



## **Q4 2020**

### **Commentary**

When reflecting on the 2020 stock market we see that it closed much like it began, with equities in a bull market achieving all-time highs. The irony of course is the period in between which included a global pandemic, upended financial markets, a record speed bear market and an unprecedented market rebound. Quickly responding to the crisis, policymakers took action to limit the economic fallout from the pandemic, cutting rates globally and approving massive stimulus packages. The result was a 2020 stock market that defied predictions (even those that were made prior to the start of the pandemic). The lesson or takeaway here is that market performance is not always directly linked to economic performance. The market ultimately takes its direction from fundamentals punctuating a disciplined investment strategy and long-term view. Investors were rewarded for their patience with a buying opportunity and then a market that quickly returned to record highs. Stock market rallies need breathers; however, these pullbacks do not preclude further gains but instead create opportunities during bull markets.

### **Portfolio Review**

The mid cap market and the Sapphire Star Mid Cap Strategy soared to new highs during the fourth quarter with the Mid Cap Strategy returning 19.57% Net, versus a return of 19.02% for the Russell Mid Cap Growth. During 2020 the Sapphire Star Mid Cap Strategy returned 31.85% Net versus 35.59% for the Russell Mid Cap Growth. The portfolio benefited from both stock and sector allocation, throughout the course of the year. Holdings such as Roku Inc (75.86%), Align Technology (63.24%), and Repligen (29.88%) aided the portfolio the most. Hindering the portfolio the most was consolidation in Domino's Pizza (-9.65%), Big Lots (-11.14%), and Centene Corp. (-13.50%). All three of our winners in the 4<sup>th</sup> quarter are long term holdings, and our biggest winner was Roku Inc. which has benefitted greatly from the stay-at-home economy during the pandemic. Align Technology as well has benefitted from the pandemic as people concentrate more on improving themselves as experiences have become less available. Currently, the portfolio is most heavily weighted in the health technology, technology services, and commercial services sectors, while underweight in transportation, non-energy minerals, and distribution services.

### **Looking Forward**

It appears that COVID's impact on the stock market is comparable to that of a natural disaster, the economic restart is rapid, yet the long-term economic damage is less lasting. With 2021 well underway, the equity markets are off to a strong start on the hope that 2021 will see more stimulus, a reliable vaccine, and post vaccine economic recovery. We believe that 2021 will see mid-cap stocks poised to do very well as we are yet to see the mid cap stocks fully benefitting from the reopening of the economy, unlike small caps and large cap (tech). Mid caps generally take off during periods of economic expansion benefitting from high exposure to cyclical sectors including consumer discretionary and industrials and generally with less volatility than small caps. The biggest risk to recovery and expansion that we see is an

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inability to end the pandemic, although that risks seems less likely with every day as more vaccines are approved and distributed.

The health technology and health services sectors were major contributors to the Sapphire Star Mid Cap strategy during 2020 and is an area that we feel continues to be attractive in 2021 and beyond. The pandemic has fast-forwarded these offerings which have caused disruptive changes that will impact the technology and health services market significantly. The pandemic has also changed the way that patients experience healthcare and will drive what they expect in the future. We believe that health technology and health services holdings will continue to aid healthcare organizations to meet the expectations of consumers and will be very positive for technology related cyclical.

We look forward to a healthy stock market and economy in 2021 as the world recovers from this unprecedented pandemic. Major Wallstreet & banking firms tend to agree with our outlook as Bank of America mentioned "In the U.S., we think 2021 will be a transition year, moving back to services from goods, to private from public and to in-person from virtual. The scars of COVID will remain. We look for the economy to grow 4.5% in 2021. The first fed hike is unlikely until the second half of 2024." We continue to believe that the mid-cap market segment offers astute investors higher risk adjusted returns than both their large-cap and small-cap brethren.

As always, we welcome any questions or concerns that you may have and appreciate your continued confidence in the Sapphire Star Mid Cap Strategy.

Regards,

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<sup>1</sup> <https://www.bloomberg.com/graphics/2021-investment-outlooks>.

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