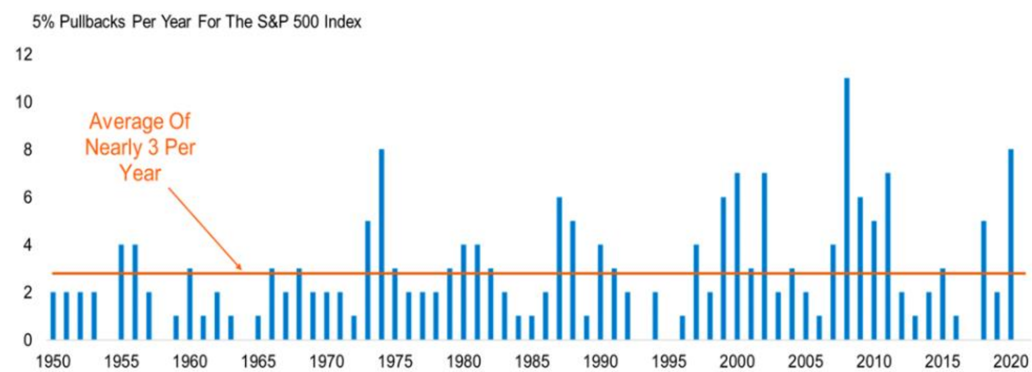
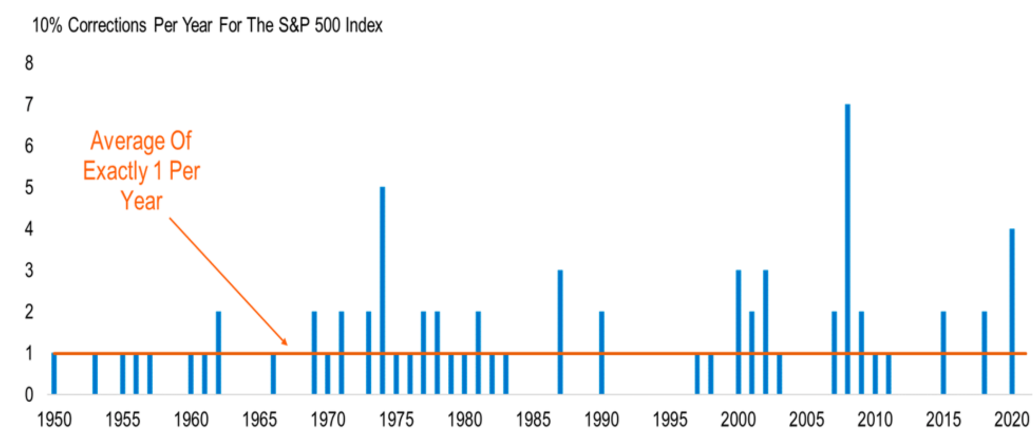
BOTTOM UP

As of the end of the third quarter, the S&P 500 is up 92.5% since the pandemic low on March 23, 2020 and is up almost 28% from the pre-pandemic high on February 20, 2020. The unknown environment brought on by Covid-19 and the swift, but oftentimes uncertain, recovery afterward were unprecedented for the markets. The positive momentum peaked at the S&P 500's most recent high on September 2. Since then, the equity markets have been in a somewhat downward trend, resulting in the first pullback of greater than 5% in 2021. The last time the S&P declined 5%+ was when it dropped 7.5% between October 12 and October 30, 2020. From then until the most recent high, an uptrend of more than 200 trading days, the index rallied 37% while periodically shrugging off minor selloffs. The index has 54 record closes this year through August, just shy of the 55 record closes seen by the same period in 1995[i].

While any interruption to market momentum is never welcomed, it is simply not sustainable for the S&P to continue its uptrend without a pause. When company share prices are not justified by earnings or earnings potential, prices may have to pull back. If the market overreacts to the downside, this can create investable opportunities for quality companies below their intrinsic value. For some historical perspective, the charts below detail the 5% pullbacks and 10% corrections per year dating back to 1950 [ii]. A market correction is defined as a downturn of greater than 10% but less than 20%, which has not occurred since March 2020. As shown in the top graph, 5% pullbacks occur nearly three times per year on average. Notably, there are only three years without a 5% pullback, most recently in 2017. The bottom graph shows that 10% corrections occur once a year on average. In a contrast to the general uptrend in 2021, the S&P dropped 5%+ during eight periods in 2020 with four 10%+ corrections as well. These illustrations are a reminder that the market does not go up in a straight line, and these drawdowns should be anticipated when investing.





Perhaps unsurprisingly, the topics that will be headlining the market as it progresses through the fourth quarter and into next year surround China, Covid, Federal Reserve policy and D.C. gridlock:

- *Financial stress in China:* Between the Chinese government's regulatory crackdown, specifically on technology and education companies, financial solvency concerns of large real estate developers, and broader oversight of private companies, investors face greater risk investing in Chinese companies. These issues bear watching for investors in U.S. companies with high supply chain and end market exposure to the country.
- *Covid impacts on the supply chain*: With varying vaccination rates across the world, Covid has continued to cause closures and delays that have exasperated ongoing supply chain bottlenecks. Investors will be listening to management commentary in upcoming earnings reports for further updates on supply constraints, rising input costs and expectations for improvement.
- *The Fed & interest rate movements:* Interest rates began to move higher again, with the 10-year treasury at 1.52% by quarter-end, while the Fed continues to insist that elevated inflation levels are transitory. With two more Federal Reserve meetings before year end, it is increasingly likely that the tapering of bond purchases could be announced and commence this year. Additionally, nine of the eighteen Fed officials now expect the Fed funds rate to be hiked one or more times in 2022.
- *Legislation in Washington D.C.:* Government funding to avoid a shutdown and the raising of the debt ceiling, both of which recently caused market volatility, were put off to a coinciding deadline on December 3. Also in focus will be the potential passing of the Infrastructure Investment and Jobs Act in the House, as this was already passed in the Senate, as well as the Build Back Better Act. The latter is focused on social and climate spending and has been referred to as the "reconciliation" bill given the process through which this would advance. The market's main concern is the increase in individual and, more importantly, corporate tax rates given the impact on company earnings.

The importance of stock picking is elevated in the backdrop of the aforementioned topics and potential drawdowns in the market. It is impossible to predict how and when the market will react to such disruptions or changes, however, understanding a company from the "bottom up" may provide opportunity during market volatility. RMC puts considerable effort into identifying companies with pricing power, barriers to entry and earnings growth, whose goods or services outlast existing Fed policy or political environment in D.C. Companies with sustainable balance sheets and high-quality earnings are not immune to inflation or broad-based multiple contraction but become even more attractive investment opportunities when mispriced by the market. As the S&P 500 has seen average intra-year drops of 14.3% since 1980[iii], a "bottom up" understanding of company fundamentals, and recognition of the secular tailwinds behind their industries, provides a basis to take advantage of these opportunities.

[i] Dow Jones Market Data
[ii] LPL Financial, LLC
[iii] J.P. Morgan Asset Management