Stephens
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The following contains a brief discussion of the equity markets from Chief Investment Officer and Senior Portfolio Manager, Ryan E. Crane.

Market Perspective 2021

The 12-month period ended December 31, 2021, was an unusual period to say the least. Each quarter seemed to be defined by a different regime.

The end of 2020 was characterized by enthusiasm around the re-opening of the economy. Counting on mean reversion, investors began to rotate out of winners and into the stocks most negatively affected by the pandemic. Low quality, cyclical stocks were some of the best performers.

These trends continued into Q1 of 2021, as the vaccine rollout continued and investors saw the light at the end of the (COVID-19) tunnel. Stimulus payments further fueled the recovery, but also contributed to stylistic headwinds for us. However, the general enthusiasm and strong market performance seemed to embolden retail investors on Reddit and social media, where orchestrated short squeezes actually resulted in hedge fund and prime broker carnage.

Q2 marked a turning point. As inflation concerns ramped up, the delta variant set back the re-opening enthusiasm. These trends continued into Q3 2021. With highly disparate levels of vaccination around the globe, the timing of the delta variant has been asynchronous across many geographies. The result has been bottlenecks everywhere: raw materials, finished goods, transportation, energy, labor, and so on. With increasing complexity and volatility in the economy, our relative performance improved.

As the year came to an end, it became clear that our concerns on inflation were fully justified, as even the Federal Reserve retired the word “transitory.”

As many consumer stocks were affected by COVID and the public health situation, we worked hard to keep up with the dynamic situation. Because of our decade-long concerns about potential inflation, we were well positioned for this year’s uptick. For quite some time now we have been extra diligent about understanding the implications of inflation for each of our investments, particularly on gauging pricing power and understanding potential cost pressures.

Despite the buzz around a re-opening economy, we did not get drawn into the allure of cyclicals. We are biased toward growth, but in our case it is predominantly secular growth. We believe that each of our companies can continue to thrive even in a difficult macroeconomic environment – they do not depend on a cyclical recovery. As a result, we lack some of the exposure to purely cyclical growth that is present in the benchmark.

While we haven’t tried to make an explicit bet on inflation, embedded in our work is a concern about inflation and thus a bias exists. That being said, I think our philosophy and process also tend to inherently lead to a portfolio which performs relatively well in periods of rising rates or rising inflation expectations.

It appears certain that the Fed will be pulling back from their aggressive monetary support, and a rate hike cycle will begin imminently. 2022 will be plagued with difficult comparisons versus the fiscal stimulus and direct transfers we had last year. Rising rates won’t help the situation. These factors will likely lead to a period of challenging absolute returns and high volatility, but our style and positioning should do relatively well in this type of environment.

Ryan Edward Crane
Chief Investment Officer

The investment objectives, risks, charges and expenses should be carefully considered before investing. SIMG nor their representatives provide legal or tax advice. Please consult your tax advisor before making any decision.

There are additional risks associated with investments in smaller and/or newer companies because their shares tend to be less liquid than securities of larger companies. Further, shares of small and new companies are generally more sensitive to purchase and sales transactions involving the company's stock and to changes in the company's financial condition or prospects and therefore, the price of such stocks may be more volatile than those of larger company stocks. Clients' investment results and principal value will fluctuate.

Stephens Investment Management Group, LLC is a registered investment advisor specializing in equity investment management, specifically small and mid-capitalization growth companies. The firm maintains a complete list and description of composites, which is available upon request.

Opinions expressed are those of Ryan Edward Crane and are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security.