



Arbor Capital Management

A Pure Asset Manager

Fourth Quarter 2021 Investment Overview

2021 is still on a growth track but, challenges are becoming more apparent. The stresses placed on businesses and consumers alike are unprecedented. It stands to reason that returning to normal will be choppy. The remaining process toward normalcy is uncertain and will have some new surprises along the way.

Economy. Last quarter we highlighted the disparity between surging consumer demand and low retail inventory. Over the past few months, the spread has narrowed but, the supply shortages seem to be sticky. The container shipping log-jam at the Ports of Los Angeles and Long Beach explains much of the supply problem beyond the usual logistical issues from a demand surge. Since late 2020, California has required all semi-tractors to comply with its emission standards. Approximately half of the country's truck fleet does not comply. One can offload the ships, but there aren't enough eligible trucks to move the goods. Alternatively, re-routing all those ships is both costly and time-consuming. So most have to sit and wait. A common problem that seems to affect multiple industries is shortages in critical components. Home Building and Automobiles stand out in this regard. It is unclear how much of an impact this will have on prices because some producers may be willing to accept a smaller profit margin in the short term. However, as shortages persist, prices will move higher. Consumers, on the other hand, continue strong retail spending. The more positive aspect of sharply higher shipping costs is an improved relative attractiveness of domestic production.

Monetary Policy. The Fed has clearly stated its desire to maintain low interest rates well into next year. Fundamental to that stance was the presumption that inflation would be transitory as the supply and demand imbalances caused by surging demand would quickly resolve themselves. We think it is clear that supply-chain logistical issues are broader than previously thought and will be longer lasting than previously expected. In our opinion, prices are likely to progress steadily higher throughout the overall economy.

The Fed has previously stated that it intends to gradually taper its bond purchase program until mid-year 2022, when it expects to be completed. It is widely assumed that no interest rate actions are likely to take place until that time. If inflation persists at its current pace, we think the Fed may act sooner.

Fixed Income. The combination of increased economic activity and sporadic shortages applies pressure to inflation which tends to drive interest rates much higher, particularly at the long end of the yield curve. Rates are currently extremely low by historic standards. The probability of a cyclical upward move in rates is increasingly likely. Therefore, our stance toward bond investing is defensive. We are maintaining short terms to maturity, high credit quality, and selective risk modifiers, such as floating-rate instruments or step-up rate securities.

Stocks. After a period of consolidation this past quarter, equities seem to have renewed optimism. Pressures from supply chain bottlenecks, COVID concerns, and rising inflation have been pushed aside, driven by strong earnings reports. During the earnings reporting season, we are looking toward changes

in companies' earnings guidance for clues to the direction and strength of the current market rally. We continue to favor industry leaders with high return on invested capital and exceptional balance sheets.

Clients with taxable accounts will find your Realized Gain and Loss Statement through the first three quarters of 2021 enclosed. You may wish to share this information with your accountant and advise us of any tax planning as soon as possible.

Also, we would like to remind our IRA clients if you need a distribution from your IRA, please notify us prior to December 1, 2021 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, 2021

Chief Investment Officer

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

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