Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com

Amadeus Wealth Alternatives
Your Compass to Alternative Investments

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Despite signs of a good economy, stocks have a lackluster week.

Weekly Economic Update

Presented by Ed Papier, September 20, 2021

THE WEEK ON WALL STREET

Stocks weakened ahead of this week's Federal Reserve meeting and amid persistent concerns about the Delta variant's impact on the economy.

The Dow Jones Industrial Average was flat (-0.07%), while the Standard & Poor's 500 fell 0.57%. The Nasdaq Composite index lost 0.47% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, dropped 0.65%.[1,2,3]

STOCKS STRUGGLE

Despite a string of economic reports painting a healthy picture of the U.S. economy, investor sentiment remained cautious. While tamer inflation and higher-than-expected retail sales may typically be constructive for the market, any investor enthusiasm it generated was fleeting.

The market appeared all week to be encumbered by a tentative, apprehensive mood. The Delta variant remained an overhang, but it was more than that. Investors appeared concerned about September, which historically has been a weak month for stock prices. The market also was concerned about fiscal and tax policy proposals emanating from Washington D.C., news of an economic slowdown in China, and by what the Fed may announce following its September 21-22 Federal Open Market Committee meeting.

TAKING THE ECONOMIC PULSE

A series of economic reports released last week provided investors with a broad snapshot of the state of the economic recovery.

Inflation showed signs of moderating, rising 0.3%—an elevated rate, but well below June and July's increases of 0.9% and 0.5%, respectively. The consumer remained strong as retail sales rose 0.7%, an unexpected jump. Manufacturing reached pre-pandemic, while the labor market continued its recovery, with initial jobless claims coming in near pandemic lows and continuing claims hitting a new pandemic low. [4,5,6,7]

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Housing Starts.

Wednesday: Existing Home Sales. FOMC (Federal Open Market Committee) Announcement

Thursday: Jobless Claims. Index of Leading Economic Indicators. PMI (Purchasing Managers' Index) Composite Flash.

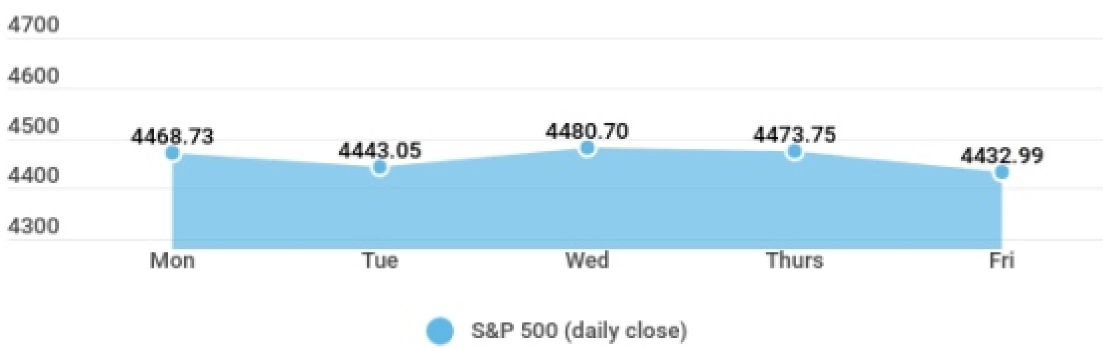
Friday: New Home Sales.

QUOTE OF THE WEEK

"Those who deny freedom to others deserve it not for themselves."

