CANNELL
&CO.

July 2, 2021

"THERE IS NOTHING PERMANENT EXCEPT CHANGE." — Heraclitus of Ephesus

Dear Clients,

The last 15 months has reaffirmed that we must all be open to change. In living and working through the pandemic, we have all had to be flexible and adapt to the constantly shifting norms that would ensure the health and safety of ourselves and our loved ones. As we emerge into what is hopefully a return to “normal”, we must be prepared for a world that has dramatically evolved.

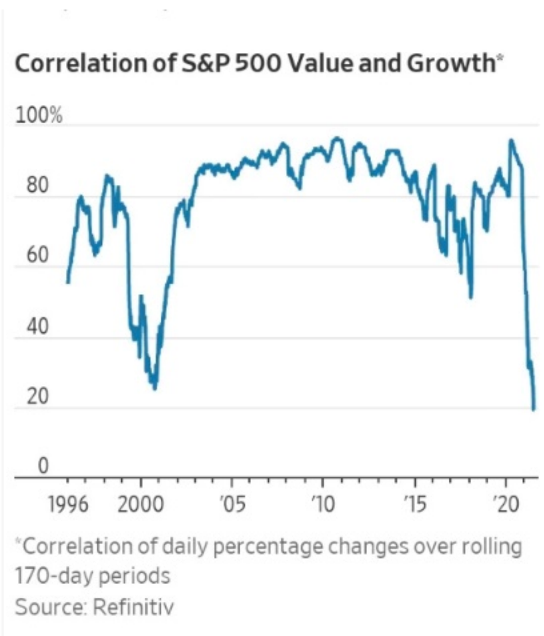
Pre-pandemic technology played an important yet sometimes invisible role in our lives. Post-pandemic we are acutely aware of how much our lives have come to depend upon it and the flexibility it provides. For example, being able to connect to the internet was not just a convenience but a necessity. While internet connectivity meant that anyone could use their smartphone to trade meme stocks and crypto currency whenever and wherever, nowhere was its benefit more clearly visible than its impact on education. Technology allowed our children to return to school during the height of the pandemic; however, remote learning highlighted inequity of the digital divide, as students in areas without high-speed internet access had to improvise by using their smart phones and finding public WiFi connections. Future policy implications of this fact are just being debated but the investment opportunity is already presenting itself. As we look to the future, remote access to education will forever change the way students are able to be “in” school. Unfortunately, this means the end of every student’s winter hope – the snow day!

In addition to these societal changes, the investment landscape certainly looks very different from the pre-pandemic world. Concerns about inflation, over-taxed supply chains, unchecked demand and labor shortages were of minimal concern at the start of 2020 and patently absurd last spring. Today, as always, uncertainty abounds. How will the global economy adapt to an increasingly larger vaccinated population? Who will be able to open their societies as we have over the last few months?

The answers to these questions are being debated within the financial markets, though it may not be obvious. While the major indexes appear to be placid, having not had a correction of 5% or greater since October 2020, under the surface the markets have been much more volatile. Investors have been shifting their focus as news about reopening, vaccination rates, inflation and future Fed policy has vacillated between what is perceived to be “positive” and “negative”.

Nowhere in market behavior is this more evident than how concerns about inflation and its potential impact on central bank policy have caused capital to surge back and forth between growth and value stocks. Since the beginning of this year, there has been a debate as to when and how much the Fed would raise interest rates in response to inflationary data. When investors' expectations veer toward a higher and steeper yield curve (indicating an expectation for broadly higher future growth rates), they have tended to become more pessimistic about the future outperformance for growth stocks. As such, capital flows toward value. When those expectations return to a lower and flatter yield curve (indicating an expectation for broadly lower future growth rates), capital flows back toward growth from value.

This behavior is in stark contrast to the last 20 years, where performance of these two investment styles had been highly correlated; meaning, that if one style performed positively, the other was likely to as well and vice versa. This phenomenon was a reflection of investors looking at the market as a whole and making investment decisions based on the equity asset class as opposed to individual stocks. Since the beginning of this year, that relationship has changed. In the current market environment, if one style is performing well, it is likely that the other is not. We have not seen this bifurcated relationship since the internet bubble at the end of the 1990's.



Source: Wall Street Journal 6/27/21

In today's market, investors will need to be more interested in the prospects of individual companies.

Given our firm's long history of focusing on companies as opposed to macro influences, we are entirely comfortable navigating this type of market. We will continue to research individual companies, look for opportunities wherever they may present themselves, and invest with an eye toward the longer-term.

The debate about what changes the future holds will likely continue to play out. While we monitor each side's arguments and incorporate that into our thinking, we will not be overly influenced by these headlines, as the near-term volatility that results is merely noise.

All the employees of our firm are focused on you, our clients. Whatever the future holds, our priority is to ensure that your needs and goals are met. We take this responsibility seriously and appreciate the trust that you have placed with us.

We wish you a wonderful summer and look forward to being able to see you in person.

Sincerely,

The Partners of Cannell & Co.