## What do we mean by “themes”?

At Karpus, our top priority is preserving clients’ capital to build wealth over time.

We seek to buy closed-end funds (CEFs) for our clients when discounts are wider than their long-term averages, and then sell when the discounts are narrower. While we have a focus on CEFs, we diversify portfolios among CEFs, open-end mutual funds, exchange traded funds, and other securities that we feel assists clients in achieving their financial goals in the most attractive, risk-adjusted manner possible (e.g., special purpose acquisition companies (pre-acquisition) (SPACs) and senior notes issued by 1940 Act investment companies).

There are many steps in our investment process but one of them is to identify overarching themes that we believe are driving other investors’ decisions. We look at each of these themes to help guide our investment decisions with bottom-up investment analysis ultimately driving our choices.

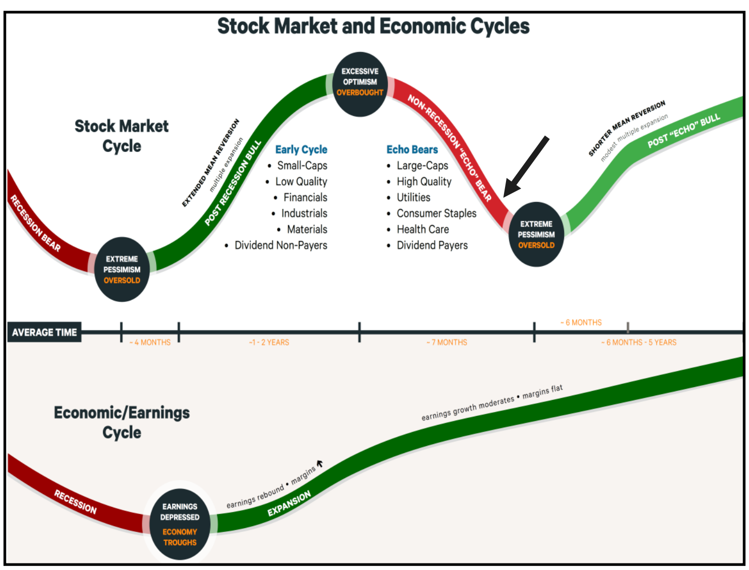
With this said, below are some of the key themes we’re seeing within the equity and fixed income markets. We hope they help you understand some of the more nuanced concepts that we’re currently seeing. A more detailed discussion is in each respective section that follows.

## Equities’ Themes

### Domestic Equities

The global economy, central bank policy, and the investment landscape have shifted dramatically in a matter of months. Equity markets have stumbled out of the gate this year as investors battle a host of headwinds. Rising interest rates, decades-high inflation, monetary tightening from the U.S. Federal Reserve (the “Fed”), COVID-related lockdowns in China, and the troublesome war in Ukraine have created a laundry list of uncertainties producing fears of an impending recession.

Although investors’ concerns are warranted and geopolitical events show no sign of abating, we believe that the U.S. economy is still showing signs of strength and momentum. For instance, the labor market is strong, household balance sheets are sturdy, and U.S. companies experienced record profits in 2021.



Ned Davis Research

As we meticulously analyze this complicated and changing investment landscape, our thoughts and portfolio positioning have shifted.

*1. Heightened inflation.*

Inflation has been a big topic of discussion, and, rightly so, as rising inflation reduces the purchasing power of future goods and services. Traditionally, investors could purchase U.S. Treasury securities to hedge inflation risk. However, investors have demanded higher yields as compensation for holding bonds amid the heightened inflation backdrop.

After years of stimulative financial conditions, inflationary pressures were mounting toward the tail-end of last year. The Russia-Ukraine war has amplified inflationary concerns as commodity prices from oil to wheat have increased significantly. China's zero-COVID policies and lingering supply chain disruptions have forced corporations to realign supply chains to more predictable and dependable trade partners, causing deglobalization pressures.

As these developments have taken shape, inflation remains near a 40-year high (measured by the Consumer Price Index), leading to a domino effect on higher Treasury yields impacting stock valuations and forcing monetary authorities to rely on restrictive policies to curb prices. Once inflation peaks and becomes manageable, we believe inflation will remain elevated and above pre-pandemic trend levels barring a Fed-induced recession.

*2. A balance between growth & value styles focused on the energy and technology sectors.*

We are currently positioned with a barbell approach through a combination of closed-end funds and exchange-traded funds with both value and growth style characteristics. We entered the year bullish on the growth companies and believed their strong earnings growth would offset any multiple compression.

