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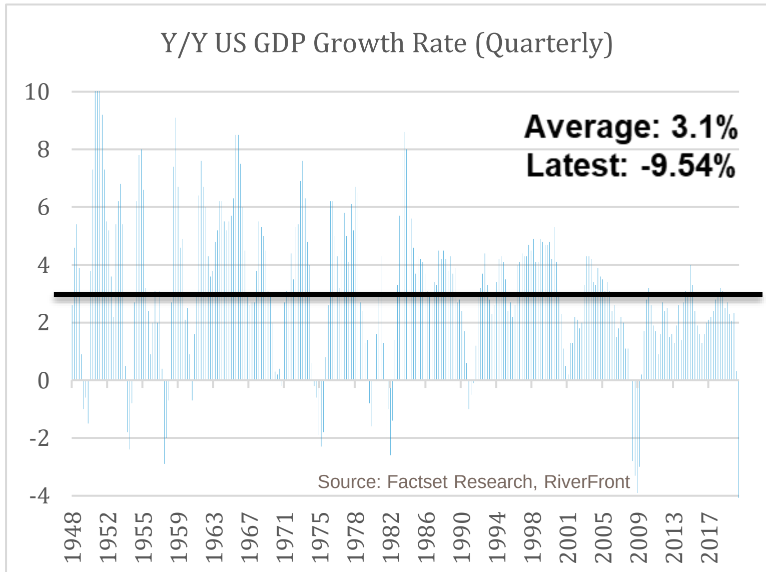
- **We believe 'Low and slow' economic growth can produce extended bull markets.**
- **If the US economy can continue to grow in a 'low and slow' fashion post the COVID-19 pandemic, the 11-year secular bull market can continue for an extended period of time, in our view.**
- **Forward progress in international equities will continue to be difficult until their underlying economies can be re-ignited.**

Low and Slow

A RECIPE FOR A SECULAR US BULL MARKET CONTINUES TO EXIST

Down south we love our barbecue and the secret recipe for great barbecue can be summed up in three words: low and slow. For the non-aficionados, 'low and slow' translates to cooking meat at low temperatures (200-250 degrees) for an extended period of time (8+ hours). 'Low and slow' works for two reasons. First, the meat does not cook too fast, providing ample time for it to absorb the flavorful smoke. Second, the 'low' fire generates the consistent heat necessary to render the fat and keep the meat moist and juicy.



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'Low and slow' makes for more than just good barbecue, it can also be the best recipe for an extended bull market, in our view. Contrary to popular belief, the economy does not need to grow at a fast clip for the stock market to do well. In fact, an economy that is growing too fast -'hot and hasty'- tends to lead to faster cycles and more frequent bear markets. Prior to the COVID-19, 'low and slow' was exactly the way we would have described the US economy since the 2008 Financial Crisis. This 'low and slow' growth can be seen in the chart, which shows that year-over-year GDP growth has been consistently below its long-term average (3.1%) since 2008. Going forward, we anticipate US economic growth to continue at this slower pace, particularly given that recent fiscal and monetary stimulus have borrowed from future growth. Some have described this slower pace of growth as the 'new normal' and have worried that it might not be fast enough to continue to generate attractive stock market returns. We do not agree with this conclusion and see three reasons why stocks can do better in an economic environment that is 'low and slow' over one that is 'hot and hasty'.

1. 'Low and slow' keeps inflation in-check and the Fed off the brakes.

The Federal Reserve (Fed) has a dual mandate from Congress: maximize employment and stabilize prices. Historically, the best way to keep prices (inflation) stable, is to make sure that supply and demand remain in balance. If the economy is too 'hot,' demand can quickly outstrip supply and prices rise, as too much money chases too few goods. When that happens, the Fed may be forced to raise interest rates to slow the economy. An economy that is too 'cold,' like those in Europe and Japan, can have the opposite effect where supply outpaces demand and prices fall to absorb the excesses. Falling prices can be good in the short-run, but over longer periods of time they can delay consumption and investment; which negatively impact corporate profits. 'Low and slow' economic growth, sometimes referred to as a 'Goldilocks Economy', describes an environment where supply and demand is largely in balance and prices remain stable. Fed Chairman Jay Powell underscored his unwillingness to hit the brakes in his speech following the Fed's June 10, 2020 policy meeting stating that he was 'not even thinking about thinking about raising rates.'

