RECURRENT
INVESTMENT ADVISORS

Monthly Investment Commentary
August 2024

Natural Resources and Energy Infrastructure: inflation is off the list of investor concerns as softening employment has the market's attention. "There is no chance whatsoever that excess demand would rekindle double-digit inflation in the United States," writes an influential Fed economist. But this quote isn't from 2024 – it's from 1975. With CPI and economic growth moderating, the Fed (then and now) finds itself under great pressure to cut rates. In the 1970s, looser monetary policies (and a lack of commodity capex) re-ignited inflation to new highs within 3-4 years and drove sustained outperformance for commodity-levered equities. Here in 2024, commodity capex is in decline and inflation is out of the headlines. If history is a guide, rate cuts after an inflationary shock may offer a compelling entry point for investors in commodity-levered equities.
Click here for our white paper on the long-term relationship between inflation and capex
Click here for our new midstream white paper, which explores midstream's excess (and growing) yield vs. fixed income

August 2024 Performance Summary and Market Commentaries
Please find below performance and commentary for our strategies – MLP & Infrastructure and Natural Resources. See performance tables at the bottom of the commentary. For additional information, please contact us at (832) 241-6400 or info@recurrentadvisors.com.

MLP & Infrastructure

Performance Review

During the month of August 2024, the Recurrent MLP & Infrastructure Strategy generated net returns of +1.96%, outperforming the Alerian MLP Index's (AMZ) +0.39% return by +1.57%. Since the strategy's July 2017 inception, Recurrent's MLP & Infrastructure Strategy has outperformed the AMZ by +40.48% (+3.23% annualized), net of fees. On a gross basis, the Strategy has outperformed by +61.26% and +4.69% respectively. See performance section at bottom for more detail, plus performance detail on the Recurrent Energy Infrastructure Strategy, which seeks to track the MLP & Infrastructure Strategy while excluding MLPs.

Natural Resources

Performance Review

In the month of August 2024, the Global Natural Resources Strategy fell by -0.57% net of fees, underperforming the S&P Global Natural Resources Index's -0.15%. Since the Strategy's 2018 inception, it has outperformed its benchmark by +2.84% annualized net of fees, and +24.86% on a cumulative basis, net of fees.

As economic growth stalls, inflation is forgotten as markets demand rate cuts

With an inflationary shock 2 years behind us, market indicators and influential economists alike are demanding looser monetary conditions. It may seem surprising how quickly "economic slowdown" has replaced "inflation" as the primary concern for investors. But if we examine the most dramatic inflationary period in modern history – the 1970s – perhaps we shouldn't be so surprised.

50 years ago:

Inflation—It's Not the Real Problem

"The Fed's perception is mistaken and ought to be revised."

Thomas E. Mullaney

The Fed's Money Policy: Is It Overly Restrictive?

Rise in the Money Supply

RESERVE SIGNALS EASING OF CREDIT

The Rate Charged for Loans to Banks Is Cut to 6¾% to Stimulate Economy

By VARTANIG G. VARTAN

The Federal Reserve Board signaled easier credit conditions yesterday by reducing the discount rate it charges on loans to commercial banks. The

JOBLESS RATE RISES; WHOLESALE PRICES SHOW A SHARP DROP

JUNE UNEMPLOYMENT AT 7.1%

But Number of Workers Is Up for 8th Month—Cut in Food Costs Causes 0.6% Fall in Index

By CLYDE H. FARNSWORTH

WASHINGTON, July 8—Although the number of Americans with jobs increased for the eighth straight month in June,

Today:

Last Updated: July 31, 2024 at 4:24 PM EDT

Claudia Sahm says Fed should cut today

By Steve Goldstein

Investors raise bets on bumper half-point Fed rate cut

OPINION
PAUL KRUGMAN

The Economy Is Looking Pre-Recessionary

Fed policymakers say they are ready to start cutting interest rates

By Ann Saphir, Lindsay Dunsmuir and Michael S. Derby

September 6, 2024 1:10 PM CDT · Updated 7 days ago

Sources: NYT TimesMachine Archive, NYT, FT, Marketwatch, Reuters.

