February 4, 2021

Dear Valued Investor,

"In the short-term, the market is a popularity contest. In the long-term, the market is a weighing machine." Warren Buffett

2021 is under way, as our nation and the rest of the world look to begin to put the global pandemic behind us. The path forward for the US economy, as well as that of the global economy, will continue to depend heavily on the success of combatting the virus.

While many of the risks presented by the outbreak of COVID-19 persist, it appears we may be in the later innings of the pandemic. Following increased restrictions to quell the holiday surge, new daily COVID-19 cases and hospitalizations have peaked, and are down significantly the past few weeks (source: COVID Tracking Project). Reopening is taking place as well, highlighted by New York City's plans to bring back indoor dining by Valentine's Day. Meanwhile, the distribution of currently approved vaccines is well underway—and accelerating. The United States has added over 1 million shots per day over the past week (source: CDC) and 1.5 million per day is quite possible soon. Adding to this optimistic trend, new vaccine candidates from Johnson & Johnson and Novavax have also shown efficacy in combatting the effects of the virus and new mutations. If these two candidates are authorized for use as most experts expect, the boost in supply will be a welcome development in the US and abroad.

Despite the positive trends in COVID-19 data, volatility began to return to the stock market in the final days of January, as retail traders set their eyes on GameStop (GME) stock and other heavily shorted securities, captivating the nation's imagination. As Warren Buffett explained above, while many of these securities may be popular now, the real winners will likely be investors with longer-term horizons. While these developments could be another sign of excessive optimism in certain segments of the equity markets, we do not believe they represent a sign of a broader market bubble or indicate a major correction is forthcoming.

After the powerful snapback of economic growth seen in the third quarter, the economy continued to grow at a solid 4% in the fourth quarter despite the holiday surge in COVID-19 cases. This improving economic backdrop has provided tailwinds to corporate profits, which should help stocks grow into their elevated valuations. S&P 500 Index earnings for the fourth quarter are impressively

tracking 9 percentage points ahead of consensus expectations, while more than 80% of companies have beaten earnings estimates (source: FactSet). Meanwhile, housing remains extremely strong nationally and manufacturing data continues to show an economy that is firmly on the mend.

The improving economic backdrop, along with US government and Federal Reserve policies designed to boost the economy, suggest the environment for risk assets may remain favorable in 2021. Don't get complacent though; after the S&P 500 Index rallied more than 70% since the March 2020 lows, some volatility would be perfectly warranted. Remember, they say that the stock market is the only place where things go on sale, yet people run out of the store screaming. Have a plan in place to be ready to take advantage when the sales come, and don't run out screaming.

Stay healthy and please contact me with any questions.

Sincerely,

Richard Hill
President/Lead Advisor
Compass Financial Group