BROXTON
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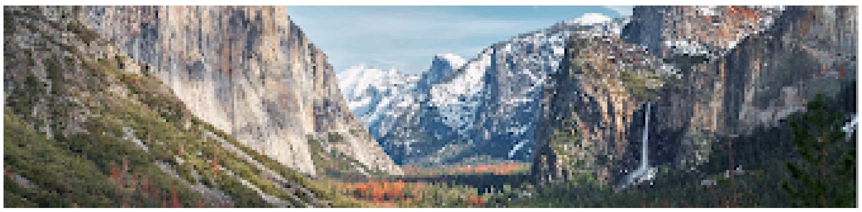

Broxton August

Newsletter

Tech Spend Heading Northbound ?

The original dotcom bubble saw U.S. tech stock valuations soar during the late 1990s, only to crash by 85% by 2002. Could the tech bubble of the 2020s face a similar fate? Recent signs suggest the current tech bubble may be slowing as far as profitability.

In August, many indexes suddenly dropped up to 16% from their recent highs, only to partially recover. This followed a reality check in tech company earnings, where many firms had sharply increased capital spending, some even outpacing their earnings. Most of this was to increase their AI capabilities. But due to capital expense increases at Texas Instruments (TXN), a $200 billion company paying a $5 per share dividend the company had to borrow to pay its dividend. Despite reporting $2.44 earnings per share for the first half of 2024, TXN had negative cash flow and had to borrow $2.2 billion to cover the dividends. Allen Cooke explains: “Tech cycles have three phases—adoption, where customers pay a premium for new technology, followed by competition and commoditization, where companies lose pricing power and must increase spending.” The fact that TXN had to borrow 100% of its dividend payment and was hitting all time new highs last week may be indicative of the fact that not many people are paying attention.

The Tech majors, like Microsoft, were also demonstrating increased costs. For the quarter ending in June, Microsoft reported an an increase of $4 billion dollar in Capex. The free cash flow yield at many of the companies is around 2-3% annualized far below historical averages for stocks and the risk free rate. Microsoft is at 2.4%, Google is at 2%, Facebook is closer to 6% and Amazon is at 3.3%. So the stagnant free cash flow demonstrates the additional tech spend to support AI but raised concern during the quarter earnings reports and may have been the catalyst for the JUly 15% drop in the tech and other indexes. But the signs of increased cost for the tech companies may not be improving any time soon.

SLR Investment Corp.

We continued our coverage of the publicly traded loan portfolios with SLR Investments. SLR is a smaller originator and manager of corporate loans to smaller companies, with a disciplined approach consisting almost exclusively of first lien senior secured notes. SLR Investment Corp. (SLRC) is a business development corporation, or BDC. The BDC designation is a special tax designation which allows for profits to be distributed directly to shareholders, similar to a REIT. Currently, SLRC is trading at a 15% discount to net asset value and with a current yield of 10.7%. The share dividend is close to 700 basis points (BP) over the 10-year treasury and 500 BP over the high yield index. As of June 30, the SLRC portfolio was $2.1 billion and was diversified amongst 800 unique issuers and is 98% senior secured investments. 64% of the portfolio is asset-based (ABL) or equipment finance. 24% of the portfolio are company loans and 11% are Life science loans. Our buy rating and price target of $16.50 reflect the portfolio stability due to the concentration in asset and equipment-based finance and the fact that 98% of the portfolio is in the form of first lien senior secured loans. We believe this stability will contribute to the continued success of SLRC and ultimately lead to a reduction in the discount to net asset value.

Read The Full Report

Any sign of recession?

First we consult with the Atlanta Fed websites GDPNOW forecast. The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2024 is **2.5 percent** on August 30, up from 2.0 percent on August 26. After recent releases from the US Census Bureau and the US Bureau of Economic Analysis, the nowcasts of third-quarter real personal consumption expenditures growth and third-quarter real gross private domestic investment growth increased from 3.0 percent and -2.4 percent, respectively, to 3.8 percent and -0.1 percent. This wasn't exactly confirmed by restaurant sales which stayed positive though: Eating and drinking places rose in July by .3%. Although July represented the fourth consecutive month of rising sales, the rate of growth remained relatively small. July’s sales increase came on the heels of modest 0.1% gains in both May and June. Total retail sales were said to rise slightly less than 1% with some improvement over June although certain retailers are facing challenges.

GDPNow™