

January 29, 2021

DCA MARKET OUTLOOK

Current Market View

LIQUIDITY IS NOT THE PROBLEM, THE LENDING MECHANISM IS BROKEN

The US markets and exchanges around the globe continue to be volatile and may be setting up to become even more so. Vaccines have arrived, the election results are final and despite rampant COVID 19 fears, it is likely that the impact has peaked. So, what is the problem? As we noted in our last letter, the FED, and the OCC (Office of the Comptroller of the Currency) must reduce regulatory restrictions and provide capital guarantees to the nation's banking system in order to remove the clogged drain that is inhibiting a full-fledged economic recovery. Main Street is not able to get a loan for its businesses and is therefore prevented from sustaining or re-opening them. The US is employing somewhere in the area of 12 million less people than it did a year ago before Covid ravaged the economy. The US government has enhanced unemployment benefits which has provided relief, however, this is unsustainable. **SMALL BUSINESS IS WHERE THE JOBS ARE IN AMERICA.** We must do everything possible to re-energize it.

Wall Street continues to ring the alarm over inflation. While we note the escalation of the price of agricultural products, industrial metals, precious metals and bitcoin, we are pretty certain that these upward valuations are a reflection of the hope for a significant \$2 trillion-dollar Covid relief package, followed by a multi-trillion \$ infrastructure bill. We are watchful!

We remain bullish on the US and overall domestic investment. We know that we have raised some questions here regarding a robust recovery, yet, we continue to believe an economic boom is possible. There are risks as our belief continues to be premised on the enormous flow of capital that is just entering or trying to enter the economy. Debt markets are stable and equity markets have broadened to include industrial, manufacturing, transportation and a variety of basic economy sectors, in addition to the many applications of technological innovation.

Tactically, the firm has increased its equity exposure, primarily in the biopharmaceutical, ESG, industrial, and transportation sectors. We continue to add new companies across the technology landscape, especially with a software and services orientation. We have additionally invested in a growing core of medical innovation companies that are both applying technology to the treatment of patients and creating cures through enhanced science and monitoring patients remotely. Our bond exposure continues to be reduced. Using the DJIA as a reference point, we believe the market may move as low as 27,500 during 2021 and depending upon a solution to the Main Street lending issues and credit availability in general, we still see 40,000 by year-end. We believe interest rates have bottomed near term and might be heading to 1.25-1.35% on the US10Yr bond. We do, however, believe that US interest rates could eventually head below 0% in the next 2 years, if effective solutions are not forthcoming from the FED, US Treasury and Congress.

DCA continues to expand its investments in private equity and venture capital as it executes on its long-term strategy. Private market deal flow remains robust across many of the stages of maturity that DCA

tracks; innovation is alive and well and very competitive. DCA remains exceptionally liquid, carries a strong balance sheet and is enhancing its firm infrastructure in order to substantively build its advisory and fund management capabilities.

ONWARD!

DCA Asset Management, Inc.