As the year progressed, persistent inflationary pressures and higher U.S. Treasury yields shifted our positioning toward inflation beneficiaries. As a result, we moved our portfolio construction toward broad-based value exposure with relatively cheaper valuations that we believed could perform better in the current inflationary environment.

Due to the transition to green/clean energy, there has been a lack of long-term investments toward traditional fossil fuels, causing supply constraints. The Russia-Ukraine war has increased supply concerns as sanctions against Russia have pushed oil over $100 a barrel. Energy stocks have generally thrived as these events have unfolded. We have augmented our exposure to the energy sector.

Within the growth style, we favor exposure to the technology sector. We view this sector to provide unique opportunities to high-quality secular companies while investing in the semiconductor arena, which is still balancing demand and supply constraints.

*3. Equal weight strategies reduce market-capitalization weighted index risk.*

Over the last handful of years, we have witnessed the most prominent American companies gain market share. As a result, their market values have reached tremendous levels, with the top ten companies of the S&P 500 comprising 25% of the index heading into 2022. We believe that Apple, Microsoft, Alphabet, and Amazon are great companies whose stock values have been rewarded. However, as these companies' stock prices have grown, their valuation metrics (e.g., price-to-earnings multiples) have risen to what we feel are frothy levels.

Equal-weight strategies reduce market-capitalization bias by constituting each company with the same weight. For example, at the beginning of the year Amazon comprised about 3.6% of the S&P 500, while an equal weight index would have a 0.2% weighting. Due to poor performance, Amazon's weighting to the S&P 500 has been reduced to 3.0% (as of 5/31/2022). This year, higher U.S. Treasury yields have put significant pressure on the valuations of many of the largest companies, resulting in equal-weight strategies outperforming traditional market capitalization weighted indices.

*4. The CEF discount cycle.*

Our primary focus is to buy quality CEFs with strong performance and investment teams when discounts are wide and uncertainty is elevated. Alternatively, part of our investment process is to reduce CEF exposure when discounts are narrow. Navigating these discount cycles is a balancing act of experience, knowledge, and instinct. We have found CEF buying opportunities to be most prevalent when there are periods of heightened volatility and uncertainty. With that said, we have not witnessed the price disconnect we would have expected during a market correction. Still, we remain patient in anticipation of 2$^{nd}$ half of the year buying opportunities created by prolonged volatility and tax-loss selling pressures.

## International Equities

With international equities, it's important to remember that the U.S. accounts for only 4% of the world's population and 25% of economic output, yet it constitutes 60% of the MSCI All-Country World Index. With a substantial portion of companies being domiciled outside of the U.S., we believe it is critically important to have a portion of one's portfolio invested abroad.

Internationally, four key themes we're following include:

*1. Repercussions of the Russian invasion of Ukraine.*

First it was semiconductors, then it was cars, now it seems to be energy and food. Supply chain issues that started because of COVID and related shut downs now appear to be also coming from another cause: the Russian invasion of Ukraine. The Russian invasion may soon shock the worldwide food supply as Ukrainian exports of fertilizer and wheat have been stunted. Sanctions from all angles are aimed at Russia, and, with them, comes the reluctance to acquire their wheat, fertilizer, and energy. As demand for food is somewhat steady, we believe global inflation will shift upward while the challenges of impoverished nations continue to worsen.

European Union countries have largely banned together as the war has evolved but the process of constructing liquid natural gas conversion ports takes time and money, as does retooling decommissioned nuclear plants. Finding barrels of crude, bushels of wheat, and tons of potash elsewhere is no small feat either, though Canada aims to pick up some of the slack.

Having much to lose from doing so, Germany ceased opposing a Russian oil embargo, while it increased military spending in the face of historical trepidation. This, along with French President Emmanuel Macron's Pro-EU re-election, indicate to us a willingness to adapt and what appears to be a rekindled sense of cohesion. We will continue to monitor whether a less globalized Western vs. Eastern economic system will arise out of a difference in values and morality.

*2. China and how it fits in the global economy.*

Continued COVID-related lockdowns and tightly managed policies in the world's second largest economy are adding uncertainties to an already challenged global economy. In our view, Chinese policymakers want to outgrow and outsmart the West while following an entirely different playbook. Four examples of this stick out in our minds.

First, targeted monetary and fiscal policies appear to be easing, which is in stark contrast and in direct contradiction to many of the world's economies.

