Arbor Capital Management

A Pure Asset Manager

Third Quarter 2021 Investment Overview

GDP continues to register strong growth, as we expected. Aided by the momentum of a re-opening economy is staged for excellent performance over the next several quarters. Inflation pressures are presenting mixed reviews. We remain optimistic.

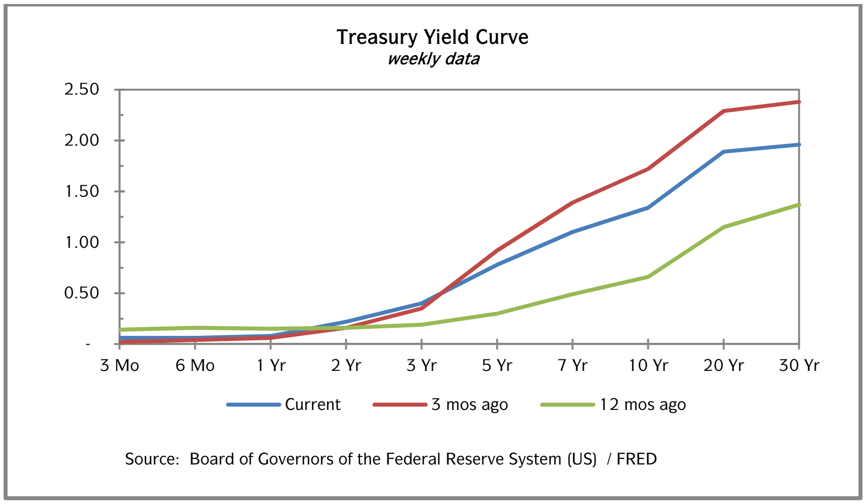
Economy. The sharp rebound in economic activity is rooted in exceptional growth in consumer spending that has, so far, exceeded inventory re-supply. The red line below describes consumption, while the blue line represents the retail inventory/sales ratio. The green line is inflation.

What stands out to us is that the spikes in both consumer spending and inventory drawdowns appear to be sharper than at any other time on record. It should come as no surprise that an uptick in inflation would result. Some shortages are transitory and easily overcome, while others are not. We expect that the overall demand/supply imbalance will correct itself over the next year or so. We will be monitoring this fundamental condition to see if longer-lasting cost-push inflation is emerging. There is a small risk that inflation could begin an upward spiral. We will continue to monitor this situation.

We view the economy as a glass-half-full. The sharpness in the supply/demand swing is COVID-related. It appears logical to expect a readjustment back to equilibrium to take time. Meanwhile, inventories shrunk, which means that retailers will need to replenish their supply of goods. Inventory replacement of this nature boosts business activity throughout the entire supply chain. The Institute of Supply Management reports that “All of the six biggest manufacturing industries — Computer & Electronic

Products; Chemical Products; Fabricated Metal Products; Transportation Equipment; Food, Beverage & Tobacco Products; and Petroleum & Coal Products, in that order — registered moderate to strong growth in June."

Fixed Income. With all this focus on inflation pressures, one would expect generally higher interest rates and a steepening yield curve. Instead, the opposite has happened.



Though still higher than a year ago, the yield curve has shifted downward and flattened slightly, reflecting lower inflation expectations. The bond market action adds credence to our hypothesis that the current spike of inflationary pressures is likely to weaken gradually.

Still, the recent inflation reports are well above the Fed's stated target despite elevated unemployment that is consistent with our re-opening thesis. The question remains, what will the inflation environment look like after the supply/demand imbalances resolve? Chairman Powell seems to be telegraphing that the Fed will try to ignore much of the near-term inflation "noise." However, there also appears to be growing concern among the Fed's Board members that monetary policy may be too easy. We can probably expect at least some modest policy shifts as the Fed weighs the tradeoff between rising rates and unemployment over the coming quarters.

Given the recent rise in inflation statistics and lower interest rates, we are strongly emphasizing high-quality fixed income with either adjustable rates or very short term to maturity.

Equities. The broad market of stocks appears to be fully valued at this time. However, earnings have been accelerating that lends fundamental support to share prices. We still think there are pockets of opportunity to make adjustments or even new commitments. We are continuing to focus on valuations, return on investor capital, and high-quality growth companies.

As a registered investment advisor, the SEC, under the Investment Advisors Act, requires that our disclosure brochures be delivered to each client and prospective client. We offer to send you our current Firm Brochure with additional information should you request it. If you would like to receive our current Firm Brochure, please call or write Sandy Dodson, or the undersigned or go to SEC.GOV.

We appreciate the opportunity to be of service to you. Please call us anytime to talk, particularly if you have any changes in your goals, lifestyle, or your health. We are the Arbor Capital family and we are here for you.

We extend a special welcome to the many new clients who 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 **July 23, 2021**

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