Arbor Capital Management

A Pure Asset Manager

First Quarter 2020 Investment Overview

25 Years Strong. As we begin the first quarter of 2020, Arbor Capital Management is *Celebrating our 25th Anniversary.* It has been our privilege to serve you. You can be assured we will continue to provide, Transparency, Independence and the high standard of Ethics you've come to expect from us. On behalf of the entire Arbor Capital family, thank you for the trust you've invested in us.

As the year ahead unfolds, the US Economy is positioned to lead with solid growth. Many of the other major economies appear to be recovering from manufacturing slowdowns. Overall, economic growth should be a bit firmer than last year. We would like to highlight several factors that will be investment influencers this year.

Foreign Trade. Changes in international trade agreements are one of the more important drivers going forward. The two big ones on the table are the US, Mexico, Canada Agreement (USMCA) and the developing new agreement(s) with China. We think the interests, as a whole, are compelling. The key element that underpins this belief is the sourcing requirement for manufacturing. Under the USMCA, manufactured products must have at least 75% of their content produced in North America. Therefore, it is likely to have a long-lasting positive impact on the entirety of North American manufacturing, including workers, communities, companies, and investors. Our preliminary guess of the impact on long-term growth is something like a ½-1% per year improvement to GDP over the next decade or two.

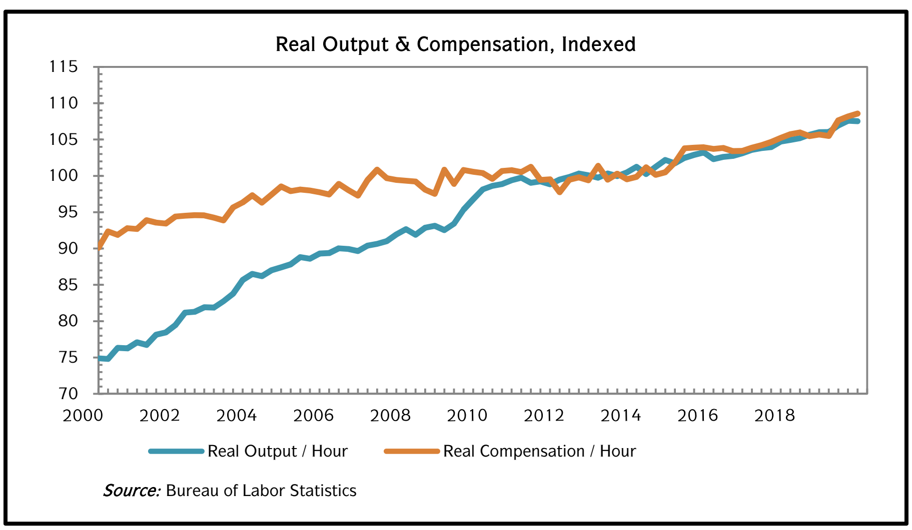
The China trade agreement process has been protracted. Phase one is behind us, and phase two is being discussed. Regardless of the terms of any deals made, experience tells us that Chinese compliance with agreements is a different matter. Time will tell, but this may be an important step forward.

In a broad sense, the United States 'trade deficit with China funds the Chinese purchase of European goods. In our opinion, this explains a good deal of softness in Europe's manufacturing sector. Brexit is something of a wild card this year. Terms are still undetermined and, a "no-deal" break from the EU would likely be highly disruptive to European interests. The US is somewhat insulated from this situation. A rocky split would be most harmful to European interests. Therefore, we think a workable agreement will be reached.

US Economy. There are few if any signals that suggest the start of a recession for at least a year. The US is on solid footing. Job creation continues to be exceptionally strong. Total compensation is growing more rapidly than inflation, which means an improved standard of living for the typical family. Household net-worths also have shown significant improvement through equity profits and strong home prices. The typical consumer is strong. Savings rates are comparatively strong for this late in an economic cycle. On balance, a 2.5% improvement in GDP for full-year 2020 seems reasonable. The current business cycle is over ten years old, leading many to become increasingly cautious.

According to the Institue for Supply Management (ISM), manufacturing is contracting while Services is in a strong expansion. This suggests to us some earnings softness in the first half of the year with acceleration in 2H-2020. In 2018 the Fed attempted to bump rates higher to more normal levels only to see GDP growth stall later that year and into 2019 as a result. The suggestion is that the economy has some fundamental softness that is not apparent in broader statistics. We must be vigilant. Events could materialize that might cause a change of view.

Monetary Policy. Inflation is expected to remain modest throughout the year. Since the job market is so strong, one would think that this would be a major source of future inflation. In most business cycles, wages typically explain about 1/3 of inflation. In the current cycle, productivity gains are closely tracking compensation. Barring some sort of exogenous shock, we think inflation will remain stable over the course of the year.



The era of low interest rates and low inflation worldwide has taken away many of the tools that central banks have used in the past to manage capital flows. The idea of negative interest was anathema to most investors only a few years ago. Japan, of course, was the sole outlier. Now, many countries have negative long-term interest rates. To our knowledge, there aren't any central bank policy prescriptions to get out of this conundrum. The only lasting remedy is growing the economy to bolster its underpinnings, which is really a function of the Executive and Legislative branches of government.

The Fed has stated that its policy is expected to remain accommodative throughout the year and that its inflation target of 2% inflation (PCE) will now look at an average inflation rate that would allow some readings above and below 2% as temporarily acceptable. To us, this is another signal leaning toward further monetary ease, and by extension, the yield curve should steepen.

Fixed-Income Strategy. Since there is very little yield pick-up in extending maturities, we are maintaining our laddered approach. As yields trend higher, we will be able to capture some of them with maturing positions. We will also continue to emphasize high credit quality. Fixed-income security selection at Arbor is made on a case by case basis to capture the best available yield for the least possible risk.

Equity Strategy. The combination of low interest rates, low inflation, and moderate GDP growth should lead to higher share prices by year-end. However, after a long uninterrupted run, this rally is a little extended. We think a 10% correction is possible in the next few months. Three themes bear watching over the coming year.

1. 5-G, the next wireless communication protocol will greatly increase available bandwidth to wireless devices such as phones, laptops, and IoT (internet of things). This is helping to drive semi-conductor shares. In our view, this will be a large enough impact to enable a number of possible "killer apps," such as autonomous vehicles.

2. Energy. Most energy companies have been under stress throughout 2019. This year we think the disruption of a supply shock from shale production will be largely behind us. Moreover, manufacturing is expected to recover globally later in the year as the trade picture and supply chain issues with China.

3. Health Care. Our view is that future significant advances in genetic and other therapies will continue to accelerate. There are many small players in this field. Some will be enormously successful, while others won't even survive. In order to bring breakthrough products to market, partnerships with much larger companies with the marketing reach to deliver the anticipated market share are almost always required.

We continue to seek out strong companies with good earnings visibility trading at valuations below the general market.

In addition to your year-end statements, we are enclosing a copy of our Privacy Disclosure Document in compliance with SEC requirements.

We are also including the yearly Realized Gain & Loss Report for all taxable accounts.

Once again, we would like to thank you for your business. We hope the coming year benefits your personally and financially. We would also like to extend a special welcome to our new clients who joined the Arbor family in the past quarter.

If you know someone or an organization that you believe would benefit from our services, please mention our name. We would be honored to have more clients like you.

Sincerely

Gerald T. Cole, CFA **January 30, 2020**

Chief Investment Officer

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