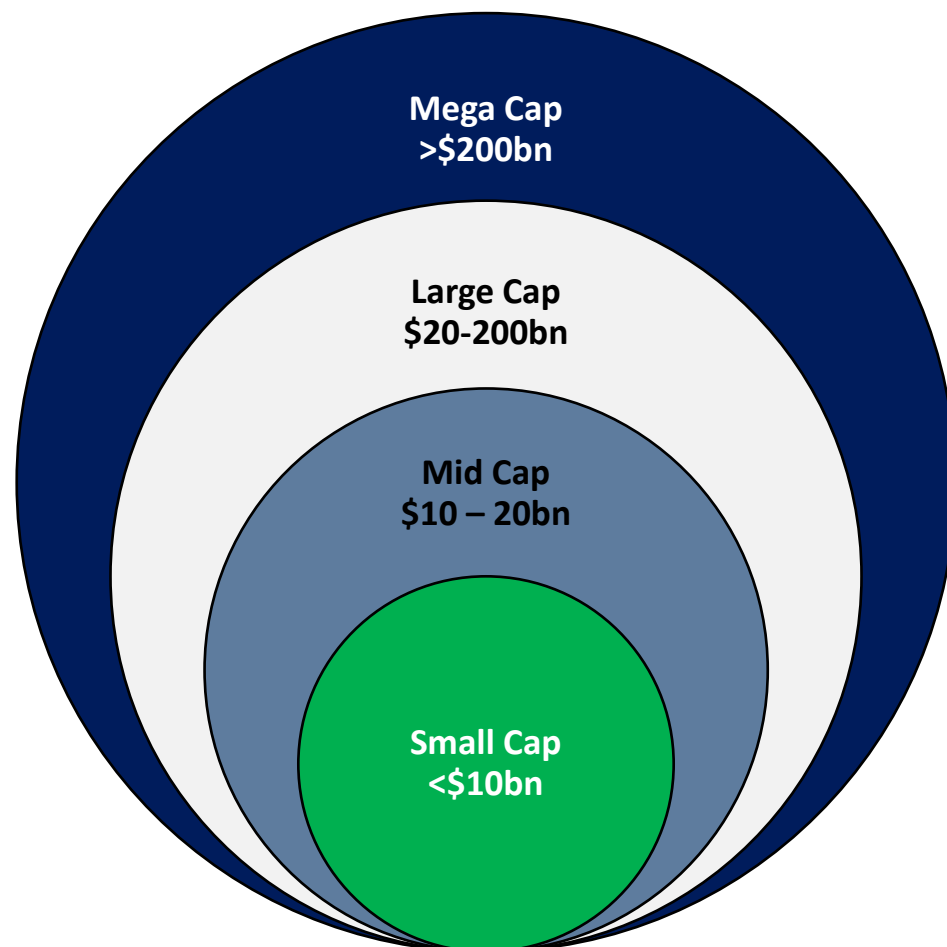
- Opportunity to benefit from M&A activity due as large cap competitors often pay premiums to consolidate or innovate through external investment

### 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

### Domestic Exposure

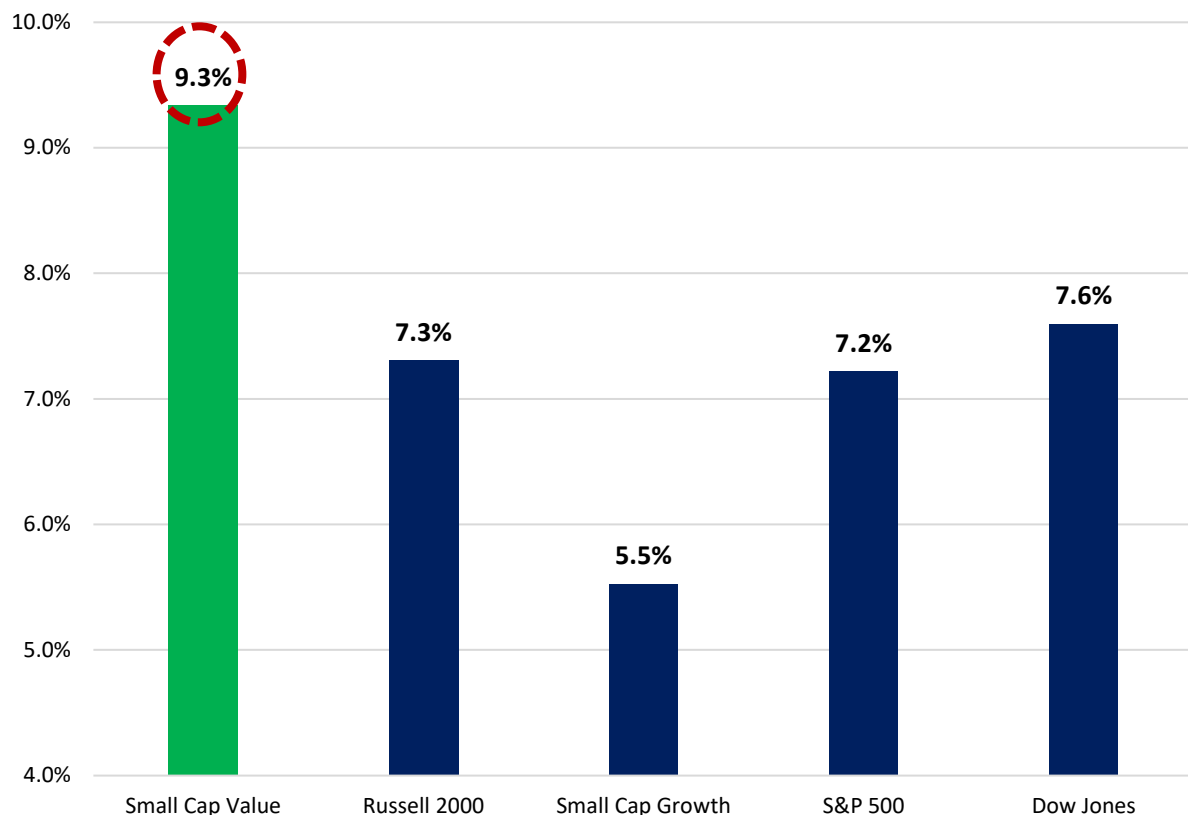
- Concentrated economic exposure can cause pronounced idiosyncratic outperformance





