



BRAMSHILL
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BRAMSHILL INSIGHTS

Income Outside of Traditional Fixed Income



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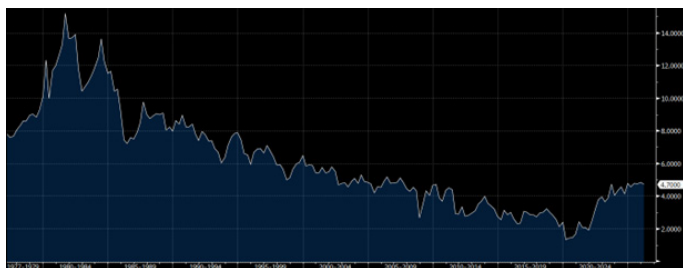
Income Outside of Traditional Fixed Income

Business Development Companies, Real Estate Investment Trusts, Master Limited Partnerships, Closed End Funds, Mortgage REITS, Royalty Trusts

It hardly needs be said that we live in a time of political and economic certainty. Longstanding attitudes and conventions may need to be examined and reconsidered, and approaches to income investing are certainly among them. At Bramshill, we are constantly examining our premises and procedures in the interest of delivering returns for our clients. New developments in domestic finance and turmoil in global trade relationships have produced profound challenges for income investors.

Foremost among these is probably the likely reversal of the forty-some year trend in gradually declining US inflation and Treasury bond yields. The US inflation experience in the 1970's was brought under control by tight monetary policy under Federal Reserve Chair Paul Volcker beginning in the late 1970's and continued by his successors. As a consequence, long-term interest rates which had risen to compensate bond investors for their loss of principal due to inflation gradually declined, as shown in Figure 1. Declining bond yields led to higher bond prices (which move inversely to yields) and gave attractive total returns to bond index investors.

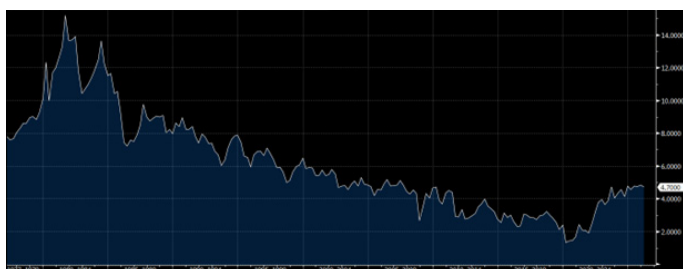
30 Year Treasury Yield (Figure 1)



Source: Bloomberg

Recently, however, events have called into question the sustainability of this trend and perhaps its reversal. Inflation resulting from high public spending in response to the Covid pandemic and subsequent actions by the Federal Reserve to contain it have resulted in higher interest rates which in turn reduced prices of long-term bonds. This trend reversal, highlighted in Figure 2, may represent a reversal in the prior disinflationary trend and lead to very limited total returns for long-term bond indexes. For instance, TLT, the most widely followed long term bond index ETF, has lost 7.6% per year over the last five years.

5 Year Total Return TLT (Figure 2)



Source: Bloomberg

US fiscal policies which have contributed to a weak market for long term US Treasuries have been widely reported. The American Rescue Plan, Bipartisan Infrastructure bill, CHIPS act, and Inflation Reduction Act increased the US fiscal deficit from the 3% of GDP level which has historically “normal” absent war or recession, to over 6% The OBBB Act passed this year provided significant additional tax cuts which may be partially offset by tariff revenue, but the deficit continues to hover around the 6 percent level. All of this, of course, is occurring with public debt to GDP at about 120%. The consequence of this is that in addition to the fixed costs of Social Security, Medicare, and Defense, US interest payments on the national debt are very high. As DOGE apparently made very little net impact on federal spending, federal finances are in a perilous state.

We believe the Bramshill All Weather Income Portfolio is positioned to offer these benefits more fully than most other income strategies. The key to this is our longstanding focus on exchange traded pass-through securities, specifically Real Estate Investment Trusts, Master Limited Partnerships, Mortgage REIT's, Business Development Companies, Closed End Funds, and Royalty Trusts. Each of these securities is specifically exempt from US corporate income tax on the condition that they distribute substantially all of their profits to shareholders, as highlighted in Figure 3. Historically, the pretax distribution of these portfolios has been in the range of 8-10 percent.

What Does This Mean for Fixed Income Investments?

