1. Taking the pulse of the economy: A market assessment and outlook

- Economists expect an economic downturn in the near future due to many factors, including an inverted yield curve, demand for housing, uncertainty surrounding trade and slowing global growth.
- New York Federal Reserve indicates a U.S. recession probability of over 30% compared to approximately 40% preceding the 2008–09 global recession.
- The next recession will likely affect specific industries, whereas the 2008–09 recession affected nearly every industry.
- U.S. importers will be forced—if tariffs are increased significantly—to pass on the increase to U.S. consumers, which will affect spending and choices.
- Although publicly traded BDCs sold off significantly in the last recession, their stock prices recovered after the recession and offered a sizable opportunity for investors to earn a great risk-adjusted return given the diverse investments BDCs typically lend to and invest in.

2. A look at what's happening in Washington: Understanding the legislative, regulatory and tax changes affecting BDCs

- Since being removed from the indices in 2013, institutional ownership of BDCs has declined.
- When institutional ownership is decreased:
  - Analyst coverage is reduced.
  - Cost of capital is increased.
  - Availability of capital is decreased.
- IRC section 199A allows taxpayers to deduct 20% of total qualified business income (QBI) from a domestic flow-through entity.
  - Current: REIT dividends qualify, but BDC dividends do not.
  - Proposed: In order to achieve favorable tax treatment for shareholders and parity with REITs, BDC dividends would be included.
- Draft bills will remove the uneven playing field enjoyed by REITs and others, but excluded for BDCs.
The growing importance of corporate governance: Exploring activism and accountability and the role of the board

Remember:
- Give your board enough time to adequately review valuation materials.
- Diversity on boards can bring new insights.
- Activism is not always bad; it can provide helpful insight into what the market wants.
- Meeting proactively with activists can be beneficial.
- Board accountability will continue to be a focus for regulators and investors alike.

Responsible investing, consolidation and diversity in the industry

- ESG is a critical way to showcase commitment to core values.
- There is no consensus from stakeholders on how to report ESG.
- Building a mission statement, setting metrics and communicating success are ESG reporting best practices.

Household consumption right now is propping up the U.S. economy. We’ll see if the uncertainty tax that’s been placed on the economy by trade policy begins to adversely influence consumer attitudes.

~JOE BRUSUELAS, chief economist, RSM US LLP