

Energy Infrastructure: A world where short-term interest rates fall and long-term rates rise creates unique headaches for income investors. In a “normal” market, short and long-term rates move together. Lower short-term rates reduce opportunities for income, but investors are usually compensated as lower long-term rates send income generating asset valuations higher. But what if the Fed cuts in an already-inflationary environment? Short-term rates may fall (less income) while long-term rates rise in anticipation of higher inflation (income-producing assets typically fall in value). For the first time since the 1970s, the Fed is under intense political pressure to cut rates despite above-target inflation. Below, we examine which income-generating asset classes have historically been most influenced by changes in short- and long-term interest rates.

[Click here for our NEW white paper, “The Frack-tured Cartel: How Shale’s elastic supply broke OPEC’s grip on the oil market”](#)

Natural Resources: In the midst of the various global economic cross currents in 2025, one of the most important outcomes has been the weakening of the US dollar. Compared to other global currencies as measured by the DXY Index, the US dollar has fallen approximately 10% year to date, allowing global consumers to purchase more for the same amount in local currency. When using core global currencies such as Canadian dollars (CAD), British pounds (GBP), or Euros (EUR), dollar weakness has significantly improved non-US consumers’ purchasing power, particularly in commodities which broadly transact in US dollars.

August 2025 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 2025, the Recurrent MLP & Infrastructure Strategy generated net returns of +2.06%, outpacing the Alerian MLP Index’s (AMZ) -0.58% return by +2.63%. Since the strategy’s July 2017 inception, Recurrent’s MLP & Infrastructure Strategy has outperformed the AMZ by +38.63% (+2.40% annualized), net of fees. On a gross basis, the Strategy has outperformed its benchmark by +64.25% and +3.81% 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.

In an echo of the 1970s, Fed independence is under attack and “term premiums” are expanding as short-term rates are expected to fall as long-term rates rise

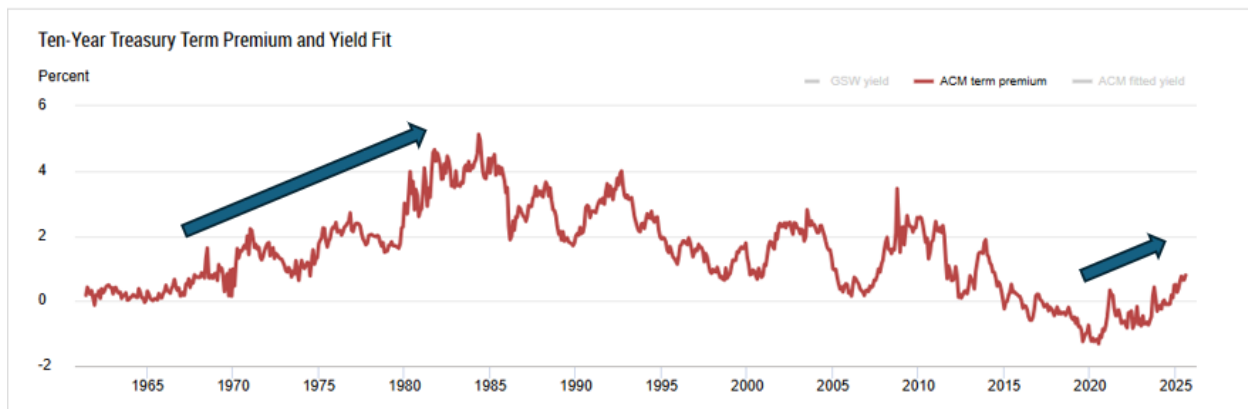
The Trump Administration’s campaign to pressure the interest rate-setting Federal Open Market Committee (FOMC) are certainly aggressive, but they are not unprecedented. We’ve written extensively of the economic parallels between the 1970s and 2020s in our white paper, [“The Great Inflation Misdiagnosis”](#). Below, we see the parallels extend from the economic to the political realm. President Nixon, facing slowing economic growth and elevated inflation, orchestrated an extensive pressure campaign on the Arthur Burns-led FOMC in 1971 and 1972 (prior to the 1972 election):

“The Nixon administration kept up a steady stream of anonymous leaks to pressure Burns, including floating one proposal to expand the size of the Federal Reserve (so that Nixon could appoint a majority of the new members) and another proposal to give the White House more control over the Fed, while planting a false story that Burns was requesting a large pay raise, when in fact Burns had suggested taking a pay cut.”