As seen above, in the face of moderating CPI and economic growth, the mid-1970s – which we now know to be only a brief respite between two periods of historically severe inflation – were instead marked by a lack of concern around inflationary pressures in the economy and vocal demands for looser monetary conditions in the face of the overriding fear for any democratic economy: **slowing economic growth**.

While we cannot yet know if the late 2020s will experience a period of re-ignited inflation like the late 1970s, we do know that the current economic discourse appears to echo the mid-1970s, as inflationary concerns have quickly subsided in the face of weakening economic growth (even with actual growth and unemployment metrics remaining mild by any historical standard).

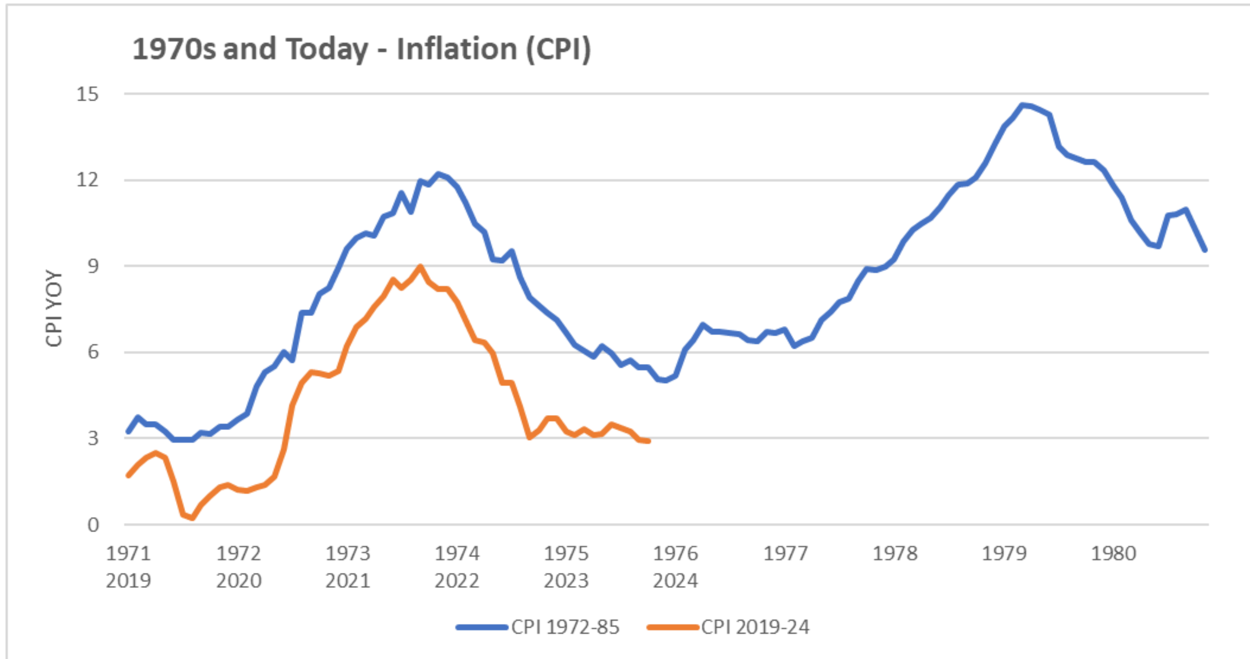
Today's inflation is supposedly less dangerous than the 1970s – but many experts weren't worried in the mid-70s either

In 1975, Fed Economist Andrew Brimmer wrote in the *New York Times* of the Fed's inflationary focus, "the Fed's perception is mistaken and ought to be revised… there is no chance whatsoever that excess demand would rekindle double-digit inflation in the United States."

The sentiment is echoed in many current expert opinions, which seem to be overwhelmingly in agreement that it is high time, or even past high time, to cut rates. Echoing Andrew Brimmer in 1975, famed economist Claudia Sahm said on CNBC, "The Federal Reserve "absolutely" needs to deliver a 50 basis point interest rate cut next week."