Second, China has had and continues to have a strict lockdown policy. In the heat of the largest COVID outbreak since 2020, brutal lockdowns have been implemented to preserve health and save lives, yet these goals ultimately come at the cost of basic freedoms and necessities.

The last two examples can be seen in China's crackdowns in the housing market and technology sectors. With respect to housing, even with prices down the government has focused in on regulations targeted toward speculators and highly indebted developers with the goal of mitigating risks. Next, with respect to the technology sector, China has implemented multiple strict regulations in place for tech (i.e., via fines or regulations on data protection, cybersecurity, and anti-competitive practices) in pursuit of "common prosperity." These heightened regulations have been put in place to level the economic playing field, but they tend to be viewed as erratic and severe. These examples demonstrate a directly opposite reaction than the stability the Chinese Communist Party aims to achieve.

Interestingly, all of these conditions lead up to the National Congress of the Chinese Communist Party at year-end, where many expect Xi Jinping to be China's indefinite leader. With the will to outperform and the ability to unilaterally delegate policy, China has the tools to succeed economically, we believe its Achilles heel could be its stubbornness. Forgoing more effective foreign vaccines is proof that the country cannot get out of its own way. The current challenges, paired with unnerving ties to Russia, may prove to be a high hurdle and will all be items we monitor as China charters its path forward.

3. *Global policy divergence.*

Through the pandemic and now the war, there has been a notable divergence in various policies among nations. Quantitative easing, vaccinations, relief payments, and infrastructure investment have returned mixed consequences.

On monetary policy, England and Canada moved alongside the U.S. in hiking key interest rates. Meanwhile, in Europe, even though the EU failed to achieve as strong of a recovery, hasn't yet raised rates but is in a precarious situation as close ties to Russia have stoked inflation to 7.5%. In Asia, The Bank of Japan remains in easing mode as inflation continues to be elusive. Switching gears entirely is China, though their reversal into easing efforts come at a difficult time in the global landscape.

On fiscal policy, nations that opened the government floodgates tended to recover with haste. As easy money policies tighten, we believe this profligacy could prove a headache. Emerging nations who acquired or maintained restraint failed to jump ahead out of the gate, but may find peace when their bills come due. On pandemic policy, the higher the vaccination rate, vaccine quality, and ability to avoid lockdowns have shown to be paramount.

4. *The CEF discount cycle.*

International closed end fund discounts are at narrow levels. As a result, we have significantly trimmed portfolios' international equity CEF investments and await discount widening and opportunities presented by that widening.

## Fixed Income Themes

Within the taxable and tax-sensitive fixed income markets, we are following similar themes, as concerns about inflation and interest rates continue to take center stage.

1. *Interest rates have risen significantly in 2022, and at a faster pace than anticipated.*

The first quarter of 2022 was one of the most challenging quarters for the bond market since the early 1980s. Both taxable and municipal bonds experienced their largest quarterly percentage losses in roughly 40 years. While we largely anticipated higher bond yields, the pace and magnitude of this rise has been alarming.

Our client portfolios had been positioned defensively prior to this rise in rates and we have maintained a lower duration relative to our stated benchmarks. More specifically, fixed income portions of portfolios have been substantially invested in special purpose acquisition companies (pre-acquisition) (SPACs) and shorter duration investments.

As fixed income investors, we welcome higher bond yields, as this indicates higher levels of income going forward. Now that rates have made what we believe is a substantial rise, we will patiently add longer duration CEFs to our fixed-income portfolios as opportunities arise. Our research indicates that rates tend to rise quickly, then plateau — and perhaps even drift lower after their initial move. We believe the big move higher in interest has already occurred.

2. *We continue to maintain high quality fixed income portfolios with an emphasis on preservation of capital.*

We continue to favor SPACs over any other investment for safety in this volatile interest rate environment. Indeed, with the worst bond market since the early 1980's, and stocks also down significantly year-to-date, there have been very few places for investors to find safety.

Financial market followers have probably heard the term "SPAC" in the media and associate it with risk. Although this characterization can be appropriate for the post-acquisition phase of a SPAC, we feel that our pre-acquisition approach is a conservative one that is one of the most attractive short-term fixed income alternatives that we are aware of.

By purchasing SPAC common shares pre-acquisition at a discount to their cash value, investors achieve an asymmetric return profile with a known floor return if held to liquidation date and the potential for equity like upside if an attractive acquisition is identified and the SPAC trades at a premium, all with little to no interest rate risk.