Source: “How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes,” by Burton Abrams. *The Journal of Economic Perspectives*, Volume 20, No. 4. Fall 2006.

In the early 1970s, Arthur Burns pushed back on Nixon in private, but nevertheless cut rates in 1971 and again in the mid-1970s despite elevated inflation. Under pressure, Burns fulfilled one half of the Fed’s “dual mandate”, focusing on GDP growth and full employment, while ignoring inflation.

This led to diminished credibility for Burns and the Fed, causing long-term rates to rise even as short-term rates stayed low. This is reflected in the steady rise of the “term premium” – a measure of how much additional yield investors require to hold longer-term debt securities – throughout the 1970s. Below, we can see that the “term premium” is yet another area where the 1970s and 2020s exhibit clear parallels.

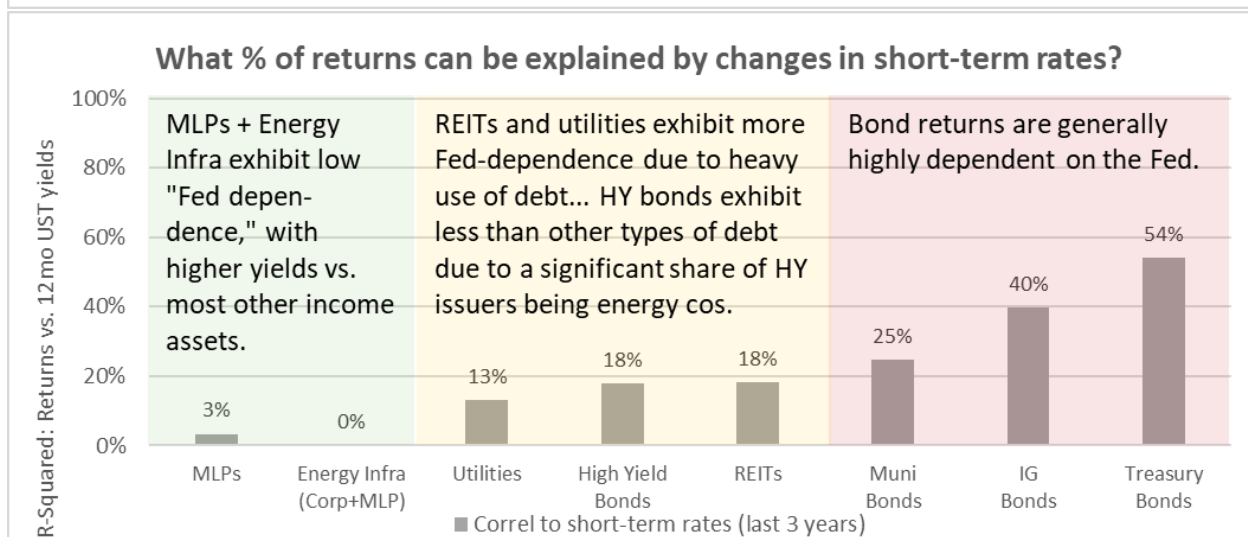
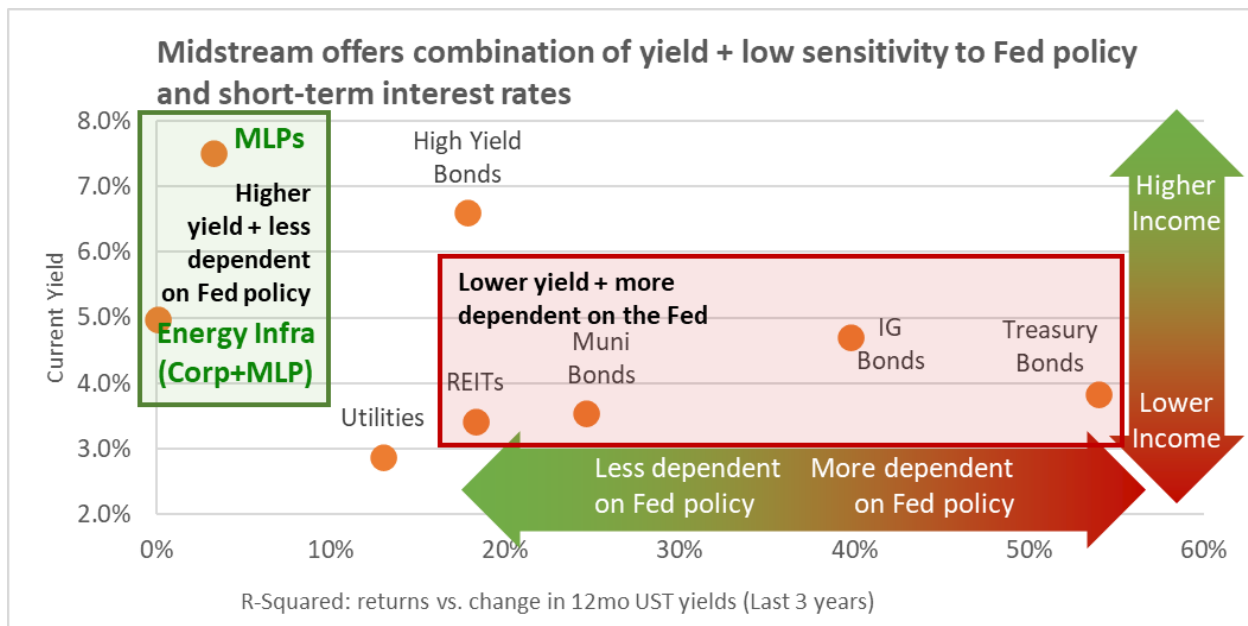


