



December 2, 2021

Dear Valued Investor:

We hope everyone enjoyed the Thanksgiving holiday with family and friends. While life has been challenging during the pandemic, we have a lot to be thankful for. At this time, we are especially grateful for COVID-19 vaccines and treatments that have helped us make so much progress tackling the pandemic. Unfortunately, the emergence of the new COVID-19 Omicron variant and the related market selloff in the days after Thanksgiving offered an unpleasant reminder that the pandemic is not over. The economy and financial markets remain somewhat reliant on the medical community and research developments.

Predicting the impact of the new variant is difficult, if not impossible, at this point. But there are logical reasons to expect limited economic impact, such as high vaccination rates, advances in treatments to reduce instances of severe disease, and various containment measures to limit spread (masks, distancing, etc.). Lockdowns are extremely unpopular, so we're probably not headed there again, but we have a playbook that we can be reasonably confident will work.

However, key questions remain unanswered. Will existing vaccines be less effective against Omicron? Will symptoms be more severe than prior variants? Is this latest variant more transmissible than prior variants? So, while we think the drag on the economy will be modest, we simply won't know for sure until we get more data over the next couple of weeks. Markets don't like uncertainty, but we'll have an extra helping of it on our plates along with Thanksgiving leftovers for a little bit. Omicron does not change the fact that the U.S. economy is showing some strong momentum. A solid 1.7% increase in retail sales in October and a good start to the holiday shopping season point to strong consumer spending in the fourth quarter. The National Retail Federation sees holiday sales potentially increasing by 10% this year compared with 2020. Meanwhile, new filings for jobless claims for the week ending November 19 fell to a 50-year low, an impressive number even considering distortions from seasonal adjustments.

Businesses are doing their part to support financial markets in a tough operating environment. Profits from S&P 500 Index companies rose nearly 40% year over year in the third quarter and are expected to rise another 20% in the fourth quarter (source: FactSet) despite persistent supply chain disruptions, shortages of labor and materials, and related cost pressures. Net profit margins for S&P 500 companies in the third quarter remained near record-high second quarter levels, a remarkable feat given the circumstances. Finally, manufacturing surveys point to solid demand while offering signs that supply chain disruptions, and possibly inflation pressures, may be at or near a peak. The path back to normal has been bumpier than anticipated, but we'll get there. Omicron probably won't derail the economic recovery or cause a stock market correction, but we just can't know for sure. At least not yet. Stay tuned.

Here's hoping you have a wonderful and healthy holiday season.

Please contact me with questions.

Best regards,

Victor



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