



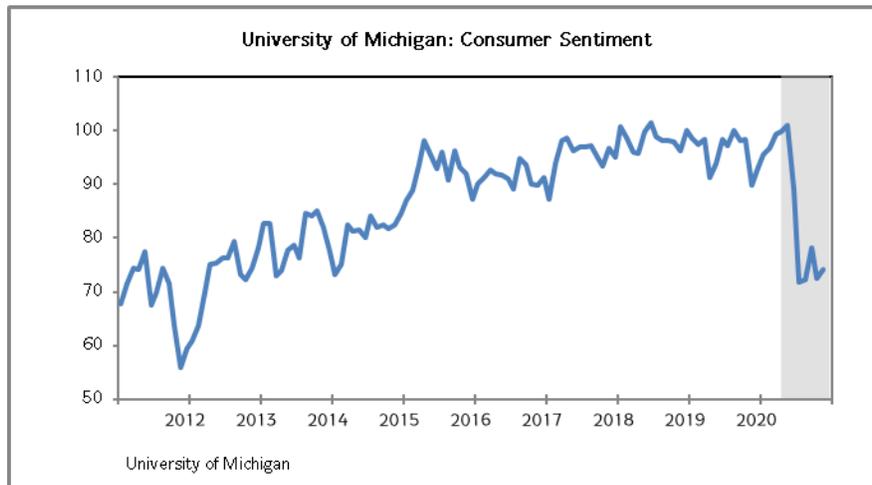
Arbor Capital Management

A Pure Asset Manager

Fourth Quarter 2020 Investment Overview

As we enter the final quarter of the year, we have faced many challenges that most would consider unlikely, if not impossible. Some will persist for the next year or longer. The main culprit under all this, Covid-19, may experience a seasonal surge. However, our understanding of the virus is a bit clearer. Therapeutic treatments seem to be improving daily. With a little luck, the economy can continue to open, which would help things get back to normal.

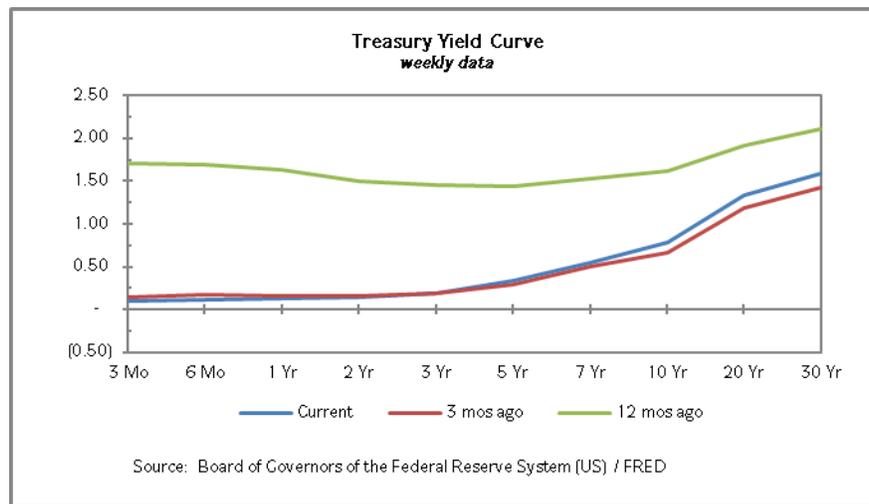
The Economy. Many States are still partially shutdown, which is a huge damper on economic activity. Putting Covid behind us is critical. It will fade in importance because it will eventually run its course, and more effective medications will become available over time, enabling a return to normal social interactions. There are nearly a dozen pharmaceutical compounds in phase-3 trials. Still, COVID's effects are likely to linger for a while.



As the above chart shows consumer confidence has ticked up but is still weak due to the uneven recovery of jobs and fears of an acceleration in the number of COVID cases. The consensus appears to expect a resurgence in the number of new cases with some isolated shut-downs possible. Once COVID fades in importance, job growth/recovery can expand beyond service and entertainment industries extending into skilled trades and industrial occupations. As the recovery in jobs unfolds, the economy can return to growth, boosting earnings and dividends. A consequence of shuttering the economy has led to building

pent-up demand. As the news of economic progress takes hold, it is possible that consumer spending could surge, adding further to growth.