Source: Federal Reserve Bank of New York

50 years later, the Fed is again expected to embark on a rate-cutting cycle beginning in September 2025, despite the fact that September 2024’s surprise 50 bps rate cut was followed by an increase in inflation expectations and a rise in long-term interest rates. Faced with the prospects of falling short-term rates (and an accompanying decline in income from money markets and floating rate debt), and rising long-term rates (which typically cause income investments to lose value), what can income investors do?

The majority of a typical “income” portfolio performance is dependent on Fed policy

While markets are unanimous in their expectation of Fed cuts in late 2025, political pressure and elevated inflation expectations makes it difficult to rely on consistent Fed policy. As shown below, midstream allows investors to generate income without betting heavily on the Fed. Including a midstream allocation in an “income portfolio” allows investors to generally enhance their current income, while reducing correlation to Fed policy.



Notes: MLPs = Alerian MLP Index; Energy Infra = Alerian Midstream Energy Index; Utilities = S&P 500 Utilities; REITs = S&P 500 Real Estate; Muni Bonds, High Yield Bonds, IG Bonds, Treasury Bonds = LMBITR, LF98TRUU, LUACTRUU, LUATTRUU Bloomberg Indices. Source: Recurrent research, Bloomberg.

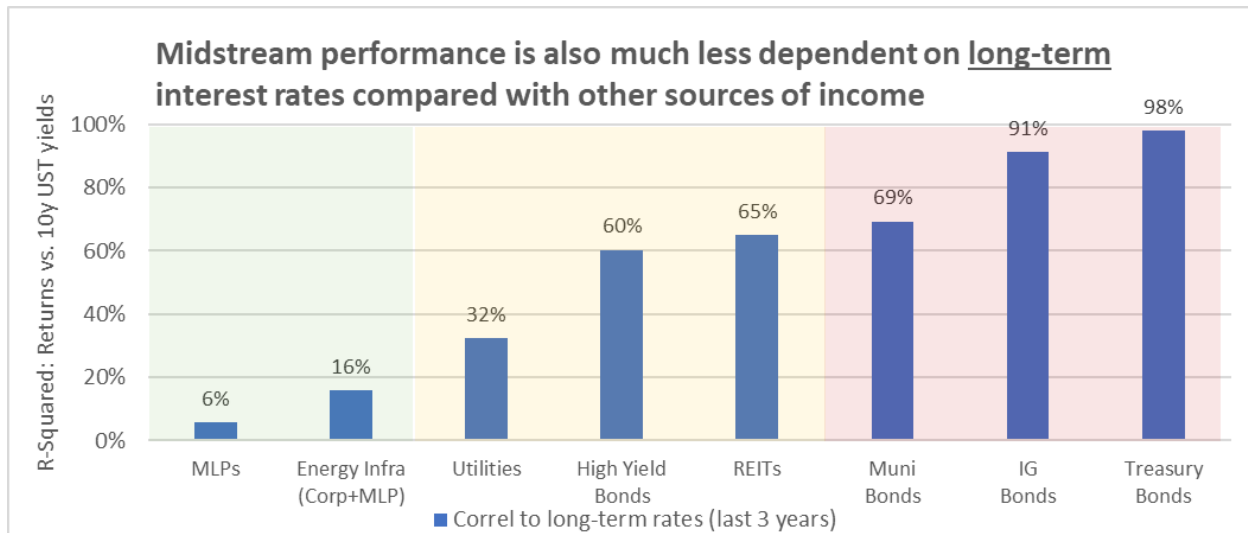
If increasing term premia push long-term rates higher, are midstream assets at risk?

While many income investors are betting on the beneficial impacts of Fed cuts today, the future path of Fed policy remains uncertain. Near-term Fed rate cuts may drive short-term rates lower, but based on the example of the 1970s, the impact of elevated inflation and lower Fed credibility may expand the term premium, and ultimately send long-term rates higher even as short-term rates fall.

Most income investments are somewhat sensitive to short-term rates, but those same investments are heavily dependent on changes in long-term rates. Below, we see a chart measuring the R-squared between the income-generative asset classes shown above and changes in the 10-year US Treasury yield. For most bonds, changes in the 10-year yield explain between 70 and 100% of total return

performance! For income-oriented equities like utilities and REITs, 10-year rates explain between 30% and 65%.

