May 1, 2020

DCA MARKET OUTLOOK

Current Market View

BUY!

What can one say regarding the US markets?

March and April have experienced record volatility, numbing price movements in both debt and equity markets. Outright **FEAR** truly overtook the markets and the economic landscape. **IN RIDES J. POWELL and the FED!** Who would have thunk it? The most maligned FED Head in recent history comes to the rescue and likely saved the markets from a **2008/2009 type of result.**

As of this writing, the US Fed has expanded its balance sheet to a record breaking $6.6 Trillion from just over $4 Trillion, 2 months ago. They are buying assets across the board in virtually all debt and mortgage related securities. The BOJ committed on April 27th to buying all Japanese government and corporate debt necessary to keep their banking system solvent. The ECB has yet to detail its plan, though, it has made the same verbal commitments as the other central banks. The US Congress has approved just under $750 Billion for paychecks, debt relief, protective equipment and who knows what else. The point is, the **HELICOPTERS have arrived!**

The biggest concern that is seemingly being raised by the central banks' aggressive actions is eventual **INFLATION** as worldwide economies begin to recover. This is completely consistent with classic economic theory. We disagree. **DEFLATION is and will likely continue to be the persistent barricade to growth** as we move forward. Only when governments allow their banking systems to rid themselves of bad loans (with a Bad Bank of some kind) and a lending policy that frees up capital held on reserve at their respective central banks, will inflation begin to become meaningful.

We believe that the massive stimulus unleashed by the US and others around the world will continue well into next year. Employment is the key. We feel that the US economy can make substantial progress over the next 12-18 months, yet, the low 3% rate of unemployment achieved at the beginning of 2020, which is likely now to be hovering in the 15%+ area, will take 2-3 years to once again achieve. This assumes continuous fiscal and monetary stimulus and a US economy 2.0 that functions similarly to the US economy 1.0. It is our contention that it will, only more efficiently. We are bullish on the US and overall domestic investment. The shackles are coming off and we believe that the US economy will outcompete and out innovate the rest of the world. Confidence will return as the fight against the COVID 19 pandemic is won. People will go back to work, our way of life will once again present opportunities to progress. Freedom is a powerful tool and the US economy will benefit from it!

We are painting a, potentially, explosive economic scenario. There are risks (INFLATION, DEFLATION) and, at some point, higher interest rates, that could become impediments to growth. Our belief is that the enormous flow of capital will stabilize debt markets and drive equity markets. All economies should benefit, and the US economy is likely to thrive.

Tactically, the firm is: 1) expanding its core positions, 2) adding new companies with a technology, especially software and services orientation, and 3) investing its cash. Our bond exposure has treated us well, though, we are now shortening maturities and reducing exposure to take advantage of what we believe are attractive valuations when looking ahead to an economic recovery that could morph into a barn burner by the second half of 2021 and the first half of 2022. Using the DJIA as a reference point, we believe the market may move as low as 22,500 during the summer of 2020 and depending upon the pace of reopening the economy as well as the effective containment of COVID-19 , it could move to new highs in 2020 towards 35,000. A peek at 2021 suggests to us that the DJIA may be heading toward 40,000 by year-end as earnings could be moving to new highs as 2022 approaches and the markets begin to discount this potential achievement. We believe interest rates are bottoming and will likely stay at the .60% -.75% (US10Yr) range into the fourth quarter of 2020.

DCA continues to seek out and make investments in private opportunities, executing on its longer-term strategy. Private market opportunities that we are pursuing are narrowing as company outlooks are cloudier into the fourth quarter of 2020. While there are candidates that appear to be attractive, their valuations are likely to need adjustment in order to raise capital from the marketplace. Funds with dry powder are poised to succeed during this shift to a buyers' market. DCA is exceptionally liquid, carries a strong balance sheet and is poised to be aggressive in an environment that contains a number of opportunities.

Sincerely,

DCA Asset Management, Inc.