## Small Cap Value – Empirical Evidence Supporting a Value-Based Approach

Annualized Total Returns  
(12/31/1999)



Comparative Statistics					
	Small Cap Value	Russell 2000	Small Cap Growth	S&P 500	Dow Jones
Annualized TR	9.3%	7.3%	5.5%	7.2%	7.6%
Volatility	13.9%	12.3%	12.5%	11.7%	7.0%
Sharpe (4.0% RF)	0.38	0.27	0.12	0.28	0.51
Beta (to S&P 500)	1.10	1.15	1.22	1.15	0.94

**Value = Buying high quality companies at a fair valuation**

### High Quality Companies

- Manageable debt load
- Stable and growing earnings
- Positive and growing free cash flow
- Fundamental advantages ('moat')

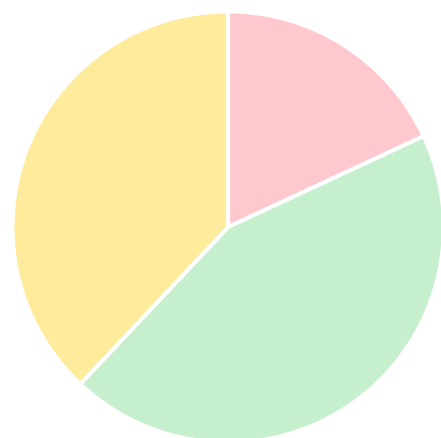
### Fair Valuation

- High free cash flow yield
- Reasonable earnings multiple (P/E)
- DCF valuation shows upside
- Establishes a margin of safety

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## Passive Management Invests in Money-Losing Companies

### PASSIVE MANAGEMENT (IWM)

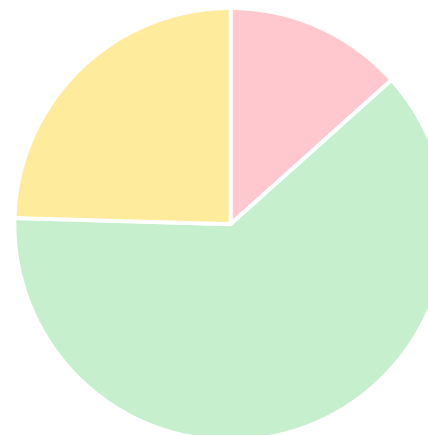


**Avg P/E:**  
**29.1x**

**W.A. Yield:**  
**1.59%**

■ Money Losing ■ Money Making with Dividend ■ Money Making without Dividend

### PASSIVE MANAGEMENT (IWN)



**Avg P/E:**  
**17.6x**

**W.A. Yield:**  
**2.24%**

■ Money Losing ■ Money Making with Dividend ■ Money Making without Dividend

#### IWM

Bucket	Weight	Proj Multiple
Money Losing	18%	88.6x
Money Making without Dividend	38%	28.6x
Money Making with Dividend	44%	14.6x
<b>Total</b>	<b>100%</b>	<b>29.1x</b>