For midstream, the 10-year yield environment has explained less than 20% of total return performance. So while midstream returns have shown almost zero Fed dependence in the last 3 years, they have also shown some of the lowest sensitivity to longer-term rates.



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Surprisingly, the asset least sensitive to future rates is also the least-owned

Midstream provides a unique exposure for income portfolios. Not only are midstream returns relatively independent of the overall rate environment, but correlation studies show a negative correlation between midstream and investment-grade fixed income over time. Beyond bonds, which are clearly subject to the overall rate environment, many investors opt for REITs, utilities, or “global infrastructure” (which is not an economic sector, but a catch-all invented by fund managers to include a grab-bag of utilities, industrials, REITs, and midstream) instead of midstream. In doing so, many investors are inadvertently increasing rate risk, while adding less yield than a midstream allocation would provide. We believe investors should consider including midstream before, not after the next interest rate cycle.

Natural Resources

Performance Review

In the month of August 2025, the Recurrent Global Natural Resources Strategy rose +6.59% net of fees, outperforming the S&P Global Natural Resources Index’s +6.52% return. During the month, the portfolio’s gold mining stocks increased +22.6%, outpacing the benchmark’s +19.1% return. While stock selection in the gold sector was strong, the portfolio’s relative underweight offset some of the strong performance. Additionally, portfolio holding PBF Energy rose +22.3% during the month, significantly adding to portfolio performance.

Portfolio Discussion

Year-to-date, the US dollar has fallen by 10% relative to global currencies, as measured by the DXY Index, as seen in the chart below.



Source: Bloomberg

As it pertains to commodities, fluctuations in the dollar have impacts on demand globally. Since commodities are largely transacted in dollars but consumed in local currencies, a strong dollar inflates prices for foreign buyers and suppresses global demand. Conversely, a weaker dollar lowers local currency prices and stimulates non-US demand.