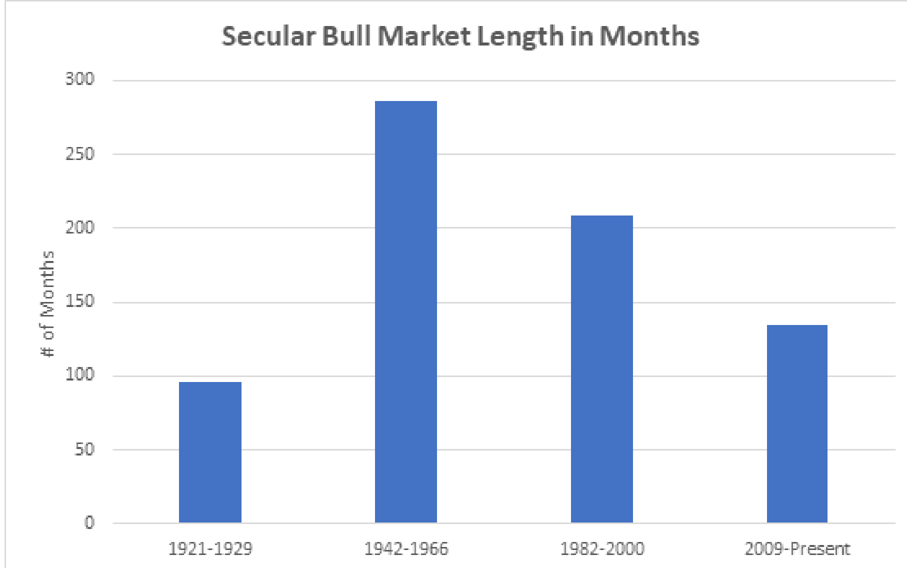
2. **In a 'low and slow' economy, companies don't overbuild capacity making them less vulnerable to economic hiccups.**
   The overbuilding of capacity has historically been a key catalyst for past recessions. Historically, when the economy was 'hot' companies would over hire and overbuild in order to keep up with surging demand. Compounding the problem was the fact that these additions were often funded from debt, which would place a significant and continuing burden on company financial resources. When the 'hot' economy cooled, companies that overbuilt were stuck with large payrolls and debt they could no longer afford. Extended periods of economic weakness have historically led to layoffs, plant closures, inventory fire-sales, and bankruptcies. Fortunately, when economic growth is 'low and slow' companies are discouraged from over hiring and overbuilding. Therefore, we anticipate the COVID-19 induced recession to recover more quickly since the 'low and slow' growth environment that preceded it kept corporate leverage and spending restrained.
3. **Initially, bubbles tend not to grow as fast or as large in a 'low and slow' economy.**
   Bubbles, like those experienced in the late 1990s, make the financial markets less stable and more vulnerable to crashes. Bubbles are created when investors are too optimistic and buy financial assets because they are afraid of being left out. During those periods, risks are either not identified or ignored and valuations can reach levels that are unjustifiable. Initially, bubbles occur less quickly in 'low and slow' economies because investors never become too optimistic. In fact, investors are often too pessimistic in slow growth environments and are reluctant to pay-up for stocks because they believe a bogeyman exists behind every corner. For example, over the past 10-years, a number of mini-bubbles have been deflated before they became too large in a number of sectors including Energy, China-sensitive industrials, Healthcare, and Consumer Staples.

   'Low and slow' does not prevent bubbles, it may only delay them. Initially, bubbles are contained because investors are pessimistic and hyper-vigilant about deflating mini-bubbles, however, as with any long-running trend, investors become complacent and excesses can develop. Currently, we think it will be a while before that level of complacency reaches the broad equity market. Although there may be some smaller bubbles building in the Technology sector. The bond market, on the other hand, may be a different story. We worry that the 40+ year decline in rates has caused bond investors to lower their guard, creating a bubble that will ultimately need to pop.

'LOW AND SLOW' CAN BE THE PERFECT ENVIRONMENT FOR SECULAR BULL MARKETS.

Ned Davis Research (NDR) identifies four secular bull markets since the 1920s including the current one (chart below). Secular bull markets span decades and have significant positive long-term financial impacts, while incorporating periodic cyclical declines (including the recent bear market). In our view, long-term investors should focus on participating in secular bull markets and avoiding secular bear markets; rather than worrying too much about cyclical bull and bear cycles.

Secular bull markets have historically lasted longer because their progress has not been interrupted by excessive Central Bank intervention, poor corporate decision making, or equity bubbles. We believe NDR is correct in their assessment and expect the secular bull market, which started in 2009, to last longer than its current 11 years.



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‘LOW AND SLOW’ CAN BE POSITIVE, ‘HOT AND HASTY’ CAN END TERRIBLY (90s), BUT 'COLD AND OLD' MIGHT BE THE WORST-CASE SCENARIO.

A nightmare for grill masters occurs when the flame is extinguished. Not only will the meat not cook without a fire but restarting the flame can take time and may ultimately impair the end product. Unfortunately, the flames beneath many European economies continue to sputter. This fact might explain why international stock markets have failed to fully recover from their post Financial Crisis valuation levels. Whether the fire can be re-ignited is an open question and the rationale behind our decision to reduce our exposure to international equities over the past three years. We are hopeful that structural economic reforms and significant monetary and fiscal stimulus will get the fire going again to create a lasting recovery.

rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

Gross Domestic Product (GDP): the total value of goods produced and services provided in a country during one year.

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