We plan to maintain a substantial allocation to SPACs to preserve capital in our portfolios while we await future opportunities in fixed-income. To learn more about our approach to SPACs, please check out our recent Commentary, titled "Notes on our approach to investing in Special Purpose Acquisition Companies" or our Client Topic, titled "What is a Special Purpose Acquisition Company (SPAC)?"

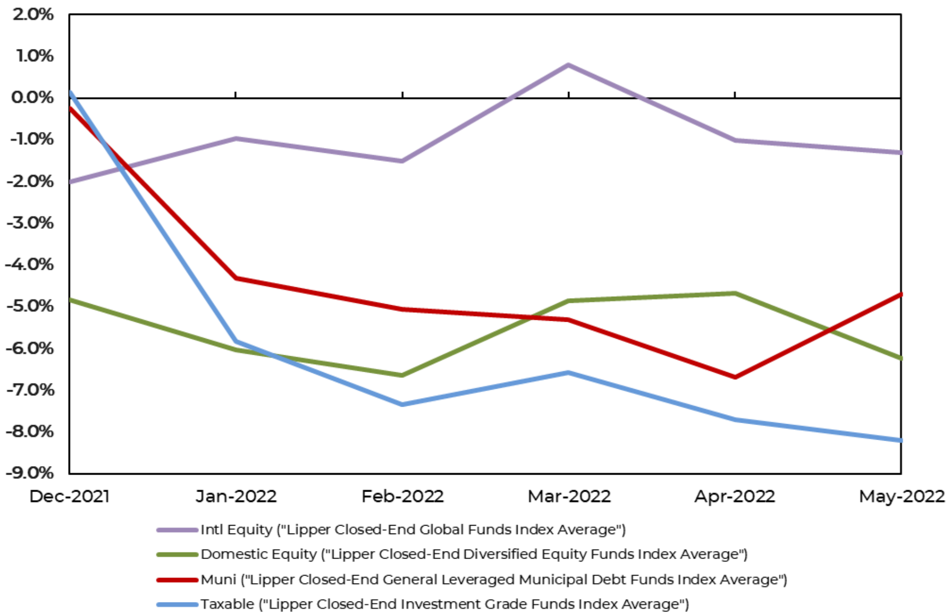
### *3. The CEF discount cycle.*

We have been intimately following CEFs and their discounts to net asset values for decades as our core strategy. Our strategy is to buy these funds is when they are most deeply discounted, and to patiently wait for this opportunity.

Discounts on our municipal CEFs have widened significantly since the beginning of the year, and we have begun to add some to our fixed income portfolios. The discounts on municipal CEFs are now wider than their long-term averages and we believe much of the go-forward risk has been stripped out of the funds by way of lower net asset values and wider discounts. We remain cautions, however, as we are aware of the possibility of further discount widening due to higher costs of leverage within the funds and heightened tax-loss selling that may occur throughout the year. We also will add municipal bond CEFs to our tax-deferred accounts when it is attractive to do so.

For other Karpus insights, please see our website.

**Average Closed-End Fund Discounts**
(12/2021 - 5/2022)




The Taxable Fixed Income average discount is from the Lipper Closed-End Investment Grade Funds Index Average, the Tax-Sensitive Fixed Income average discount is from the Lipper Closed-End General Leveraged Municipal Debt Funds Index Average, the Domestic Equities average discount is from the Lipper Closed-End Diversified Equity Funds Index Average, and the Int'l Equities average discount is from the Lipper Closed-End Global Funds Index Average, as categorized by "All Refinitiv Lipper Index Components" as of 12/31/2021. The data represents the simple average of the discounts of the funds within each index and is as of month end for all funds in an index for either all or part of the defined period.

*Sources:* Bloomberg Finance, L.P., Business-Standard, CNBC, Lipper, The Economist, The Federal Reserve Bank of the United States, Fortune, JPMorgan, MSCI, Reuters, The Wall Street Journal, The World Bank, U.S. Census Bureau.

*Index Definitions:* The S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalizations as of 12/31/2021. The MSCI All-Country World ex. U.S. Index (MSCI ACWI ex. U.S.) is a market-capitalization-weighted equity index that captures large and mid-cap representation across 22 of 23 developed market countries (excluding the United States) and 25 emerging market countries as of 12/31/2021. The Index return is net of withholding taxes and assumes daily reinvestment of net dividends thus accounting for any applicable dividend taxation. The Index is unmanaged and cannot be purchased directly by investors. Data provided by Bloomberg Finance, L.P.

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## Important Notice