PORTFOLIO MANAGER INSIGHTS

WEEKLY INVESTOR COMMENTARY | FEBRUARY 10, 2021

Investment Committee

Investors often find it more natural to be pessimistic. After all, with one's hard-earned savings on the line, it's hard not to focus on what can go wrong. This is made worse by the vast number of negative events and attention-grabbing headlines every day.

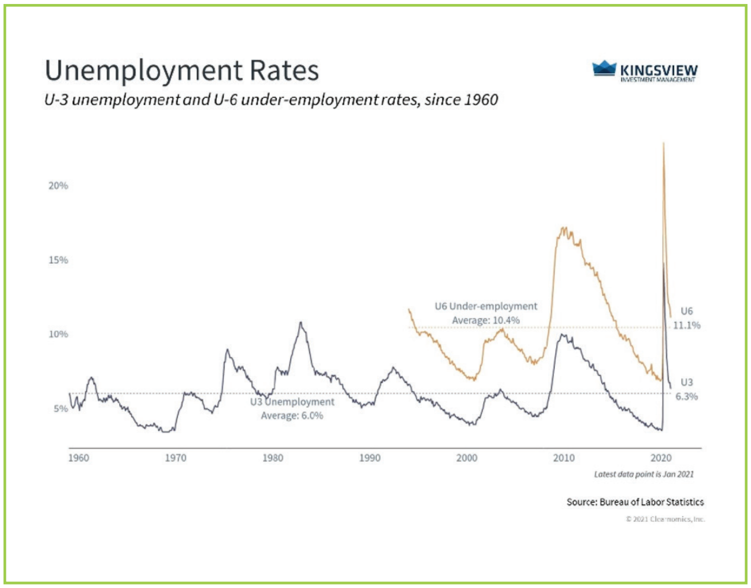
In contrast, real progress tends to happen slowly - often at a barely perceptible pace. Even so, this drives the stock market higher over the course of years and decades. For more than a century, diversified portfolios have created wealth for those who have stuck to their plans despite global wars, policy blunders, recessions and, yes, even pandemics. Ensuring that short-term pessimism is not at the expense of long-term optimism is the key to investing successfully.

This balancing act is perhaps trickier than ever. On the one hand, the economy and stock market have rebounded since last March, COVID-19 vaccines are being distributed and additional stimulus measures are in the works. On the other hand, the recovery has decelerated, valuations are near all-time highs and many hard-hit businesses are still suffering. These are challenging times for policymakers, corporate leaders, small business owners and individuals. From an investment standpoint, however, it's important to balance the good and bad news.

As an example, last week's jobs report for January provided a mixed view of the economy that could be interpreted as the glass being half empty. Only 49,000 jobs were created in the first month of the year when 105,000 were expected by economists. Last November and December's numbers were also revised down by 159,000 jobs based on new data. This suggests that the economic deceleration at the end of 2020 was perhaps worse than originally believed.

At the same time, the unemployment rate fell to just 6.3%, very near its historical average. Even the under-employment rate, which includes many who have given up on finding jobs, has plummeted to only 11.1%. While much of the sudden month-over-month decline is due to data adjustments, this doesn't change the fact that unemployment has fallen sharply since the economic lockdown began last year.

UNEMPLOYMENT CONTINUES TO FALL DESPITE THE PANDEMIC



KEY TAKEAWAYS:

1. **The unemployment rate fell in January, partly due to data revisions by the Bureau of Labor Statistics.**
2. **Regardless of the reason, the current level is now near its long-term average - a level that was not expected to be achieved for years at the onset of the pandemic.**

Perhaps more importantly, the labor force participation rate, which measures the percentage of the working-age population that is employed or looking for work, remained steady. This highlights the unequal distribution of unemployment across the economy since a growing fraction have been without work for 27 weeks or longer. This is also consistent with our everyday experience of pandemic-related lockdowns and restrictions affecting some businesses and individuals more than others.

A short-term pessimistic view might focus on the fact that the economy cannot recover until it is safe for retailers, restaurants, hotels, airlines, service workers, and more to fully return to work. In the worst case, life may never fully "return to normal" as many might hope. A longer-term view doesn't dismiss these challenges but recognizes that this will eventually pass. It also recognizes the fact that many businesses large and small have been able to maintain and expand their workforces over the past year.