Inflation: 50 years ago and today

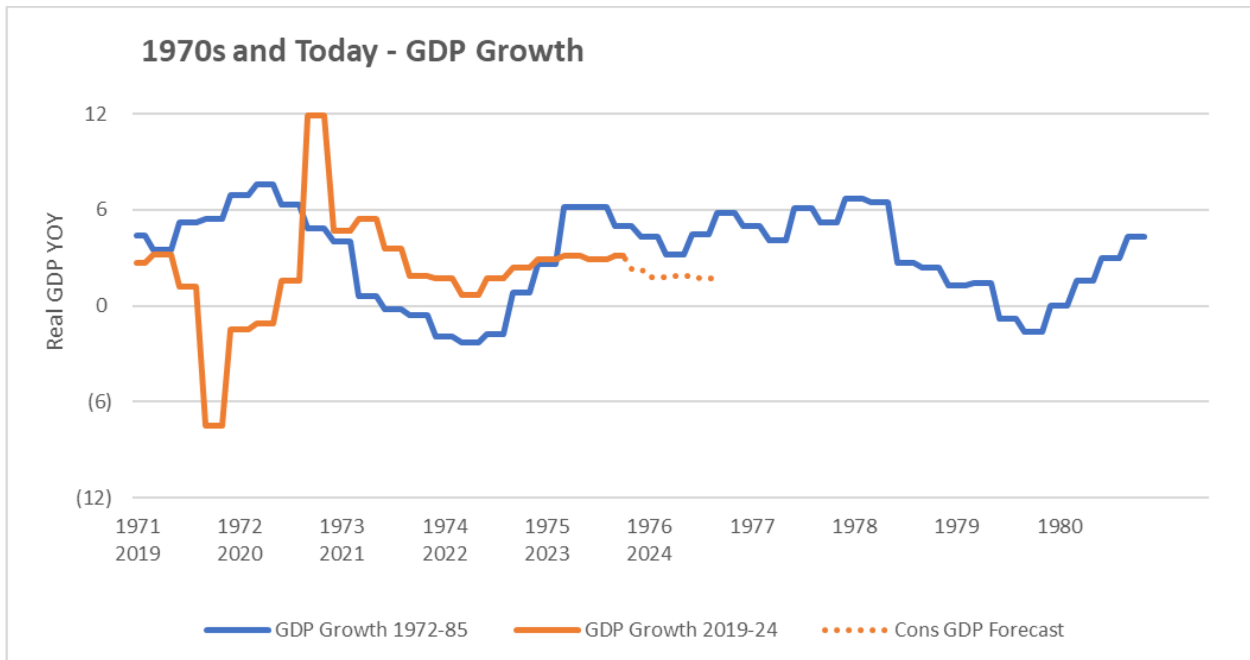
As we can see in the graphs below, the parallels between the rhetoric of 1975 and 2024 are explained by close parallels in the economic data. Inflation then and now, while ~50% above pre-crisis baseline levels, had meaningfully receded from the highs of 2 years prior. Of course, today we know what the experts of the 1970s could not know: the looser economic conditions would stimulate demand into an economy suffering from underinvestment, and lead to the inflationary peak in the late 1970s.



Source: St. Louis FRED, Bureau of Labor Statistics, Bloomberg

GDP growth: 50 years ago and today

Although GDP growth was distorted by the unique COVID period, the data below is again quite similar: after being forced to tighten during the recession of 1974 and the "growth scare" of 2022 due to inflation-fighting priorities, the Fed was once again ready to loosen monetary policy in order to stabilize GDP growth and slow unemployment by 1975 and 2024.

