CORNERSTONE
INVESTMENT PARTNERS, LLC

April 2021

One year ago, we wrote the following:

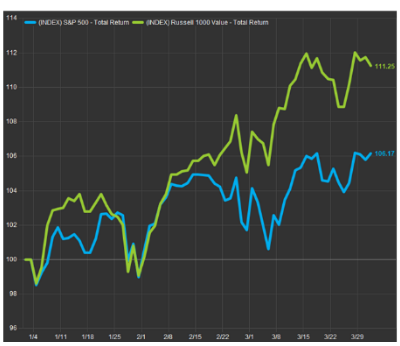
"To say that the first quarter was a difficult one for the equity market would be the understatement of the century … and the prior century. Both the S&P 500 Index and the Dow Jones Industrial Average reported their worst first quarter of a year ever. What happens next? We do not know; no one does.

In March of last year, the world was unquestionably an uncertain place. While the market seemed to bottom just before the end of the quarter, the impact of economic shut-downs, changing trends in public health outcomes, and political infighting could have derailed the potential for a recovery. But we followed that last comment about the current moment with one about those in the future:

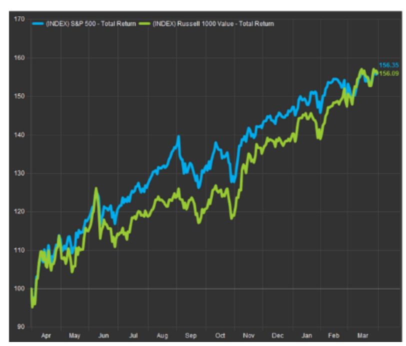
"Our investment philosophy is at the core of our firm. You have heard us repeat it again and again. Namely, stock prices are more volatile than the underlying fundamentals that determine the value of a company. There is certainly volatility as investors' timeframes seem to have shifted from years to months to days. However, even if they are impacted today, the fundamental track records of most companies are unlikely to be significantly different in the future than they were in the past. At present, some 580 of the 800 stocks we track are trading at discounts to our appraisal of what they are worth. We derive a level of comfort from that fact; we hope that you will, too. The key is to focus on the intermediate to long term, not on what may happen next month or quarter."

It turned out that March was the bottom, and US markets have been strong ever since as investors first focused on what companies would succeed in this unique environment and then finally on those stocks left behind. Even after three strong quarters, US equity markets continued higher during the first quarter, with value-oriented stocks leading the way. The Russell 1000 Value Index rose 11.3%, well higher than the S&P 500 at +6.2%. Over the last twelve months, the Russell 1000 Value has now caught up with the S&P 500, each up approximately 56%.

1Q 2021 Total Return of S&P 500 & Russell 1000 Value Indices



1 Year Total Return of S&P 500 & Russell 1000 Value Indices



Source: Factset, Cornerstone Investment Partners

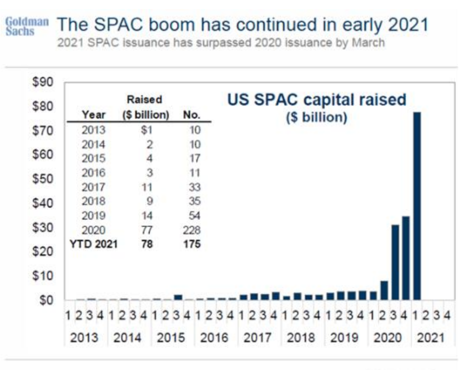
Continued positive vaccine rollout in the US helped lift sentiment which, combined with massive stimulus spending, helped move the market's cyclical components higher. Leading economic indicators indicate an improving economy, and GDP expectations have risen to levels we have not seen in many years. According to Goldman Sachs, the US is on pace to vaccinate 50% of the population by May. During the quarter, we saw US treasury rates explode higher, commodity prices broadly rise, and inflation fears increase further.

Source: Federal Reserve FRED, Bloomberg

With the possibility for continued stimulus and increasing demand as the economy reopens fully, these fears are only likely to accelerate, which historically has been a conducive environment for value-oriented stocks.

It is no secret that value-oriented investors have experienced a great deal of pain over the past thirteen years. As we mentioned in our previous letters, the valuation discrepancy between growth and value stocks was very wide. Still, the timing for a reversal was never going to be clear ahead of time. Well, it appears to have arrived and has shown up with a vengeance. Just as growth stocks as a whole benefitted for many years from money flow into the space behind a number of strong performing individual companies, the reverse may play out as well, and we highlight that this becomes a virtuous flywheel. As value stocks outperform, money rotates into the space, helping lift performance further, which drives more allocations and flows.

While we view the rotation to value as rational, there are still many irrational pockets of the market that help remind us to always keep our wits about us. The SPAC mania, while losing some of its luster, remains front and center, with more money raised in the first three months of 2021 than in 2020 or any year prior. Additionally, we see elevated trading in penny stocks and continued massive volatility in the Reddit stock names with sometimes questionable fundamentals.



Source: Goldman Sachs, Bloomberg

As we noted last quarter but bears repeating, after a strong quarter such as this, there is always a risk of becoming complacent. Stocks that moved significantly higher likely have compelling stories, are enjoyable to reflect on the purchase or add at much cheaper prices, and sometimes feel like they can do no wrong. As a team, we work hard to avoid these behavioral traps and know that exceptional returns come from making the tough and uncomfortable decisions, not the easy ones. Today, with fewer companies in our 800-stock universe that are attractively valued (332 versus 580 this time last year), we are less comfortable, but that discomfort drives success in the future.

We are continually examining our portfolio and our convictions to ensure that we hold stocks trading at material discounts to our conservative assessments of their worth. This may require exiting names that feel great and stepping into others that have lagged or are encountering new difficulties. That said, we remain excited about the future prospects for our strategy. Even if the market has risen, our portfolio trades at nearly the highest discount to our investible universe in a decade. While the value move to begin 2021 has been robust, the data continue to suggest to us that the current opportunity set for value-oriented investors remains one of the most attractive in the last few decades. Our portfolio remains composed of high-caliber companies at discounts to the market.

We look forward to seeing you in person as the country opens up later this year. Meanwhile, we continue to post relevant materials, links, and perspectives on our LinkedIn page and Twitter account (@CornerstoneIP) – please follow for more insights. We hope this helps you to remain close to us even during these virtual times and understand what we are seeing in the market. And as always, please continue to reach out when you have questions – our responsibility is to you first and foremost.

Sincerely,

The Cornerstone Team

Disclaimer: Past performance does not indicate future results. As with all investments, the possibility for profit is accompanies by the risk of loss.