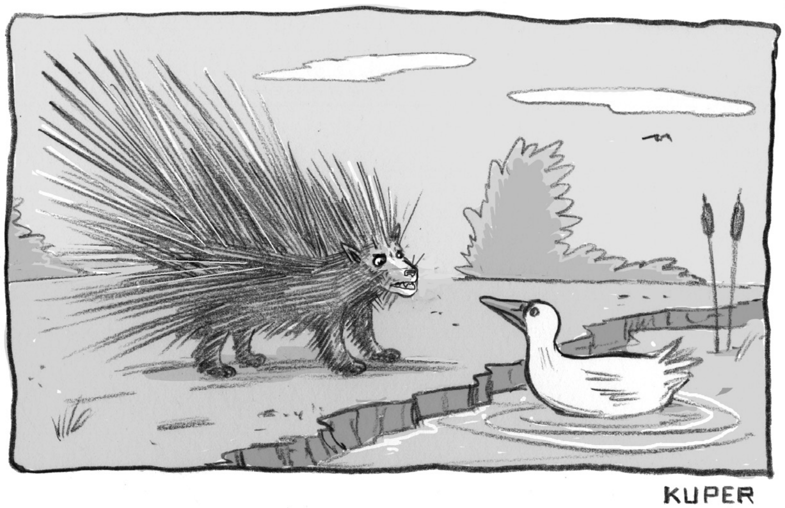
Quarterly Comments



"To play it safe, I've stopped shaking hands and hugging."

Source: Cartooncollections.com

Firm Highlights
JAG continues to make long-term investments in our clients and our future growth. Last quarter, we welcomed two more members to our JAG Team. Wealth Advisor Connor Pastoor joined our Chicago office bringing with him a wide range of wealth management experience in investment management, financial planning, and intergenerational wealth transfer advice for high net worth families and individuals. Keila Gonzalez brings her skills to our St. Louis office as Operations Specialist.

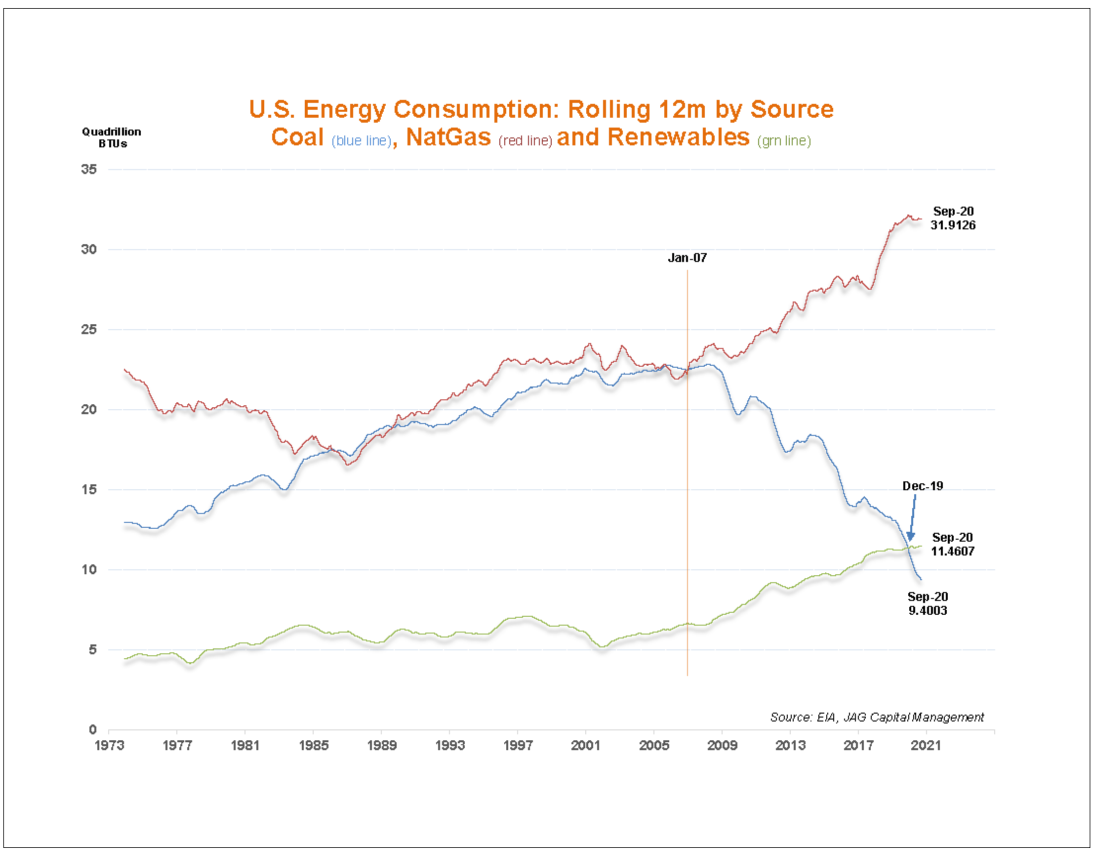
Happy (Finally!) New Year!