Interest Rates and Inflation. The Federal Reserve Board has publicly stated that it intends to hold short-term interest rates near zero and de-emphasize its focus on combating inflation. As the economy opens, this will become a de-facto stimulus resulting in accelerating inflation. Because short-term interest rates are being constrained, we expect the yield curve to steepen further.



Should economic growth accelerate, loan demand normally would grow sharply, which tends to apply upward pressure on interest rates. This time around, we view rising interest rates in a somewhat favorable light. As the experience of 2018 indicates, rising interest rates are not sustainable without a strong underlying business climate.

Fixed Income Strategy. We continue to emphasize shorter-term issues at this time because they are safer in this type of environment. Our strategy of laddered maturities is ideal in a rising rate situation. As maturities roll-off, we are able to purchase other bonds at higher yields and extend maturities as appropriate. Over a complete economic cycle, this strategy provides lower volatility with solid relative returns.

Municipals. Credit trends across the municipal market landscape are mixed. Federal stimulus help for state and local governments has failed to materialize. Tax revenues are under pressure. Municipalities must choose between expense cuts or bond issuance. When we view the Municipals market we focus on the resiliency of the underlying revenues. For example, stability in real estate valuations across the country has maintained property tax revenues, while personal income taxes and sales tax receipts have experienced notable declines. The Federal Reserve's Municipal Liquidity Facility (MLF) has been an important factor in offsetting interrupted revenue sources. The State of Illinois and the New York Metropolitan Transportation Agency are two examples. The MLF has helped maintain liquidity and extra stability in municipal bond markets. The MLF borrowing window is scheduled to close on December 31, 2020, unless extended. Arbor invests in high-quality credits. The current municipal market conditions underscore the importance we place on high-quality issuers.

Equities. From the onset of the COVID-19 crisis, we have been focused on underlying economic fundamentals and extreme earnings vulnerability. Unemployment skyrocketed, the economy tanked but is on the mend. Earnings have been and continue to be suspect. The S&P 500 earnings for the full year are likely to be 20% lower than last year. The 2020 numbers were/are unprecedented and are indicative of a

bear market in stocks' fundamentals. This means that much of the market's rally has been speculative and momentum-driven. Since our focus is clearly on fundamentals, our discipline and good intentions have fallen short so far this year. We clearly need to make up some ground and expect to do so, though, we will not be "swinging for the fences." The overall economy is expected to accelerate sharply in 2021 which should provide a very favorable backdrop for equities.

The economy is starting to emerge from recession. As such, many cyclical industries are exhibiting increased strength, such as transportation, materials, and capital goods. Food, Beverage and Consumer Goods are also likely to outperform. Because these companies and our portfolios have exceptional cash flows and value characteristics, they should do very well in a rising interest rate environment. The consumer-related industries will also get an additional boost with improved labor market conditions. Banks could be a surprise winner driven by loan volume growth and improved underlying credits of their client-base.

Clients with taxable accounts will find your Realized Gain and Loss Statement through the first three quarters of 2020 enclosed. You may wish to share this information with your accountant and advise us of any tax planning as soon as possible.

We would like to remind our IRA Clients of the CARES ACT which waives RMD's for 2020. If you need a distribution from your IRA please notify us prior to December 1, 2020 in order that processing is accomplished in a timely manner.

We appreciate the opportunity to be of service to you. Please call us anytime to discuss your account, particularly if you have any changes in your goals or lifestyle. Also, you should be receiving custodial statements directly from your qualified custodian at least quarterly. If you are not receiving these statements, please contact us so that we may assist you in resolving this matter.

We extend a special welcome to the many new clients to have joined the Arbor family in the last quarter. If you know someone or any 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

October 26, 2020

Chief Investment Officer

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For investment advice, clients or interested persons should contact their Arbor Capital representative.

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