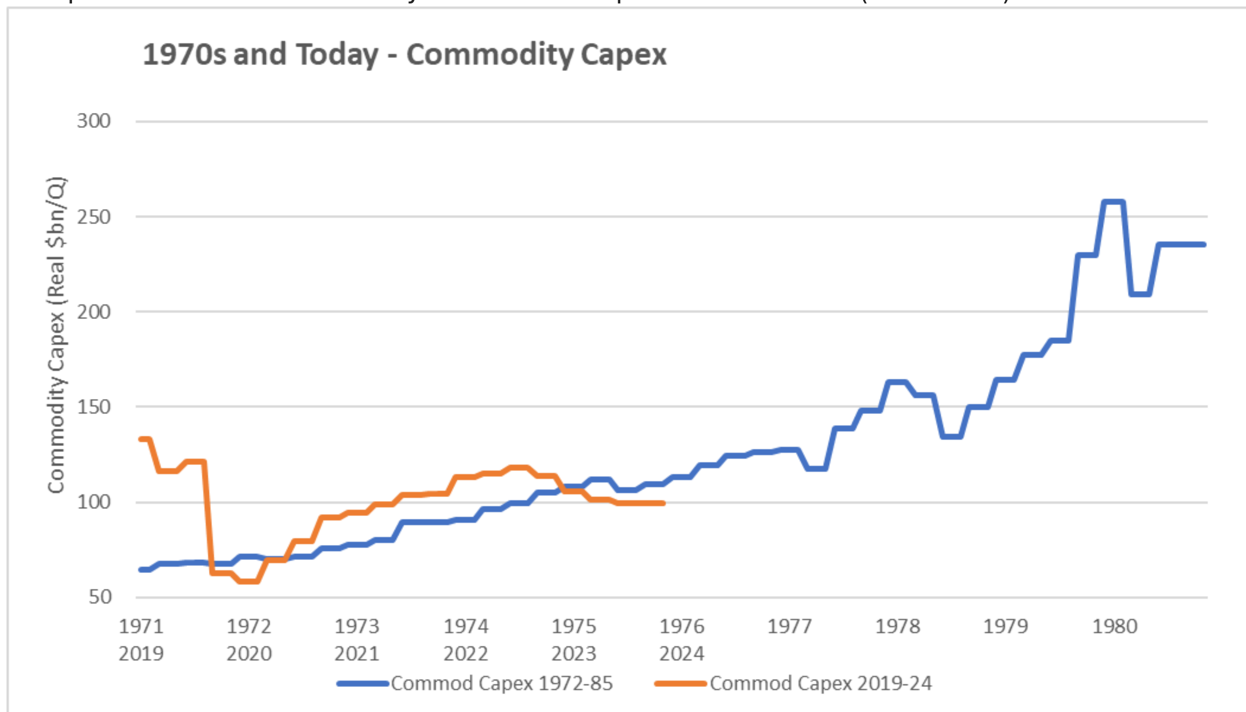


Source: St. Louis FRED, Bureau of Economic Analysis, Bloomberg

Commodity investment: 50 years ago and today

Readers of our 2022 white paper on the link between capex and inflation will recall that the 1970s inflationary cycle did not end because of a temporary tightening of monetary conditions (this was attempted by the Miller-era Fed, the Burns-era Fed, before being famously pursued by Paul Volcker's Fed). Instead, inflation ended because of a permanent increase in the supply of raw material inputs necessary to the economy. Such a supply increase can only occur with an increase of capital investment.

As shown below, the inflationary surges of 1973 and 2021 were met with tepid increases in capex, in both cases depressed by higher costs of capital and regulations.
The lack of capex today makes it difficult to believe that the global economy has definitively escaped the underinvestment dynamics that helped fuel the recent (2020-2023) bout of inflation.



Source: St. Louis FRED, Bureau of Economic Analysis, Bloomberg

Today, in September 2024, the market has firmly moved away from inflation-oriented considerations. Consensus is that a slowing economy will drive rates lower and the key risk is from weak demand, not underinvestment. Perhaps it's a timely reminder that 2 years before the highest CPI reading in US history (and a sustained period of commodity-levered equity outperformance), expectations of falling rates and insufficient demand were also mainstream.

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August 2024

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