Arbor Capital Management

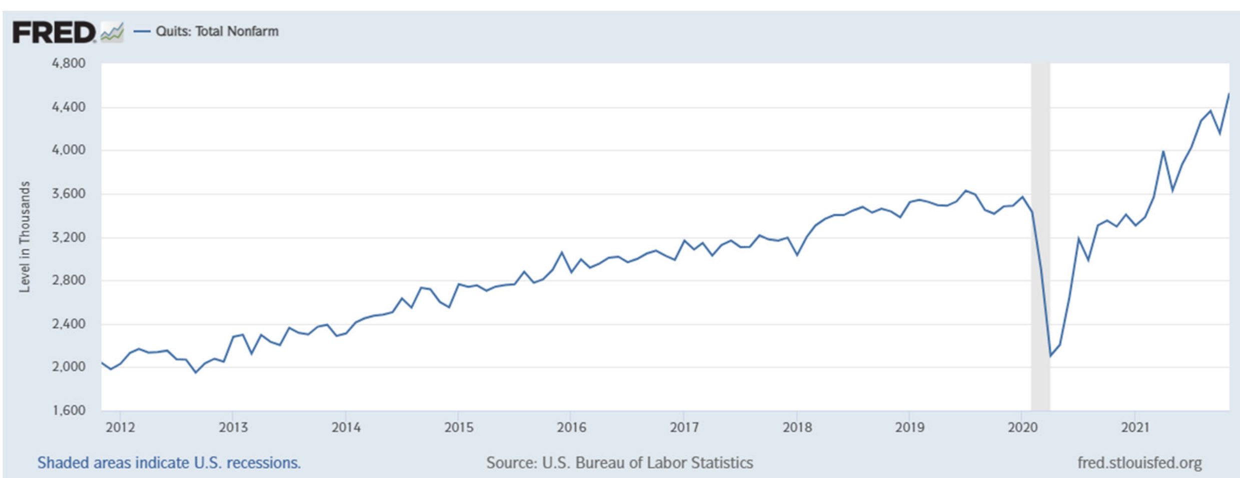
A Pure Asset Manager

First Quarter 2022 Investment Overview

We are optimistic for the economy and financial markets for the year ahead. We think the slowing economic activity is a return to average growth rates. We expect market returns to be positive for the year but with increased volatility. There are several nuances at play that we will attempt to explain.

Economy. Much of our discussion over the years focused on business cycles. The overall economy is entering the middle phase of its current cycle. Growth is slowing, year over year earnings growth has peaked, economic policy is still somewhat stimulative. Two main components have yet to unfold: Strengthening credit demand and inventory replenishment. The ongoing supply chain issues are yet to be resolved and continue to drag growth. Combined with COVID related effects, the economy is still running below its potential in our estimation.

Labor market conditions are somewhat of a jumble right now. Generous benefits and heightened wage expectations are pressuring companies that need additional workers. Many appear to be content with remaining unemployed, while many baby boomers are choosing to retire early. Suddenly, the cost of labor has increased when available job openings exceed the number of unemployed by nearly 50%. At the same time, a new phenomenon is emerging that some call the “Great Resignation,” which is evident