#### IWN

Bucket	Weight	Proj Multiple
Money Losing	13%	111.0x
Money Making without Dividend	25%	22.7x
Money Making with Dividend	62%	15.0x
<b>Total</b>	<b>100%</b>	<b>17.6x</b>

#### Money Making with Dividend

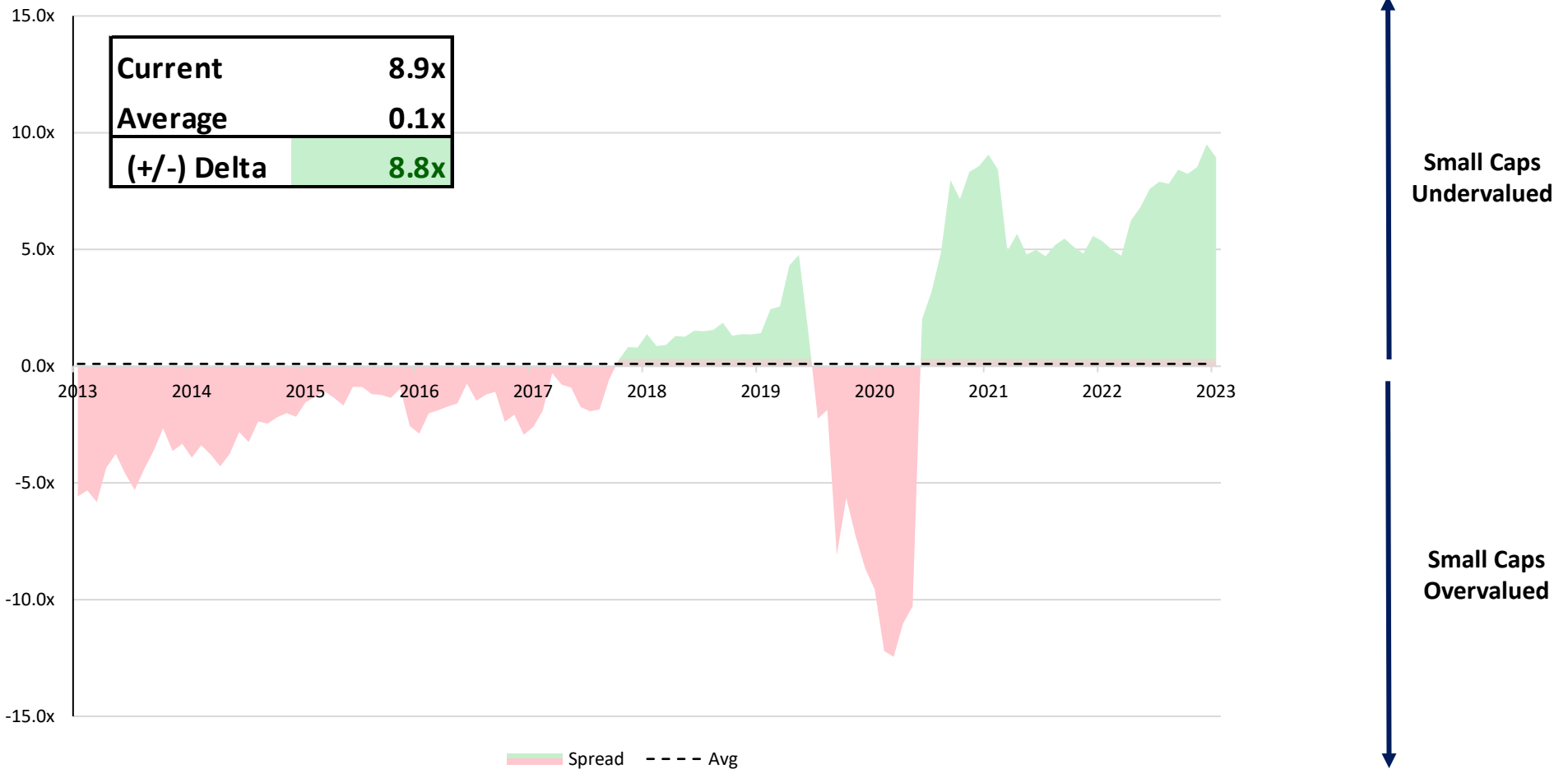
Dividend	Weight	Proj. Multiple
Dividend > 1%	36.0%	14.0x
Dividend < 1%	7.9%	18.7x

#### Money Making with Dividend

Dividend	Weight	Proj. Multiple
Dividend > 1%	55.2%	14.5x
Dividend < 1%	6.9%	19.6x

## Current Valuation Represents a Disconnect (P/E)

P/E: S&P 500 less Small Cap Value



**On an P/E basis, the Small Cap Value index currently trades 9.5x turns below the S&P 500**

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**Infrastructure Capital Advisors, LLC**

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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](http://infracapfunds.com)

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**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.**

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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](http://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.