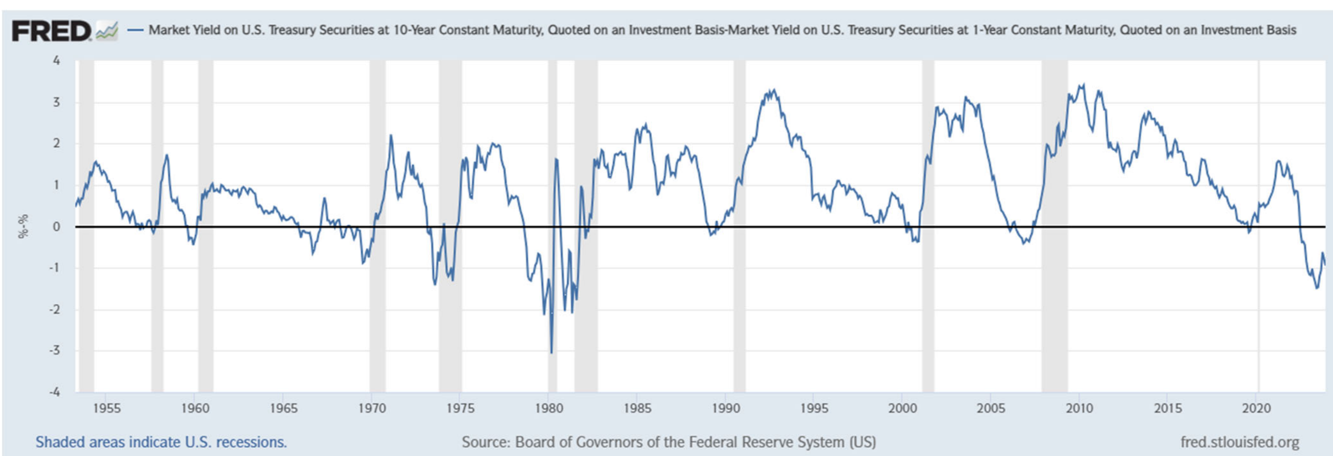
Arbor Capital Management

*A Pure Asset Manager*

## First Quarter 2024 Investment Overview

We expect 2024 to be a period of slowing economic growth accompanied by lower interest rates. We are optimistic that it will be a modestly positive year for both stocks and bonds. We expect volatility to increase as economic growth and employment sustainability concerns mount.

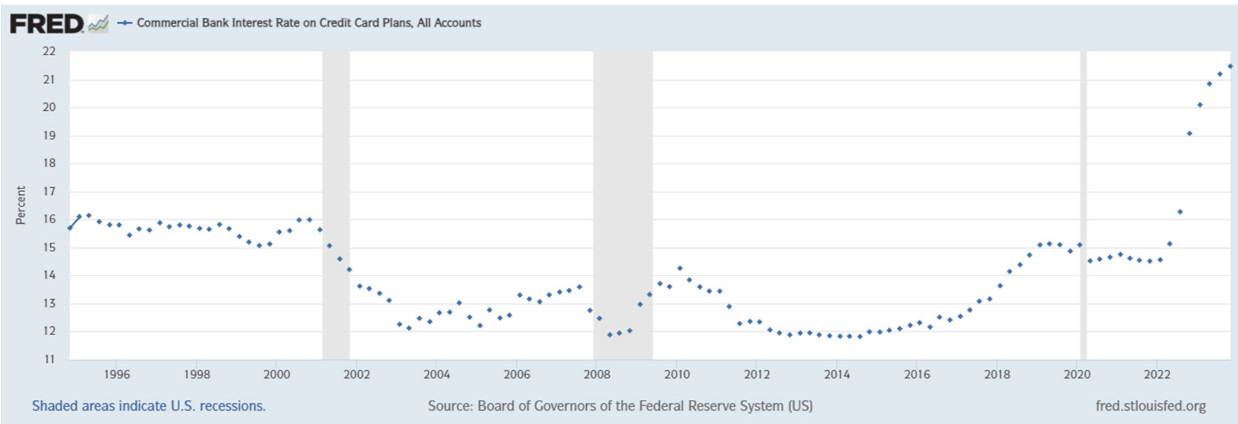
**Economy.** Despite signals from many reliable data points, a recession never materialized last year. Most of them are still warning of an oncoming recession. Because a particular time series flashes a cautionary signal, it does not mean a recession will happen by a set time. Each time an unusual delay occurs, people tend to rationalize: "This time is different." For example, Yield curve inversions are among the most reliable indicators. The chart below shows the spread between the 10-year Constant Maturity Treasury (CMT) and the 1-year CMT dating back to 1953.




Where the line passes below the line, the 1-year CMT has a greater yield than the 10-year CMT. The grey bars indicate recession. In nearly every case, a recession did not commence until after the yield curve reverted to an upward slope. Our best guess is that we experience a recession in this year's second half.

Employment has remained remarkably resilient. Provided it remains so, we think any recession in the near term would be relatively mild. Several factors support this probability. First, baby boomers are at or near their peak retirement years, requiring many companies to hire additional workers to take up their loads. Second, entry-level workers are better off staying at home collecting government benefits than taking a job, especially when healthcare costs are factored in. Third, qualified workers are difficult to replace. To position themselves from worker shortfall in a growing economy, some are hoarding workers despite not operating at full capacity. They fear that when demand resurfaces, they will be unable to fill the positions necessary to support sufficient production.

Because employment has remained strong, consumer spending has remained strong as well. However, the rise in interest rates was more rapid than many households could adapt.




The sharp rise in the cost of credit card balances may be the impetus that drives consumers to retrench their spending, causing a recession. The Fed is keenly aware of this, which explains why they have signaled several rate reductions may happen later this year.

**Fixed Income.** Over the past few years, we have taken multiple steps to reduce risk in our bond portfolios. Because the yield curve is inverted and reductions in short-term rates are likely, reinvestment risk is now a concern. It is becoming increasingly challenging to reinvest matured securities at comparable rates available last year. We are extending the durations of matured bonds to capture relatively attractive rates for an extended period. We believe the sweet spot on the yield curve is around five years. We continue to emphasize high credit quality.

**Equities.** Overall, equities are fully valued. 30% of the capitalization of the S&P 500 is in just seven stocks. Like the nifty 50 of the 1970s, this is an anomaly. We have some participation in this group. However, there are 493 other stocks in the index, many of which are excellent companies. Our emphasis continues to be on companies whose earnings are more stable than most, with solid balance sheets that are continuously able to compound their earnings to grow their capital base. Currently, we favor the Medical, Finance, Consumer Staples, and Energy sectors.

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 26, 2024

Chief Investment Officer



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