

# Week In Review

OLLI-GMU Investment Forum

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Today: How to gauge the impacts of the US – Iran war  
Are we approaching GFC-II?  
BDC primer

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Disclaimer: I am not a certified financial analyst.

Any trading decisions you make are your responsibility

# Economic commentary

- Headline inflation rose to 4.3% in April
  - Producer prices rise 6%; food and energy up 4.4%
- ECB issues stagflation warning: higher inflation, lower growth
- U Michigan consumer sentiment dropped to 47.8; record low.
- Section 122 tariffs declared unconstitutional by ITC
- ISM Manufacturing index hit 52.7 in April – steady expansion
- ISM Services index in April reached 53.6 – steady expansion
- Residential real estate market getting softer
  - Higher inventories, slower pace
  - April home sales flat
  - Mortgage rates climbed to 6.37%
- April non-farm payrolls rise 115K. Unemployment steady at 4.3%
- Kraft-Heinz says “consumer is running out of money”
- Whirlpool: “appliance sales are at recession levels”
  - Ceased paying dividends after 70 years
- Persian Gulf violence flares up – oil prices fluctuating wildly
- S&P500 Q1 earnings coming in at 19% above YoY

# Projected Impacts of US – Iran War

- Worst-case worldwide inflation rises to 7.7% with a global recession (Oxford Economics)
- Energy
  - 22% of world LNG supplies are stalled; damage thus far will prevent fast turnaround
  - 15% of crude oil supplies are stalled; damage will prevent fast turnaround
- Trade: global merchandise growth slows from 4.7% to 1.5% per year (IMF)
- Agriculture: As much as half of world fertilizers are stalled (IMF)
- Financial: Bond market selloff in progress
  - Investors are pulling out of emerging markets (Wikipedia)
  - Debt service squeeze emerging
- Commodities: Helium, sulfur, aluminum exports from PG are stalled
  - Copper refining needs sulfuric acid
  - Rare-earth refining needs helium
  - US Defense industries are already feeling the effects

The Bottom  
Line:  
Indications  
that a global  
crisis could  
emerge

- **Oil prices sustain above \$125/barrel**, the historical threshold for material GDP contraction
- **The Strait of Hormuz remains closed through summer**, depleting Europe's energy reserves before the refill season
- **Demand destruction spreads beyond lower-income consumers** into middle-class spending, hitting the 70% of U.S. GDP that depends on consumer activity
- **The Fed is forced to raise rates** to combat 4%+ PCE inflation while growth is already slowing — the classic stagflation trap
- **Food price shocks cascade globally**, destabilizing developing economies and triggering debt crises

# Market commentary

- 87% of S&P500 companies have reported Q1 results
  - Earnings are running 27% higher YoY
  - Tech stocks leading
  - S&P500 may hit 8000 this year
- Emerging markets are beating S&P500, as predicted
  - See EEM: up 49% YoY, vs. 6%
  - Lower interest rates, and weaker dollar helping
- CNN fear gauge: 67 - greedy
- VIX: 18 – neutral
- Put/Call ratio: 0.66 – extreme greed
- AAI Investor survey: 38% bullish; 33% bearish
- Given the recent rapid rise in stock markets, are we nearing bubble territory?
  - Indications: High margin debt; New retail accounts rising rapidly
  - Many companies with extremely high PEs

# BDC Basics: Private credit for retail investors

- A business development company (BDC) issues loans to small/medium companies
  - Their primary assets are loans
  - Other assets include equity stakes, financial services
- They are registered as investment companies with the SEC
- They pay no taxes as long as they distribute 90% of their earnings as dividends
  - Eliminates double taxation
- They fill a big gap in bank lending – investing in small businesses
  - Large bank consolidations and stringent capital requirements have hurt lending
- 156 BDCs exist, about 50 of which are publicly traded
  - Total market value of all BDCs: ~\$1.5T
- Most BDCs are externally managed; a few internally – BIG DIFFERENCE!
- Some pay monthly – most pay quarterly
- BDCs have come under intense scrutiny re: loan quality and underwriting standards
- Not for everyone. Can be risky in certain economic cycles.
- Typical Forum holdings: ARCC, BXSL, OBDC are externally managed  
MAIN, HTGC, TRIN, CSWC are internally managed

**See [BDCInvestor.com](http://BDCInvestor.com) or Seeking Alpha for more information**

# Now what?

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- NO Fed interest rate cuts in 2026 – inflation returning?
- US economy is strong but....with overwhelming geo-political uncertainty
  - MUST watch for indications we are heading into GFC-II
- Stock market is expensive: Forward PE = 27 vs long term average 16

GLTA

*“For those properly prepared in advance, a bear market in stocks is not a calamity but an opportunity.”*

— Sir John Templeton

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