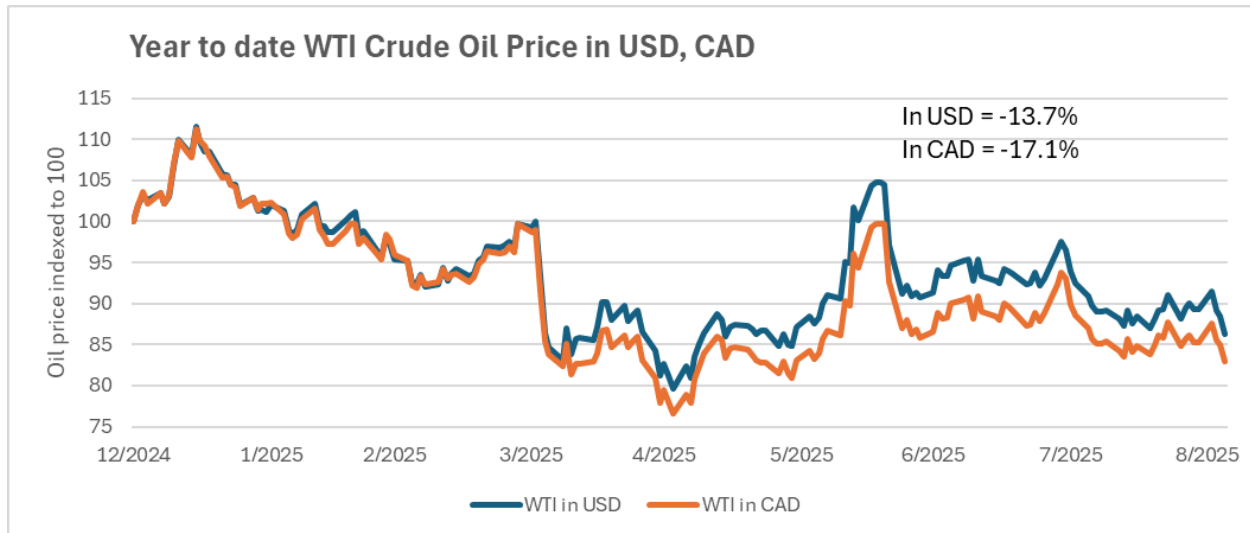
Today the dollar is weakest it has been in 3 years.



Source: Bloomberg

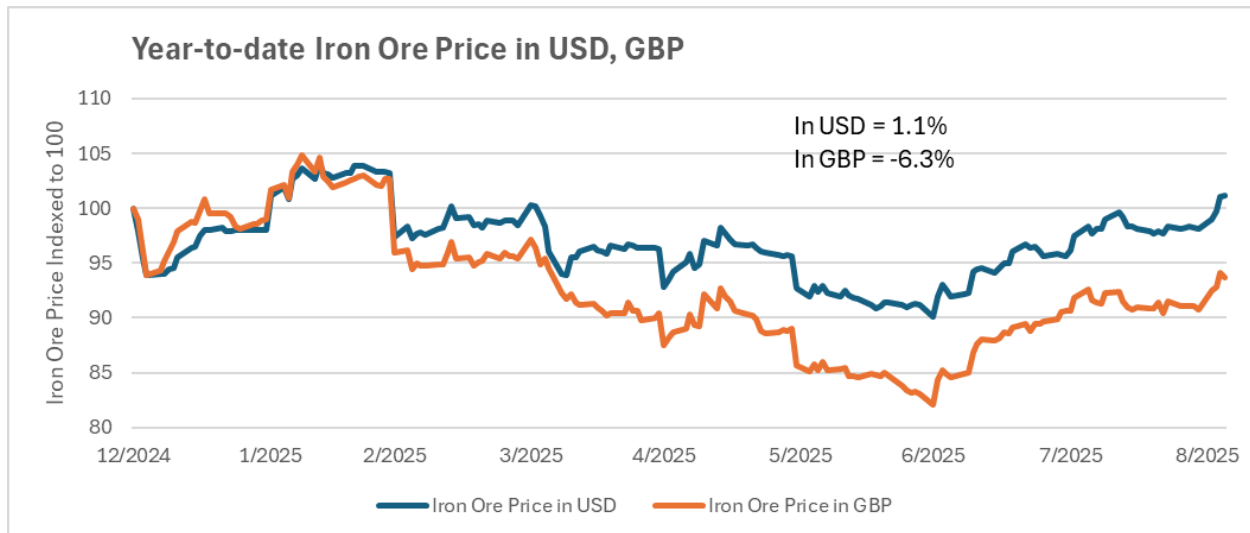
Given the weakness in certain commodities in USD terms, to non-US buyers the weak dollar further lowers prices. In taking a few key commodities to assess price changes in dollars versus their respective local currencies, we can see the impact of a weaker dollar on local prices. Crude oil prices serve as a good example. Through September 5th, WTI crude prices are down 13.7% year-to-date in USD terms, but

