

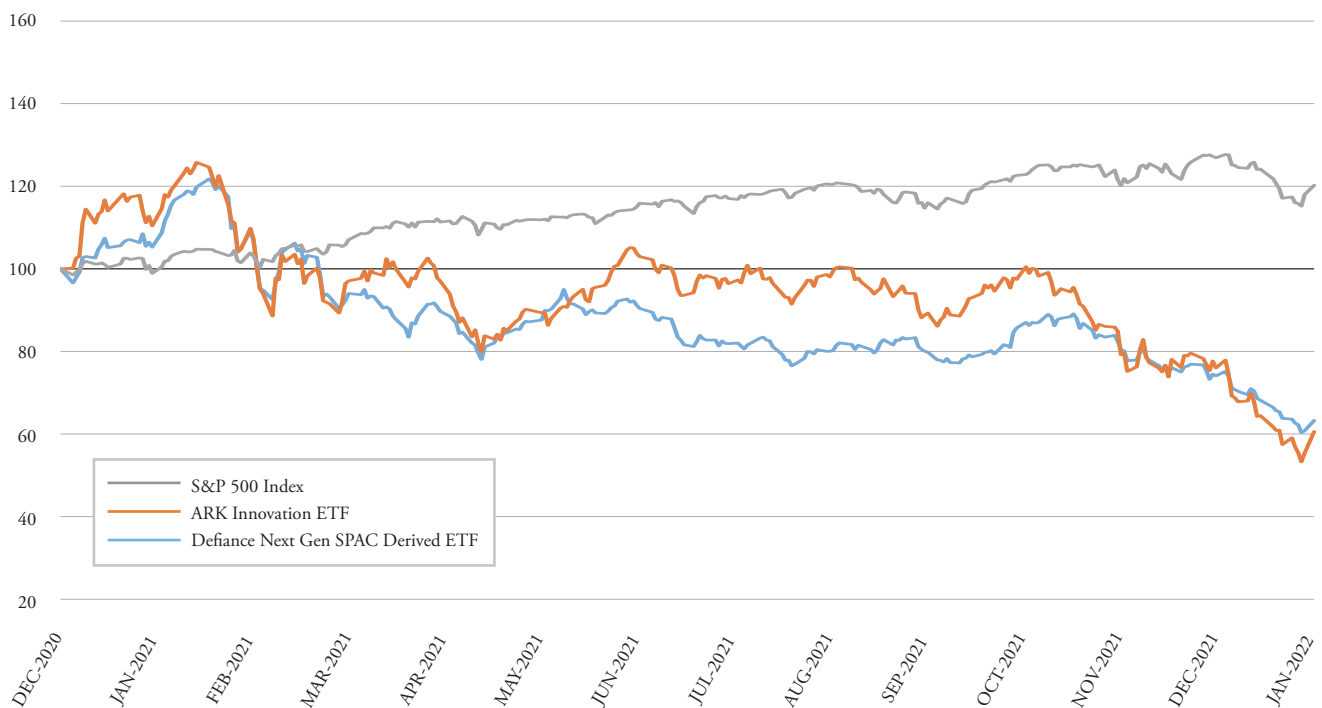
The Market Transitions

For much of 2020 and the early part of 2021, aggressive growth funds such as the ARK Innovation Fund and investment vehicles, such as SPACs⁽¹⁾, posted extraordinary returns. These types of investments and the economy in general benefitted from the enormous government spending programs and the extremely low interest rates maintained by the Federal Reserve that were intended to counter the effects of the COVID pandemic.

Over the past year, however, investors have begun to anticipate the eventual end of the pandemic and the end of the associated government and Fed policies. The Fed has recently signaled interest rate increases starting in March, and many observers expect as many as four to five rate increases through this year. Not coincidentally, the returns of the previously mentioned speculative issues have been weak over the past year, even as the overall stock market has moved higher.

S&P 500, ARK INNOVATION ETF, SPAC ETF

12/31/2020 = 100



Data from 12/31/2020–1/31/2022
Source: Bloomberg

We've been encouraged by the improved performance of valuation-related measures in our stock selection process over the past year. To us, this confirms our view that market leadership is transitioning from speculation to more durable measures of quality and value. As interest rates and economic policies normalize, stock market leadership should again come from high quality companies that exhibit both good earnings growth potential and reasonable valuations.

While speculative assets will undoubtedly stage some further periods of short-term outperformance in the months and years ahead, we believe that a disciplined focus on fundamentals and valuations will continue to result in good results for long term investors.

⁽¹⁾ A special purpose acquisition company (SPAC), also known as a "blank check company", is a shell corporation listed on a stock exchange with the purpose of acquiring a private company, thus making it public without going through the traditional initial public offering process

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REFERENCED INDEX

(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.

S & P DATA

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