

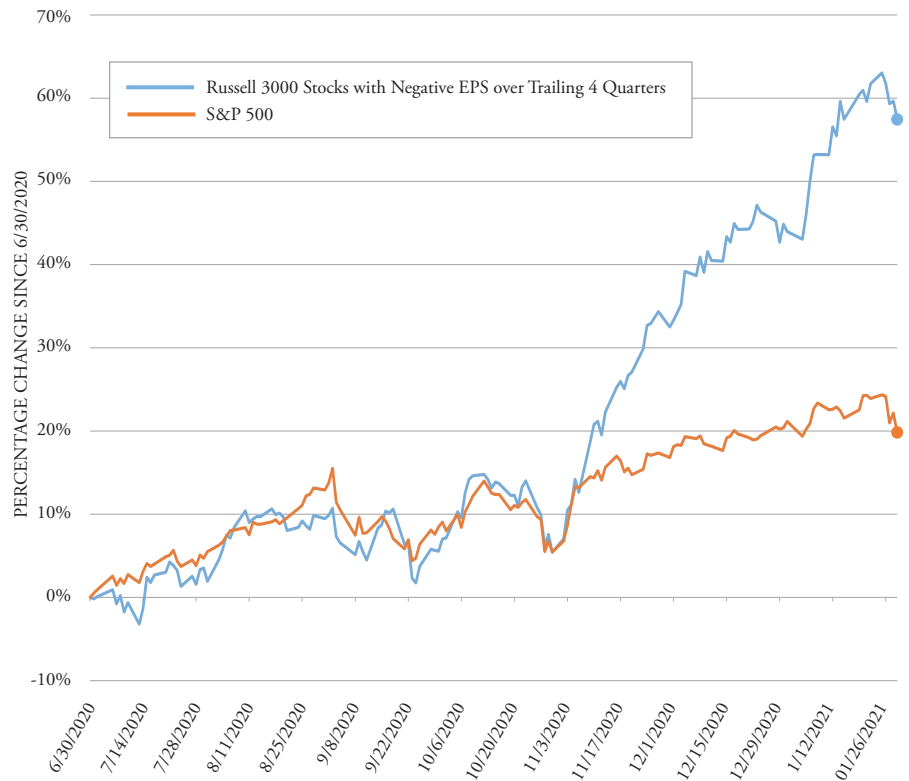
Drama involving shares of GameStop has been a focus of investor attention over the past several weeks. GameStop, which hasn't earned a profit since 2017, has nevertheless seen its stock explode in value recently, due mostly to a classic "short squeeze" in its outstanding shares.

While GameStop is an extreme example, unprofitable companies have been on a tear in recent months. As of January 29, over 1,000 companies in the Russell 3000 Index had negative EPS over the preceding four quarters, yet those stocks, on average, have trounced the return of the S&P 500 since late last year. This may be reflective of a growing sense of complacency on the part of investors, who have become increasingly risk tolerant as prices have surged.

In terms of companies with actual earnings, the recent news has been good. Of the 171 companies in the S&P 500 that have reported fourth-quarter 2020 earnings through January 29, 145 (85%) have beaten consensus expectations. In addition, the consensus 2021 earnings estimate for S&P 500 companies as a whole has been rising in recent months as optimism about the various COVID vaccines has grown. The consensus estimate has risen 2.9% just since the start of 2021.

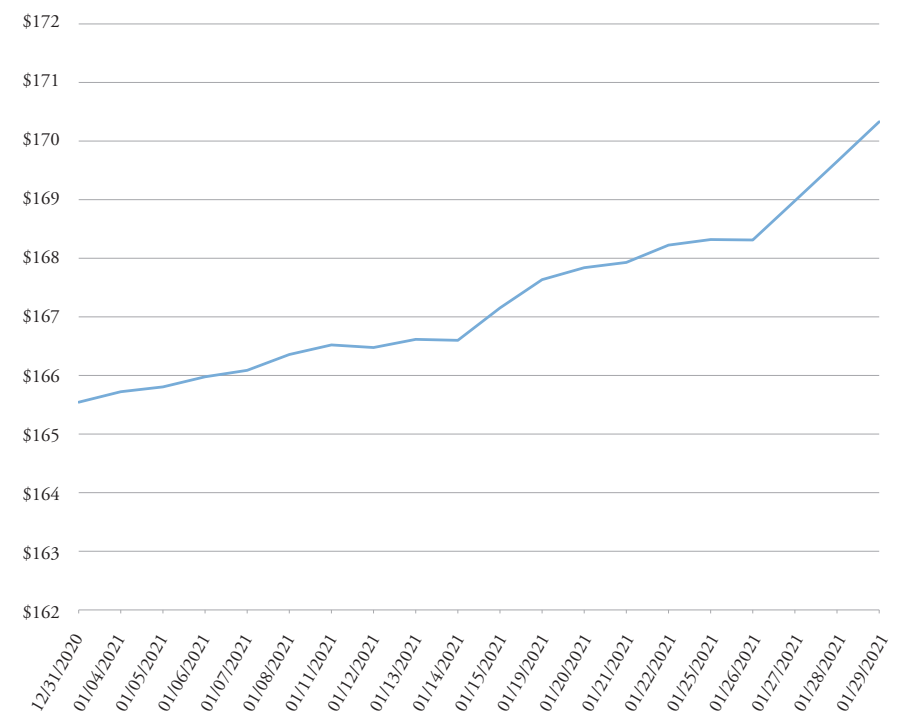
While not every company with negative EPS is necessarily a bad investment for the long term, we believe that the recent surge in unprofitable and lower quality stocks is not likely to end well. We're encouraged by the ongoing recovery in corporate earnings that we are experiencing from companies that are already profitable and believe that many are well positioned for good relative performance going forward.

UNPROFITABLE COMPANIES TAKE THE LEAD



Data from 6/30/2020–1/29/2021
Source: FactSet

CONSENSUS 2021 EPS ESTIMATE FOR S&P 500



Data from 12/31/2020–1/29/2021
Source: FactSet

DISCLOSURES

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REFERENCED INDICES

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

Russell 3000 Index—The Russell 3000 Index is composed of the 3000 largest U.S. companies based on total market capitalization.