The COVID-19 pandemic has been supremely challenging for many of our colleagues, clients, families, and our broader community. While we respect the challenges that continue to face all of us as we approach the endgame of the pandemic, JAG has chosen to build for the future throughout this time of unprecedented societal disruption. In 2020, we made significant investments in our human and technology capital. JAG welcomed several new investment professionals and made some important enhancements to the software we use to research securities, manage, and track our clients' portfolios. As active investors in highly selective, customizable, and nimble portfolios, we are confident these investments will accrue for the long-term benefit of our clients.

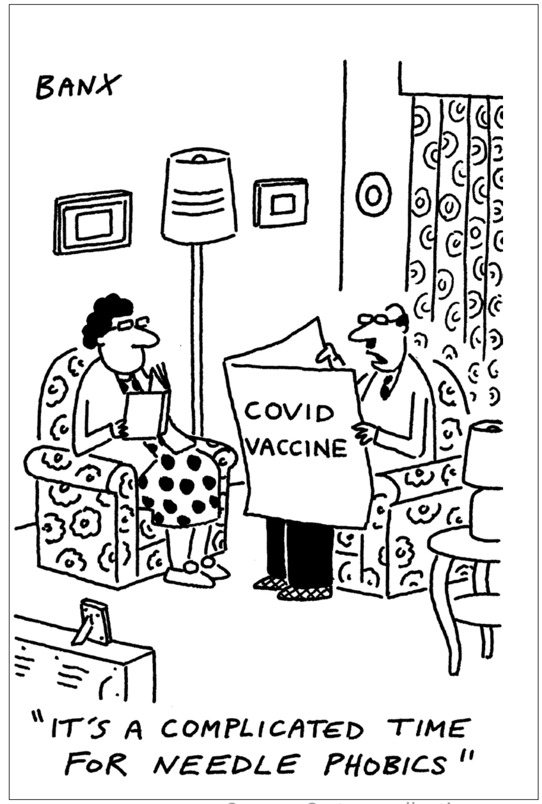
Although the global COVID-19 pandemic continues to rage, the emergence of promising vaccines — which were developed, tested, and approved in record time — has raised investor hopes that we could soon be approaching the end of this health crisis. The S&P 500 generated double-digit gains during the 4th quarter, capping a remarkable 68% rally from the March lows and delivering a total return of more than 18% for the full year. As we have previously noted, the global size and speed of monetary and fiscal stimulus to respond to the very real COVID-19 economic trauma has almost certainly contributed to the epic rally in stocks since last spring. Our Federal Reserve has been joined by the rest of the world's central bankers in adopting a firmly dovish stance on interest rates, which will likely remain in place through 2022. In the U.S., Congress and President Trump have injected trillions of dollars into the domestic economy, and it appears more will be forthcoming under a Biden Administration after Inauguration Day on January 20, 2021.

Interestingly but perhaps not surprisingly given the benign interest rate environment, long-term Treasury bonds joined stocks in delivering a banner year in 2020. According to Bespoke Research, the tiny gap between the 17.3% return of the BAML Long-Term Treasury Index and the S&P 500's 18.4% total return was historically unusual. Going back to 1978, the annual performance gap between long-term Treasuries and stocks has averaged 15%. The year 2020 was one of only seven instances over the last 43 years in which the spread in yearly performance of these two asset classes has been less than 5%. Indeed, last year was marked by a range of improbable and unprecedented occurrences. The stock market went from an all-time high into a bear market in 16 trading days, then proceeded to enter a new bull market in only 12 trading days. Oil futures briefly traded at *negative* $37.63/barrel. Three of the top 10 single-day gains and losses over the last 60 years for the S&P 500 occurred in 2020, as did the largest number of 1%+ single-day movements since 2009. For long-term investors, the past year was a reminder that when it comes to the markets, we do well to "expect the unexpected." 2020 was a fascinating, educational, and exhausting exercise in navigating the capital markets' sometimes-stormy seas.

Although good news was hard to find last year, we would be remiss if we failed to point out a couple of highlights. As you already know, some of the smartest people in the world developed a successful COVID-19 vaccine in less than a year. This was a monumental accomplishment in the history of medical science. But you may not know that two of the vaccines (created by biotechnology companies Moderna and BioNTech, respectively) were developed using a revolutionary technology called messenger RNA (mRNA). This scientific breakthrough proves that mRNA technology can be used quickly to develop effective vaccines. It also gives us reason to hope that science now has the tools to counter deadly viruses in the (hopefully distant) future when the next pandemic strikes.



As the chart above from the U.S. Energy Information Administration shows, 2020 also marked the first year in which the U.S. consumed more energy from renewable sources like wind, solar, and hydroelectric power than coal. This is a happy milestone for those concerned about the long-term impact of carbon emissions on our environment. This is the culmination of a trend that has been gathering steam over the past two decades. Due largely to economics, power plants have shifted from burning coal to cleaner forms of energy like natural gas. Until recently, the cost of implementing truly renewable energy sources has been too high for many utilities. Thanks largely to the march of technological innovation in wind turbines, energy storage, and solar panels, renewable energy solutions are now beginning to compete effectively with fossil fuels in the U.S. We think coal is just the first domino to fall. Although evolution to a greener energy grid will play out over decades rather than years, we think renewable energy sources will continue to gain share, with obvious benefits to our environment.



