November 9, 2020

DCA MARKET OUTLOOK

Current Market View

***Note: DCA has chosen not to comment on the potential impact of the final 2020 US election results. For now, should the outcome remain as President Elect Biden, a Republican Senate majority and a Democratic House of Representatives, we see no change to our forecast as currently stated.*

IT'S ALL ABOUT THE BANKS AND THEIR WILLINGNESS TO LEND TO MAIN STREET

The US markets and exchanges around the globe have become more volatile and range bound as the second half of 2020 has progressed. Fears of a re-escalation of COVID 19 and the uncertainty of US election results have given investors pause in their enthusiasm to enter a broad selection of equities across sectors. Technology and home building / home improvement appear to be the two sectors where we see continuous dollar flows into current and new holdings.

WHERE IS THE BOTTLENECK? We had anticipated a free flow of cash and lending into the entire US economy, including Main Street, i.e. SMALL BUSINESS. This has not happened and is in fact contracting as the US banking system is acting cyclically rather than countercyclically. It is restricting the ability for Main Street to get a loan for its businesses rather than enhancing (lowering lending requirements) the pool of cash availability. The FED and the OFFICE of the COMPTROLLER of CURRENCY (OCC) 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. As we noted in our last letter, Central Banks around the world have provided or are in the process of providing $10-$15 trillion in monetary stimulus. The resulting lower rates and loan availability are creating an ideal recovery environment for large, publicly traded corporations. Fiscal stimulus is providing the ability for individuals to consume in the short term. The unemployment rate is trending lower. Unfortunately, the economic base and the potential long-term buoyancy (sustainability) of the recovery are in jeopardy, if the engine creator of the US economy is not provided the capital necessary to survive and thrive (CREATE JOBS!)

We continue to believe that inflation is not a near term concern. While we note the escalation of the price of precious metals and bitcoin, we are pretty certain that these upward valuations are a reflection of uncertainty with US elections and potential changes in US economic policy. DEFLATION continues to be our biggest concern for the reasons noted above in the necessity of unclogging the lending pipes. The MONEY SUPPLY aggregates are exploding, yet the VELOCITY OF MONEY is very low by historical comparisons. This is, in our view, SCREAMING, that the TRANSMISSION MECHANISM is broken. We believe the answer lies in BASIL 3 capital requirements for the US and European banking systems. Regulators are officing in the largest money center banks determining the policies for who gets a loan and who does not, rather than bank executives and loan officers, who understand balance sheets and business economics. This is exacerbated by the devastation of American inner cities, and many cities around the world that have been impacted by COVID and heightened tensions around race relations and resulting riots. This creates an urgent need to rebuild infrastructure, retail store fronts, schools and housing in order to reset economies and get them back on their feet.

We remain bullish on the US and overall domestic investment. We know that we have raised some questions here regarding a continuing recovery, yet, we continue to believe an economic boom has begun. There are risks, however, our belief continues to be premised on the enormous flow of capital that is just entering or trying to enter the economy. Debt markets have been stabilized and equity markets will broaden to include industrial, manufacturing, transportation and a variety of basic economy sectors in addition to the many applications of technological innovation. The world economies should also benefit, though, Europe is once again becoming a concern due to over regulation and its draconian COVID-19 response.

Tactically, the firm is: 1) broadening its equity exposure, primarily in the industrial, leisure and transportation sectors, 2) adding new companies across the technology landscape, especially with a software and services orientation, 3) adding to its 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, and 4) managing its cash. Our bond exposure continues to be reduced. Using the DJIA as a reference point, we believe the market may move as low as 26,000 during the last 2 months of 2020 and depending upon the pace of reopening the economy as well as the effective containment of COVID-19, and potentially a vaccine, it could move toward 32,000. A look at 2021 suggests to us that the DJIA may be heading toward 40,000 by year-end as earnings approach new highs, as 2022 moves closer, and the markets begin to discount this record earnings. We believe interest rates are bottoming. We do not see the US10Yr below 0.60 and we believe it is heading to 1.25 in late 2021.

DCA continues to make investments in private equity and venture capital as it executes on its long-term strategy. Private market opportunities are expanding, and deal flow has returned. Innovation is alive and well and competitive. DCA remains exceptionally liquid, carries a strong balance sheet and has begun to build firm infrastructure in order to enhance its advisory and fund management capabilities.

ONWARD!

DCA Asset Management, Inc.