March 31, 2019

DCA MARKET OUTLOOK

It is our belief that private company activity and sector focus informs the investment community on longer term public markets regarding direction and opportunity. Overall, DCA continues to believe the potential returns in US private and public markets, over the long term, are compelling. Fundraising in the Private Equity and Venture Capital sectors remain at all-time highs. The resulting investment in breakthrough technologies and in the reform or repair of underutilized sectors in the economy has begun the revitalization of America.

DCA believes that ongoing tax and regulatory reform are building the foundation for a resurgent economy. Our firm recognizes that new opportunities must be created for all who wish to participate and fulfill their dreams. We are encouraged by the reformation of trade policy with our neighbors to the north and south and hope to see the same with our trading partners around the world. True free trade, where unbridled competition determines success, should be the golden goal for all who are determined to improve productivity and to raise the standard of living around the globe.

Current Market View

The US markets continue to be choppy and in a trading range. We have, however, changed our thinking and are now considerably more optimistic. We believe that this range will break to the upside as 2019 progresses into the second half of the year. Using the DJIA as a reference point, it looks to us as though the market may move in a range of 23,500 on the low end to a potential high end of 32,000. Interest rates, using the 10 year for our purposes, may continue to move lower to a range of 1.75% to 2.50%.
The EU, Brexit, ECB, Currency movements and Trade negotiations will most likely be the reasons that cause markets to rise and fall over the remainder of 2019.

The EU, BREXIT

Why not the FED!? The most immediate concern to observers HAS BEEN the withdrawal of liquidity by the US FED. The US Fed has reduced its balance sheet by nearly $500 billion since it began QT (Quantitative Tightening). Its prior shrinkage of the balance sheet with no commentary regarding the ultimate level that the FED was targeting has now been defined. While the US Central bank will continue to allow its balance sheet to shrink, it has now set September as the final month for shrinkage and it will taper its reduction of Treasuries as the summer progresses. The STREET guess is that the Fed balance sheet will likely be around $3.7 Trillion at the effective end of QT. The impact of QT has been four-fold: 1) less availability of dollars (debt financing - bonds, loans, mortgages), 2) higher interest rates for the capital that is available, 3) a likely recession already occurring in most of the world, and 4) a slowing US economy.

Why the EU and Brexit? This negotiation is center stage in the business world; for perspective, Bloomberg has reportedly published more than 1,000 Brexit headlines per day on certain days. It is possible that the EU will continue to present Great Britain with no choice other than leaving with an awful deal or leaving with no deal at all. The ramifications are initially widespread, dislocated economic activity in both the EU and Great Britain. World markets will initially drop on this result, however, we would view this market reaction as an opportunity. It is our hunch, that the Brits are more prepared than the world gives them credit for, and we believe the US has been in the background developing an all-encompassing trade agreement with Great Britain; this, however, is speculative.

ECB (The European Central Bank)

The ECB will be the institution to watch as Brexit unfolds. The banking system in Europe is vulnerable to a slowing economy. The banks have not been robustly recapitalized as in the US, non-performing loans (bad debt) remain dangerously high and, in our opinion, the reluctance of the ECB to take significant action in these areas threaten the sustained viability of the EU. Europe's central bank will have a new leader in the fall as Mario Draghi's term ends. Its leadership will need to address a number of issues that have, so far, paralyzed the ECB's ability to do anything more than provide band aids to the European economy.

Currency Movements Trade Negotiations

While trade and Brexit/overall EU issues have been negatively impactful to currencies, we continue to believe that the weakness to date in emerging market currencies, including the Chinese Yuan, Brazilian Real, Turkish Lira and numerous African, Middle Eastern as well as Southeast Asian, as well as developed currencies like the Euro and Japanese Yen, have primarily been impacted by the US Central bank policy. ***We are hopeful that the change in US Central bank policy from somewhat restrictive to neutral will result in a moderation of US dollar strength. This would be stimulative to global growth.***

Trade

As stated before, while we support a free trade, no tariff world, there can and will be volatility as negotiations move along and discussions remain ongoing between the U.S., China, Europe and Japan. The current expectation is that the U.S. and China will come to an initial, moderate agreement. We anticipate a reduction or the elimination of tariffs on certain goods and services. There is also the likelihood that China will commit to increased purchases of American airliners and farm products. We would be surprised at an agreement on intellectual property right protection.

Interestingly, the key to this agreement for the U.S. could be an accord or some understanding regarding the establishment of a band within which the U. S. Dollar vs. the Chinese Yuan will trade. Once again, U.S. Dollar moderation versus the Chinese Yuan and other major world currencies is essential to stimulate world growth.

DCA's Positioning

While the DCA public investment portfolio continues to be defensively postured, we are leaning toward a more neutral stance at this time. The FED and its central bank counterparts (ECB, BOJ, PBOC) have begun to move toward a neutral monetary stance with an anticipated lean-to easier policy. This change is essential for the firm to enter public markets more aggressively. We are, therefore, looking to add equity exposure as markets and individual equities provide attractive entry points. As these occur, DCA will continue to invest in growth equity investments, specifically focused on biotech (CAR T, gene editing, health care innovation, industry consolidation) and cannabis (LPs, extraction/processing, consumables) currently. Significant swings in the energy and consumer discretionary sectors are also peaking our interest. Industrials could become a focus area with any constructive resolution to trade policy.

DCA continues to seek out and make investments in private opportunities, executing on its longer-term outlook. Private market opportunities that we are pursuing have thus far been mostly removed from the global macroeconomic picture. While we did observe a near-term softening in premiums on valuations in 2H18, thus far in 1H 2019, we have seen a pick-up in pre-$ premiums, likely impacted by the continued flow of capital, and IPO market heat.