Source: Cartooncollections.com

Market Outlook

With the resolution of the Presidential election and (as of early January) the Georgia Senate races, investors can now begin to price in the policy outlines of a Biden Administration with Democratic control of both houses of Congress. While specific legislative initiatives will not take shape for weeks or months, we think it is reasonable to assume more, perhaps significantly more, fiscal stimulus, continued Fed dovishness, and moderately higher income tax rates for individuals and companies will be forthcoming. At the same time, the narrowness of the Democrats' control of the Senate (50-50 tie, with Vice President Harris serving as the presumptive tiebreaker), coupled with some gains by the GOP in the House of Representatives during the November election cycle, reduces the likelihood that President Biden will be able to push through some of the more expansive policy goals that he advocated on the campaign trail. Perhaps we may all enjoy the next few months of comparative calm on the political front, because the 2022 mid-term elections are sure to become a growing focus of both parties before long.

In the meantime, we continue to have a sensibly optimistic investment outlook. Our enthusiasm is somewhat tempered by robust valuations and signs of frothy expectations in some segments of the market.

Stock valuations are far from undemanding by most measures. As of 12/31/2020, the S&P 500 was trading at approximately 22x the 2021 consensus earnings estimate of $167. This is indeed rich compared to its average multiple of 16.6x forward earnings over the past 25 years. However, investors do not allocate capital in a vacuum. Cross-asset comparisons are, and always have been, part of the calculus. Dovish central bank interest rate policies have depressed bond yields to historic lows. The 10-year U.S. Treasury yield of 0.93% at year-end 2020 equated to 107x earnings. Add in the approximate $18 trillion of bonds offering negative yields worldwide, and stock valuations begin to appear more sensible by comparison. Of course, investing in a focused and highly selective portfolio of individual securities is a different exercise than investing passively in a broad market index. This is especially true in recent years, which has been a time

"I'VE BEEN WORKING FROM HOME THE LAST COUPLE OF YEARS."

Source: Cartooncollections.com

of huge, technology-driven disruption. We see this as a particularly attractive environment for active and nimble portfolio managers like JAG.

We believe investor expectations may be getting ahead of reality in some segments of the equity market. This localized froth is most notably exemplified by the boom in Special Purchase Acquisition Company (SPAC) offerings. Known colloquially as "blank check companies," SPACs are developmental stage companies whose sole purpose is typically to engage in a merger or acquisition. There is a ticking time element to SPACs, as they must complete a transaction within two years of their Initial Public Offering (IPO). If they miss this important deadline, the capital raised in their IPO must be returned to shareholders.

Recently, SPACs have been launched to target exciting but unproven opportunities like space exploration, electric vehicles, sports gambling, and solid-state battery technology. There were more than 240 SPACs launched in 2020, collectively raising almost $80 billion in capital. This is a huge increase from the $13.6 billion raised by SPAC offerings in 2019, which was itself a new record. Historically, such gigantic flows of capital into specialized high risk/high reward opportunities have ended in disappointment for investors dreaming of outsize returns. Time will tell whether this time is different.

As is almost always the case, investors are wondering whether a contrarian or bearish investment stance is appropriate heading into 2021. We think not, as we continue to find opportunities to identify and invest in attractive growth companies with innovative products and services, strong management teams, and large target market opportunities. Over the past decade or so, the most successful investment performers have been characterized by capital-light business models, the ability to leverage the network effect of social media platforms, and domination of their industries. Rather than becoming subject to mean reverting competitive forces, some have demonstrated a persistent ability to go from strength to strength, while building significant net cash on their balance sheets and maintaining their pricing power. For better or for worse, these types of companies are rarely — if ever — available at "cheap" prices when measured against historic or traditional metrics.

After almost a year, the non-stop narrative surrounding the current and future implications of COVID-19 has become monotonous. Some pundits overstate the permanent changes that the virus has wrought on society and the economy, while others claim that everything will quickly return to "normal" after vaccinations have been broadly distributed. Like most things in life, the outcome is likely to be more nuanced. We expect the post-COVID-19 world to rhyme with the pre-COVID-19 world, albeit with some anticipated and unanticipated evolutions in the political, economic, commercial, and tax policy realms. Although the specific circumstances are different this time, the overall reality of investing in a challenging, evolving, and uncertain backdrop has been in place for the last several decades. We have little doubt that the years ahead of us are likely to be filled with volatility events and plenty of noise.

If history is any guide, periodic bouts of sharp asset price movements (both up and down) will generate more than their fair share of sound and fury in the financial media. We at JAG are comfortable and confident with the state of play as we enter 2021.

As always, we will work hard to unemotionally and prudently distinguish between leading indicators of long-term troubles and the loud but meaningless day-to-day noise of the capital markets. The former conditions are important but quite rare; the latter are common but ultimately unimportant.

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Disclosures

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