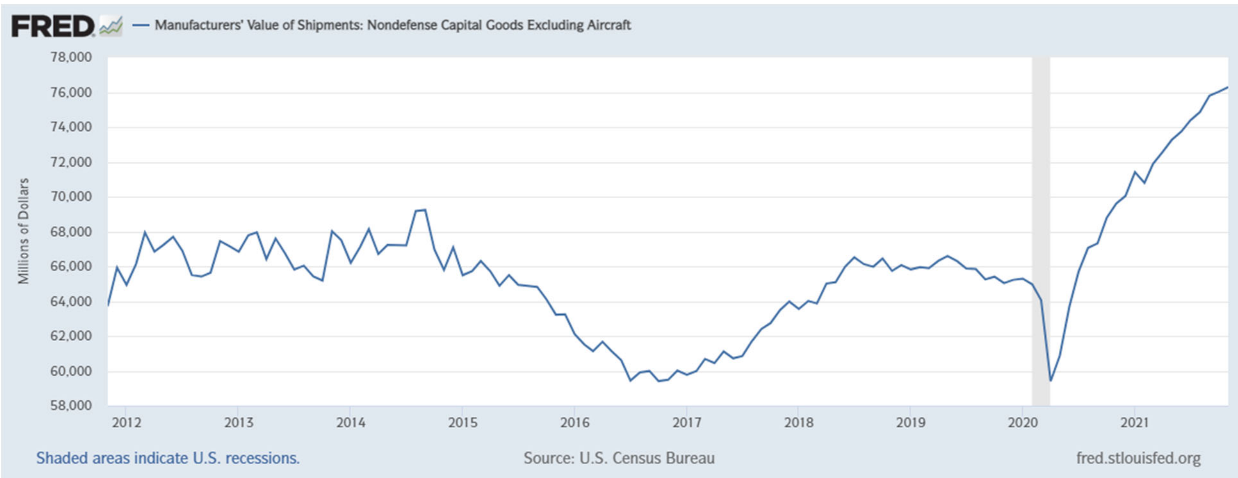


in the chart of Non-Farm quits.

A side-effect of the COVID pandemic has been remote working, which has benefited many with greater freedoms and newfound productivity. Others have used the relative isolation of home to re-evaluate their lives and the role of their occupations. Some feel they should start their own business, while others may choose to retire early or stay home to care for their growing families. Since August, resignations have hit a 20 year high. Regardless of the reasoning, stress, or career change, the workforce demographics are dramatically shifting. At the same time, demand for openings is shifting as well. Some of the largest reductions are in hospitality-related industries and air transportation. Significant increases in worker demand are in non-store retail, warehousing, and courier services.

Non-farm employment has increased by 18.8 million people since April 2020 but is still 3.6 million people below the February 2020 total.

Capital spending has continued to be exceptionally strong. As the cost of adding incremental workers rise, companies seek to replace them through automation.



We expect a return to "normal" GDP growth in 2022, or about 3% real growth. We think the best performance will be loaded in the first half of the year and decelerate toward yearend.

Monetary Policy. In our previous letter, we suggested that the Fed may need to act more quickly to stem inflation than they had planned. That indeed has come to pass. According to the odds produced by the CME (Chicago Mercantile Exchange) FedWatch tool on 1/10/22:

- By mid-year, there is a 97% chance of 1 or more Fed rate hikes; 84% chance for one hike by March.
- By yearend, the same tool suggests a consensus of 4 rate hikes.

Of course, these forecasts can change considerably, but the direction suggested is clear: interest rates are headed higher. We can't predict by how much with any reliability. If our GDP outlook is accurate, there may be a falloff in pressure to raise rates in the second half of the year.

Many US trade partners have already begun tightening monetary policy, which may put pressure on the dollar relative to alternative currencies.

Fixed Income. The deck seems stacked against long-term fixed income. We continue to favor short-term maturities and bonds with defensive characteristics to favor short-term maturities and with defensive features. We are maintaining high credit quality and high relative value.

Equities. Our forecast for the year ahead S&P 500 return is 5-7%. This factors in decelerating profit growth, high current P/E ratios, and rising interest rates. As the uncertainty of the evolving economic climate unfolds, we anticipate greater than usual volatility. In other words, we may experience one or more 10% corrections this year, but we still expect to end the year higher.

In a broad sense, we think the current rotation into value and stable earnings companies will likely persist most of the year. We continue to focus on growing companies with high returns on invested capital, established brands, and large addressable markets.

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.

Please call us anytime to talk, particularly if you have any changes in your goals, lifestyle, or your health. 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 21, 2022**

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