As has been widely reported, these federal fiscal conditions mean that the US Treasury will be forced to issue every increasing amounts of debt to finance the federal government. In addition, US inflation rates—while falling—are still a considerable amount about the stated 2% target set by the Fed. While we do not pretend to be able to make accurate projections of inflation, investors must consider the risk that inflation will remain above target given the high level of federal deficits and borrowing. This would further imply that long term Treasury debt most sensitive to real or hypothetical fear of inflation...will only be sold at higher interest rates than has been possible in the past. The Treasury, in its borrowing plans for 2026, seems to have acted on this assumption. They have stated that they will buy back long-term bonds, using proceeds from short-term lending.

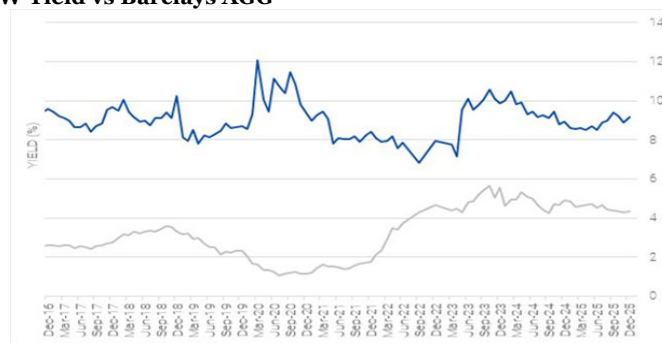
Both the Treasury and the Federal Reserve as seen by knowledgeable observers to be taking steps to facilitate ever increasing issuance of short-term Treasury bills and notes. In December, the Fed ended its quantitative tightening policy which made it a net seller of Treasury securities. Additionally, it added reserves to the banking system in a manner which had the effect of purchasing some of the recently issued Treasury securities. Over the intermediate term, there is active planning to deregulate banks in a manner which will allow them to purchase more Treasury securities with less capital backing than at present, through adjusting the Supplementary Leverage

Ratio. Beyond these measures, Treasury initiatives to facilitate stablecoin cryptocurrency will require issuers to back them with short term Treasury securities, effectively adding another purchaser of Treasury bills. Taken all together, these trends point to vastly increasing issuance of federal debt, which will place more cash in the economy either through federal spending or cryptocurrency issuance, both of which are likely to be inflationary. In addition, all indications are that the current administration will continue to put pressure on the Fed to reduce interest rates, both to reduce interest paid by the federal government (to minimize the deficit) and to facilitate lending in the private sector.

Prudent income investors, in our view, should anticipate the following trends over the coming 3-5 year period: 1) Stubborn inflation above the Fed's 2% target; 2) Lower returns on money market vehicles; 3) Likely pressure on the real value of long-term bonds; and 4) Weakening value of the dollar versus globally traded commodities and possibly other currencies. We believe that to the extent practical, an income program for the coming period should offer: 1) potential to increase distributions to sustain beneficiaries' purchasing power; 2) underlying hard assets to sustain the value of the principal; and 3) current and sustainable income well above either traditional fixed income or cash.

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AW Yield vs Barclays AGG



Source: Bloomberg

Let's examine how these vehicles address the current risks to income investors. Both MLP's (which most commonly invest in energy infrastructure) and REIT's (which own real estate) own income producing hard assets which they operate. These assets experience stable and growing demand and are usually successful at gradually increasing operating income and distributions over time. Moreover, they own tangible assets which are likely to maintain and increase their value over time in an inflationary world. Royalty Trusts are similar in that they generally own minerals in the ground, and experience revenue when it is produced and sold.

Mortgage REITS, Business Development Companies, and Closed End Funds operate differently but address the same concerns. They are spread lenders, which means that they hold portfolios of income securities financed in significant part by borrowings at short term rates. If, over time, short term rates gradually decline and longer-term rates increase, well managed spread lenders can increase their net interest margin, or the cash flow received from their portfolios after interest payments funds borrowed. From these increased cash flows, distributions to shareholders can be increased.

Of course, there is no guarantee that any investment will work as planned, but professional attention to selection of individual holdings combined with diversification across these strategies can maximize the likelihood of success. And to be sure, failure to adapt to emerging risks in income investments can have its own risks.

About Bramshill Investments

Bramshill Investments is an alternative fixed income asset manager with over \$8.20 billion in assets under management as of February 28th, 2026.

Founded in 2012 and headquartered in Florida, with offices in California and New York, the firm offers alternatives to traditional fixed income investment management featuring a variety of strategies across various debt and fixed income markets and specializing in preferred securities.

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