Energy Infrastructure (EI) & Natural Resources: Many allocators remain steadfast in using bonds as a "diversifying" allocation, despite weak bond performance in recent years. But 100 years of history shows that bonds only diversify equity risk when inflation is low and stable. 100 years of history has been overlooked by investors who anchor to the 1998-2020 period, where bonds were excellent diversifiers with robust returns. But when inflation is high, bonds offer neither returns nor diversification. We discuss what investors can do below.

Click here for our white paper, *"The Frack-tured Cartel: How Shale's elastic supply broke OPEC's grip on the oil market"*

August 2026 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 2026, the Recurrent MLP & Infrastructure Strategy generated net returns of +3.41%, outperforming the Alerian MLP Index's (AMZ) +3.30% return by +0.11%. Since the strategy's July 2017 inception, Recurrent's MLP & Infrastructure Strategy has outperformed the AMZ by +86.00% (+3.51% annualized), net of fees. On a gross basis, the Strategy has outperformed its benchmark by +127.64% and +4.94% 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

During the month of August 2026, the Recurrent Global Natural Resources Strategy rose +8.59%, outpacing the S&P Global Natural Resources Index's +7.90% return by +0.69%. Overweights to Diversified Metals/Mining and Refining, up +12% and +15% respectively, benefited relative performance, while underweights to Copper and Fertilizers/Ag Chemicals detracted from performance. The Strategy has returned +35.11% net of fees year-to-date, outperforming the Index's +26.87% return by +8.24%.

Energy Infrastructure (Midstream) & Natural Resources

History shows bonds are a "fair weather" diversifier for equity portfolios

Portfolio theory holds that efficient portfolios should combine higher-return equity exposures with lower-return fixed income allocations. Crucial to this theory is the notion that bond performance is negatively correlated to equity performance.

Put simply, equities drive portfolio returns, but high-quality bonds (should) go up when equities go down. Accordingly, a bond allocation preserves portfolio purchasing power, and allows for uninterrupted compounding. In our study, we use 10-year Treasuries as the ideal fixed income diversifier: a "risk free" instrument with no exposure to the economic cycle, 10-year Treasuries have historically been much less correlated to equities than investment-grade or high-yield bonds.

But as we see in 100 years of data below, 10-year Treasuries have offered diversification benefits for equity portfolios only half(!) the time: **when inflation is below-average.**

1927–YTD 2026 | A Century of Stock-and-Bond Diversification		
Inflationary Regime	**Low inflation *(CPI <2.5%)***	**High inflation *(CPI ≥2.5%)***
Number of Years included	44	56
Average Equity Return (Nominal)	13.4%	11.4%
Average Equity Return (Real)	12.9%	6.1%
Avg. Bond Return (Real)	4.8%	(0.5%)
Avg. Bond Return if Equities Returns Neg. (Real)	7.0%	(3.1%)
Stock / bond correlation	**(0.24)**	**0.19**

Source: Recurrent research, St. Louis FRED for BLS data and 10-year Treasury returns; Kenneth R. French Data Library, Dartmouth College, was accessed here for equity returns.

So why do investors keep paying for insurance that works 50% of the time?

It should come as little surprise that bonds would suffer during times of inflation. Perhaps more surprising is that during periods of persistent inflation, bond performance has historically become positively correlated to equity returns. In other words, bonds are used for portfolio insurance, but history shows this insurance often fails at the worst times. So why do investors remain committed to bonds as a portfolio diversifier?

Looking at the 20 year period prior to COVID - the answer becomes clear: **bonds were an incredibly effective diversifier from 1998 through 2020,** a timeframe overlapping with most allocators' professional experience. Impressively, bonds delivered strong inflation-adjusted returns even during periods of >2.5% inflation, with strong inflation-adjusted returns during the early 2000s Tech Bust, the Great Financial Crisis and COVID.

1998-2020 | the Golden Era of Stock-Bond Diversification		
Inflationary Regime	**Low inflation *(CPI <2.5%)***	**High inflation *(CPI ≥2.5%)***
Number of Years included	15	8
Average Equity Return (Nominal)	10.2%	10.2%
Average Equity Return (Real)	8.5%	6.9%
Avg. Bond Return (Real)	4.7%	0.9%
Avg. Bond Return if Equities Returns Neg. (Real)	7.0%	12.7%
Stock / bond correlation	**(0.49)**	**(0.95)**

Source: Recurrent research, St. Louis FRED for BLS data and 10-year Treasury returns; Kenneth R. French Data Library, Dartmouth College, was accessed here for equity returns.

