It is truly hard to believe that just several weeks ago, we marked the one-year anniversary of the COVID-19 pandemic in the US and the ensuing market meltdown that shook global markets. Despite the persistence of this virus, the unimaginable human toll it has caused and the uncertainty that remains, there is some real semblance of an eventual return to normalcy, one that financial markets have embraced. Since its March 2020 nadir, the S&P 500 is up over 60%, with little signs of slowing or reversal.

The march upwards by markets has been supported by a steady drumbeat of positive news on the economic side, as vaccine rollouts, re-openings and fiscal stimulus look set to unleash a wave of pent-up demand that will drive growth. Estimates for growth have stabilized and improved dramatically from this time last year; the COVID crisis has been more akin to a natural disaster than a business cycle recession, as the government's unprecedented policy response has provided buoyancy to markets and engendered a much faster return to pre-pandemic levels than after the Great Recession. The stimulus packages likely helped to prevent some of the permanent scarring of productive capacity and shrinking of demand that was a hallmark of past recessions. While the labor market still remains well below its peak, at an unemployment rate of 6%, the economy finds itself in a much stronger position than post-2009 levels and as activity improves, we expect that rate to drop further.

Obviously, this economic optimism runs the risk of being tempered by any setback in the virus response. Domestically, cases are surging in the Midwest and Northeast and various new strains are circulating, which heightens the urgency to get as many people vaccinated, as quickly as possible. However, a large percentage of the population has expressed hesitancy at receiving the vaccine, making herd immunity a more difficult target. Similarly, South America, India and Europe are seeing continued or new waves, which threaten progress and exacerbate the divide between developed and developing regions.

Positive revisions in the economic outlook have also prompted renewed fears of inflation, as interest rates have risen sharply from their 2020 lows. We believe this rise in yields is justified and reflects markets' recognition of a faster-than-expected restart to economic activity, historically large fiscal stimulus and the continued ramp-up of vaccinations in the US. While pent-up demand for certain goods and services has already created logistical and supply-chain shortages and has increased commodity prices from their dramatic lows, it remains to be seen how pronounced and prolonged these pressures will be.

The prospect of higher inflation as a result of accelerating growth has driven a rotation in to value equities, which have outperformed growth stocks this year. While we see some value here (no pun intended), we remain committed to the view that growth stocks, especially those in the technology and healthcare sectors, will outperform in the long run, due to a multitude of structural tailwinds. Another pandemic-related stratification has been the widening of the gap between rich and poor, or developed and developing markets. With a much more limited access to vaccine allocation, limited policy tools and a reliance on foreign investments and spending, emerging markets stand to endure a tough road ahead. That being said, we view Chinese-related assets as poised to outperform, as their economy has recovered quickly and they have successfully navigated the COVID crisis, yet global investors remain underinvested, creating opportunity; our recent investment in Alibaba Group reflects this thesis. We're cautiously optimistic that 2021 will be a fruitful year and look forward to speaking with you and hopefully even meeting in-person, once the situation allows! As always, please reach out to us for anything you might need!

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