ABRAHAM LINCOLN

Market Index	Close	Week	Y-T-D
DJIA	34,584.88	-0.07%	+13.00%
NASDAQ	15,043.97	-0.47%	+16.73%
MSCI-EAFE	2,366.06	-0.65%	+10.18%
S&P 500	4,432.99	-0.57%	+18.02%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.38%	+0.05%	+0.45%

Sources: The Wall Street Journal, September 17, 2021; Treasury.gov, September 17, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, September 10, to Friday, September 17, close. Weekly performance for the MSCI-EAFE is measured from Friday, September 10, open to Thursday, September 16, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

BDCs are closed-end investment companies regulated by the SEC created under provisions of the Investment Company Act of 1940. The legislation's intent was to promote access to capital by small and medium-sized US firms. Many BDCs focus on making loans to private-equity-backed firms for buyouts, growth capital or mergers and acquisitions. Often, borrowers are privately held companies owned by families or private equity sponsors that may be too small to efficiently tap public capital markets. BDCs can be public or privately held. Often, a BDC will initially raise private capital from high net-worth investors or institutions prior to its initial public offering. Similar to a REIT, BDCs are required to pay out most of their earnings.

In the evolution of the leveraged finance markets, tailwinds are likely to continue for a growing set of non-bank lenders like BDCs. Three developments have diminished banks' appetites for leveraged credit exposure: consolidation in the banking sector, higher regulatory capital requirements, and tighter leveraged lending. These factors, along with the wind-down of corporate lending arms, have created an opportunity for BDCs and other direct lenders. This trend has also provided an interesting investment space and opportunities for fixed income investors willing to consider this growing sector.

BDCs are an important component of the leveraged finance markets servicing middle-market companies. There are a number of trends that should support the growth of BDCs:

- BDCs appear to be replacing some larger non-bank lenders that are no longer active in this space. They are also making loans that were previously split between banks and mezzanine and/or junior capital markets.
- The availability of private equity capital should continue to fuel trends toward privatization and buyout activity in the middle market. This availability could create a healthy pipeline of new loan activity for BDCs. Additionally, BDCs and/or private lenders can offer advantages relative to other types of lenders in terms of speed of execution, certainty of closing, lower fees and greater privacy. These services can make them a key partner of choice for many private equity firms.
- Finally, with growing capital to lend, BDCs are likely to move "up market" with larger deals that may previously have gone to the syndicated or high yield markets. Recently, more BDCs and private lenders have increased the size of their transactions to greater than $1 billion. This trend will continue, creating a bigger opportunity set for some of the larger BDCs.

BDC loan portfolios are typically highly diversified and granular with average positions of 1.0% or less of a portfolio, which can help manage credit risk. With no targeted benchmark to adhere to, BDCs also have flexibility in industry selection. Many try to avoid areas such as cyclicals and energy, for example, in favor of sectors including healthcare, software and business services.

BDC investments often include riskier loans made to smaller companies that may have higher leverage. That said, the substantial equity commitment made by the owners/sponsors of these smaller entities gives them a vested interest in providing ongoing support. Additionally, a BDC's status as lead lender can help them to drive workouts and maximize recoveries in distressed situations.

Although BDCs have diversified their funding sources to include more unsecured debt, most BDCs fund their operations with secured bank facilities and some also fund in the collateralized loan obligation markets, which have priority over senior unsecured bondholders in a distressed situation. BDCs with greater funding diversity and lower amounts of secured debt generally have greater flexibility in more challenging capital markets.

BDCs will likely see increasing representation in the unsecured markets, potentially following a similar growth path to REITs. At one time a lesser-known niche within the unsecured markets, REITs have become a well-followed sector within the markets and BDCs could follow in their footsteps.[8]

Ed Papier may be reached at 2126973930 or ep@amadeuswealth.com
www.amadeuswealth.com

Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, September 17, 2021
2. The Wall Street Journal, September 17, 2021
3. The Wall Street Journal, September 17, 2021
4. CNBC, September 14, 2021
5. The Wall Street Journal, September 16, 2021
6. MarketWatch, September 16, 2021
7. The Wall Street Journal, September 16, 2021
8.info.loomissayles.com/bdcs-tailwinds-for-growth-in-an-overlooked-underfollowed-sector?utm_campaign=BDC&utm_source=Advisor%20Perspectives&utm_medium=Commentaries&utm_term=ReadMore&utm_content=BDCPaper