Arbor Capital Management

A Pure Asset Manager

Second Quarter 2024 Investment Overview

Sometimes, markets seem to go out of their way to confound the greatest number of investors possible. This may be one of those times. Market analysts have broadly divided into two camps: those anticipating a recession and those anticipating rate cuts this year. So far, both have been wrong. Nevertheless, the market action has been our friend.

Economy. Unemployment and Consumer Spending continue to remain strong. The ISM manufacturing data remain tepid but suggest that manufacturing may have improved from a contracting condition to a more neutral situation. Should the manufacturing data continue to improve, we may need to revisit our recession forecast. Several additional warning signals are emerging. CPI has remained stronger than expected, which is squeezing household cash flows. As a result, credit card delinquencies are rising steadily, surpassing 10-year peaks.

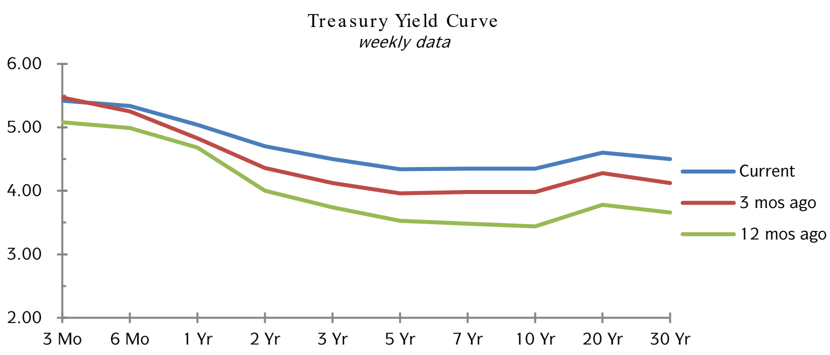
If we are to believe the headline unemployment numbers, we would expect building wage inflation. However, the headlines are somewhat misleading. One important reason the unemployment numbers appear so good is that record numbers of workers hold multiple jobs, and the average weekly hours worked have been in a general decline since 2021. Job openings have been declining since the spring of 2022. Weakening job market dynamics are pushing back on pressures to increase wages. The consumer is under increasing stress. At some point, the consumer will need to reliquify.

In the past few years, oil prices have been subdued by government sales of nearly all of the Strategic Petroleum Reserve to create the appearance that inflation was under control. Our cushion is gone, making us vulnerable to disruption from Middle East unrest or other supply curtailments. In our view, an oil supply jolt would sharply impact inflation, driving interest rates higher.

The yield curve has been inverted since March 11, 2022, the most prolonged period of inverted yields in history, surpassing the previous record set in 1978 (624 days). Once the yield curve un-inverts, a recession is probable.

Monetary Policy. At the year's onset, there was a consensus that the Fed would make several rate cuts this year. The anticipated rate cuts never materialized, and markets are digesting that reality. Meanwhile, inflation has remained more stubborn than others expected. The Fed's monetary prescription has yet to achieve its desired effect. Under this scenario, it is difficult for the Fed to lower rates. We also think a rate hike is unlikely at this time but should not be discounted entirely. Chairman Powell's focus continues to be the 2% inflation target, which is fleeting. Sterner measures may be required to bring things back in line, but those would risk sharpening economic contraction.

Fixed Income. Interest rates have risen above the levels from the previous year. Since the investment world was focused on the thesis that rates were poised to decline sharply this



Source: Board of Governors of the Federal Reserve System (US) / FRED

year, bond yields may still edge higher. Given that we anticipate the economy entering a recession within the next year, interest rates ought to decline across the entire yield curve, especially at the short end. For this reason, investors should not get too comfortable with the higher short-term interest rates. The rates we see today may not be available in six months or a year from now. Therefore, we are gradually extending terms to maturity to mitigate reinvestment risk, particularly if rates rise.

Equities. Year to date, investors focused on a Goldilocks type of economic slowdown and easing of interest rates, which may not occur. After a nice price run-up, investors appear to be taking a breather. In our opinion, a 5% correction at this time would be healthy. Our focus continues to be on companies that run strong businesses that can grow organically by compounding Free Cash Flow and whose sales are relatively unhindered by cyclical economic slowdowns.

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 716-446-9111 or write Sandy Dodson at smdodson@arborcapitalmgt.com, 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 April 25, 2024

Chief Investment Officer

This report has been prepared by ARBOR CAPITAL MANAGEMENT for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning ACM, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or group of ACM as a result using different assumptions and criteria. ACM is under no obligation to update or keep current the information contained herein. ACM, its directors, officers and employees, or clients may have or have had interest or long or short positions in any securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them from time to time. Neither ACM nor any of its affiliates, nor any of ACM' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. ***Additional information will be made available upon request.*** *Past performance is not necessarily indicative of future results.*

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

Lawrence T. McGowan	Daniel M. Toole	Leo Mesa, CFP
100 Corporate Pkwy, Suite 308	100 Corporate Pkwy, Suite 308	790 Juno Ocean Walk, Suite 600
Amherst, NY 14226	Amherst, NY 14226	Juno Beach, FL 33408
(716) 446-9111	(716) 446-9111	(786) 202-0602
ltmcgowan@arborcapitalmgt.com	*dmtoole@arborcapitalmgt.com*	*lmesa@arborcapitalmgt.com*