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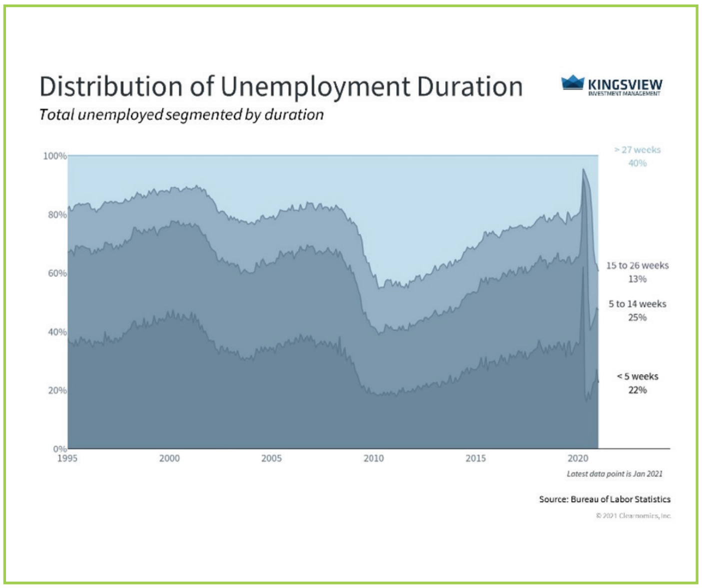
From an investment perspective, these longer-term trends will likely matter more. For instance, the current projections for S&P 500 corporations suggest that profits have stabilized and could grow by over 20% in the next twelve months. In fact, full-year 2021 earnings could grow to $168 per share, 7% above pre-pandemic levels. Thus, although valuations are by no means cheap for broad market indices, there are still reasons for optimism.

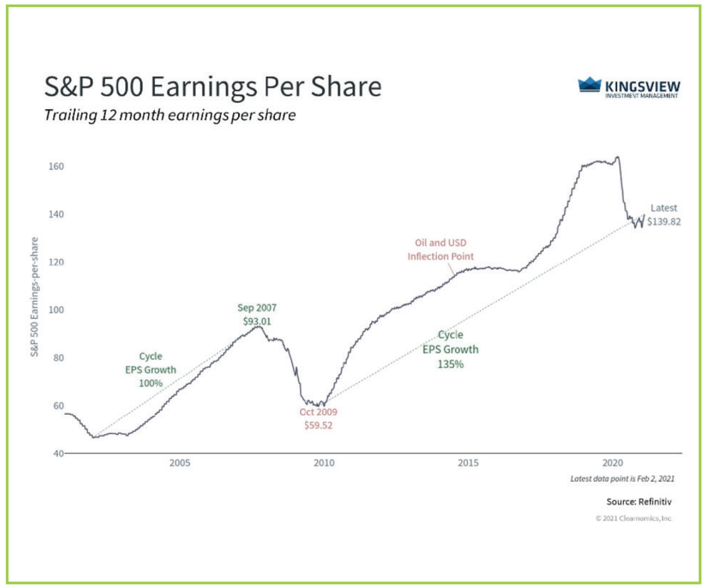
MANY WITHOUT JOBS ARE INCREASINGLY LONG-TERM UNEMPLOYED



KEY TAKEAWAYS:

1. **Those hit hardest by the pandemic continue to struggle. An increasing fraction of those who are unemployed are now in the 27-week-and-over category.**
2. **It will likely be difficult to support this group without vaccines and additional stimulus.**

FOR INVESTORS, CORPORATE PROFITS COULD SUPPORT STOCK MARKET RETURNS



KEY TAKEAWAYS:

1. **From an investment standpoint, corporate earnings are expected to grow over the next twelve months.**
2. **This could support stock market returns and valuations over the long run as economic growth and profits get back on track.**

In the end, achieving financial goals is not about avoiding risks over days and weeks but about preserving and creating wealth over years and decades. The three charts posted throughout the commentary provide perspective on economic trends and reasons for optimism. While there are always reasons for pessimism, long-term optimism is what creates wealth for investors. The current market environment is mixed but there are reasons to be hopeful.