# Week In Review – a source of ideas

July 29, 2026

Today: Stock market rotating away from chips to software

Why are small caps doing so well?

David Toms

Disclaimer: I am not a certified financial analyst.

Any trading decisions you make are your responsibility

If you would like to acquire this slide deck, please email me at:

David.toms@comcast.net

# Economic commentary

## We have a strong economy despite considerable uncertainty

- Inflation has been above target (2%) for 5 years
  - Fed pressure to raise rates increases
  - War and tariffs increasing inflation risk
  - Fed likely to hold rates as is
- US- Iran war dictates oil, which dictates inflation, which dictates market action
  - Houthis blocking Saudi oil shipments in Red Sea
  - Persian Gulf conflicts showing the world depends less on oil, more on wind, solar, nuclear, batteries
- Dollar value rose 5% to 101.6 since Feb. (DXY)
- Russia-Ukraine war remains stalemated
  - Many international oil refineries are offline
- Steady unemployment at 4.2%; hiring is picking up
  - Initial jobless claims dropped to 187K; lowest since 1969
- Commercial real estate making a comeback (WSJ)
  - BofA, PNC, Truist, USBancorp CRE loan balances up
  - Industrial properties focus (warehouses)

# Market Commentary

- Massive week for earnings
  - Apple, Meta, Microsoft, Amazon report earnings this week
- Fears of “software apocalypse” are dissipating (see IGV)
  - Major software firms showing significant strength (Salesforce, Workday, Adobe, Service Now}
  - Large company hiring re-started
- SpaceX stock traded as low as $115, down from $135 at IPO
- Chinese memory chip manufacturer CXMT crashed the chip party
  - MU, SNDK, SKHX all suffering
- Google profits smashed records, raised guidance; stock dropped 7%; AI spending still a worry;
- $1.2T spending on AI buildout anticipated in 2027
- CNN fear gauge: 38; moderately fearful
- VIX: 18; neutral
- Put/call ratio rising to 0.82; fearful
- AAI Investor survey: 29% bullish; 42% bearish

# Why are small caps doing so well?

- Lag time from Fed rate cuts; small caps carry a lot of floating rate debt
- Geographically insulated from foreign wars; they sell to Americans
  - Compared to S&P500 firms with large international customers
- Refunds from earlier tariffs; but new tariffs emerging
- Fiscal stimulus:  $2T of government borrowing from OBBB funding is working way down to small businesses, plus changes in depreciation rules, etc
- Government policies stimulating on-shoring of industries
- They were just cheap.
- AI and tech trade is broadening out

# Insider buying activity (via Claude)

- 28 executives across the Technology Select Sector SPDR ETF (XLK) have recently bought their own stock
- Highest count on record
- Double the pace from the start of 2026
- Execs buying the dip in technology firms
- Elevance (ELV): CEO buys $1M in stock
- Fiserve (FISV): CFO and CLO each buy $500K of stock on the dip
- Commercial Metals (CMC): CEO buys $500K of stock

# Now what?

- US economy is strong but  significant uncertainty:  War with Iran, oil prices, inflation
- Fed interest rate increase is unlikely in 2026
- Stock market is rotating away from AI and chips into small caps and software
- Protect yourself through diversification, stop loss orders and put options

GLTA

If you would like to acquire these slides, email me at:   David.Toms@comcast.net

# What is a BDC?

## Wikipedia Definition:

- Established by Congress with the Investment Company Act of 1980; Amended in March 2018
- **A company that makes loans to small and mid-size businesses, and may also take equity positions, offer management services and others**
- Companies use loans to finance expansion, acquisition, LBO, etc
- Regulated by the SEC as Registered Investment Companies (RIC)
- **PAY NO TAXES as long as they distribute 90% of earnings**
- Similar to a REIT, but primary assets are loans to small and medium size companies
- **Private Equity or Venture Capital for retail investors**
- Most BDCs are publicly traded – some are not

## Primary reason for investing:

- Long term, alternative investment, high dividends with diversification
- Can result in good returns in a buy and hold portfolio, with a Dividend Reinvestment Program (DRIP)
- **Investing is primarily for dividends, but capital gains can accrue if purchased at low points**
- **Behave bond-like, except dividends are variable and there's no end date**
- Most BDCs issue a fixed dividend with a variable supplemental dividend
- Most pay quarterly, a few monthly

# Typical BDC Capitalization

**Assets**

- First Lien secured loans
  - 75% of portfolio is very good
- Second Lien secured loans
- Senior secured loans
- Mezzanine Loans
- Warrants
- Equity Stakes
- Board seats
- Partnerships and JVs
- Venture Debt
- SBA Facilities
  - Government guarantees

**Liabilities**

- Loans from money center banks
  - Revolving credit facilities
- Preferred stocks and dividends
- Common Stocks and dividends
- Notes
- Convertible Notes
- Baby Bonds
- Hedges

BDCs borrow at fixed rates;
Lend out at floating rates
Rising interest rates are good for BDCs! Usually.

# How to Evaluate a BDC

- Is the BDC externally managed? Or internally?
  - External: A company owns the BDC
- Is the stock selling at a premium to NAV?
  - Is Net Asset Value increasing?
- What is the Net Investment Income (NII) record?
- What types of businesses do they loan to? Diversified or not?
- What is the quality of the loan portfolio?
  - Quarterly reports to investors
  - Read SEC reports for quality assessments
  - Default ratio < 1% is good
- Is the dividend sustainable?
  - What is the dividend history?

# How to Evaluate a BDC, cont'd

- S&P Investment grade rating?   BBB or better
- What are the qualifications of the managers?
- Analyst opinions?
- Short interest?
- Do they have a Small Business Administration guarantee / license?
- Check SEC 10Q/10K quarterly reports – very insightful
  - Quarterly transcripts of shareholder meetings
- Read the Blogs on Seeking Alpha
  - Scott Kennedy, BDC Buzz, High Yield Investor  (HYI), Brad Thomas
- Simply Safe Dividends provides excellent, in-depth analyses