in Canadian dollar terms the price is down 17.1% year-to-date, which should further improve demand relative to expectations.



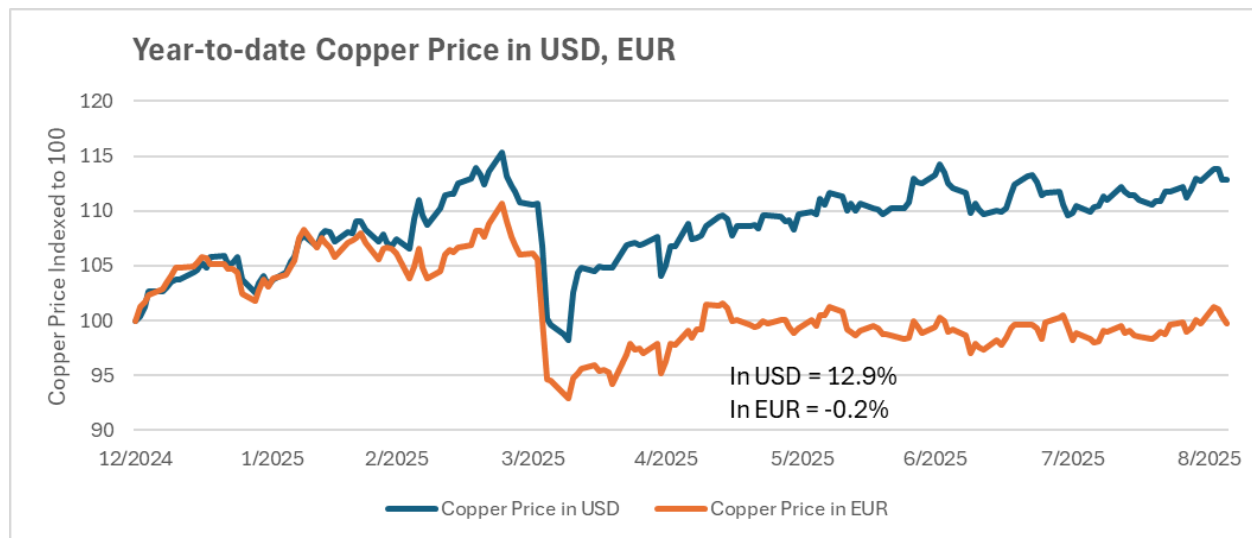
Source: Bloomberg, Recurrent research

An interesting situation is unfolding for iron ore. In USD terms, prices have risen by 1.1%. However, in British pound (GBP) terms, the price has fallen by 6.3%, as seen below.



Source: Bloomberg, Recurrent research

Copper provides another interesting contrast, with prices in USD terms rising 12.9%. In Euro (EUR) terms, the price has fallen 0.2%.



Source: Bloomberg, Recurrent research

Through the course of the year, the weakening dollar has reduced local prices for commodities in many economies globally. With lower prices, demand should be higher than otherwise expected, boosting broad-based economic growth on a macro level, as well as commodity-specific demand.

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