When inflation strikes, bonds often fail to deliver diversification AND deliver poor inflation-adjusted returns. What can investors do?

When inflation risk is elevated, the inflation-adjusted returns and diversification benefits of bonds are impaired. As we can see below, when inflation is >2.5%, inflation-adjusted bond returns are negative 64% of the time. Worse yet, bond performance is even worse when equities are struggling – **when equities underperform inflation, real bond returns are also negative 76% of the time!**

Over the last 100 years, when bonds have stumbled, **natural resources and energy** equities have exhibited differentiated performance. During high-inflation environments, when bond returns are negative 76% of the time, natural resources deliver asymmetrically positive real returns, as shown below.

1927–YTD 2026 | A Century of Natural Resources Diversification		
Inflationary Regime	**Low inflation *(CPI <2.5%)***	**High inflation *(CPI ≥2.5%)***
Number of Years included	44	56
Stock / bond correlation	**(0.24)**	**0.19**
How often...		
are **REAL** bond returns negative	18.2%	64.3%
are **REAL** bonds negative when equities are neg.	9.1%	76.2%
are **REAL** Nat. Resources returns negative	38.6%	23.2%
Average Equity Return (Real)	12.9%	6.1%
Avg. Bond Return (Real)	4.8%	(0.5%)
Average NR Return (Nominal)	7.2%	17.4%
Average NR Return (Real)	6.7%	11.6%

Source: Recurrent research, St. Louis FRED for BLS data and 10-year Treasury returns; Kenneth R. French Data Library, Dartmouth College, was accessed here for equity returns.

The idea that bonds provide diversification is not written in stone. It has only been true when inflation is low and stable – that is decidedly not the case today.

Based on the historical analysis above, it would be expected that the post-COVID environment, with generally high inflation, would be a period when owning bonds would be costly and non-diversifying, while owning natural resources and energy equities would be especially beneficial.

And for the last 5+ years, the environment has undeniably been inflationary. Since the start of 2021, there has not been a single year with annual (December-to-December) inflation readings below 2.5%. Even on a monthly basis, CPI has exceeded 2.5% 88% of the time since the end of 2020.

Bonds have been highly correlated to stocks – a whopping 0.81 correlation coefficient. While equity returns have been strong, bonds have provided a weaker return stream and have failed to protect equityholders. Meanwhile, natural resources nominal and inflation-adjusted returns have been stellar, and less correlated to broad equities.

2021-2026| the New Inflationary Era Looks like the 1970s		
Inflationary Regime	**Low inflation *(CPI <2.5%)***	**High inflation *(CPI ≥2.5%)***
Number of Years included	0	6
Average Equity Return (Nominal)	Annual CPI inflation has not been sub-2.5% during the 2021-2026 period	15.5%
Average Equity Return (Real)		10.9%
Frequency of NEGATIVE Real Returns		16.7%
Avg. Bond Return (Nominal)		(2.3%)
Avg. Bond Return (Real)		(6.2%)
Avg. Bond Return if Equities Returns Neg. (Real)		na
Stock / bond correlation		**0.81**
How often...		
are **REAL** bond returns negative		66.7%
are **REAL** bonds negative when equities are neg.		na
are **REAL** Nat. Resources returns negative		0.0%
Average Equity Return (Real)		10.9%
Avg. Bond Return (Real)		(6.2%)
Average NR Return (Nominal)		27.3%
Average NR Return (Real)		21.8%

Source: Recurrent research, St. Louis FRED for BLS data and 10-year Treasury returns; Kenneth R. French Data Library, Dartmouth College, was accessed here for equity returns.

For investors grappling with the persistent inflation of the 2020s, history has shown that owning bonds as a diversifier has been inadequate. With a rapid return to sub-2.5% CPI seeming increasingly unlikely, it seems that natural resources and energy equities have earned a place as a more enduring portfolio allocation. The appropriate allocation is ultimately an investor decision. The historical observation is simpler: diversification across asset classes is not necessarily diversification for all economic risks. When inflation makes stocks and bonds behave similarly, adding exposure to a different economic return driver matters considerably more.

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