

# Market Review: Stocks rally sharply fueled by unprecedented support from the Fed

It was a remarkable recovery for the stock market, which had its best quarter since late 1998. The S&P 500 Index gained 20.5% in the second quarter and the Russell 2000 Index, which tracks performance of small companies, rose 25.4%.

Rarely has the stock market seemed so disconnected from the economy, and it may seem baffling how the stock market could rally so much with all of the turmoil around us. However, it is important to remember that the stock market is forward-looking and looks at where we will be 6-9 months from now.

While there was optimism about the economy reopening, hopes of a vaccine, and signs that the economic recovery has begun, the stock market performance was primarily driven by the unprecedented support by the Federal Reserve (Fed) and government stimulus. Investors largely shrugged off bad news; the lockdowns, large unemployment numbers, social unrest, and gave stocks a “free pass” on the underlying fundamentals of many companies despite lower expectations for corporate earnings.

In response to the COVID-19 crisis, the Fed cut its interest rate target to zero in March. The Fed have said that they will not only

keep rates low, but they have added significant liquidity (cash) into the economy and made unprecedented asset purchases to keep credit markets stable, indirectly also boosting the stock market. With the Fed promising to do whatever is needed to support the markets, many investors feel the Fed has provided a backstop for the markets. The popular Wall Street saying “Don’t fight the Fed” is very relevant today.

The government’s stimulus program has also helped stabilize the market. One-time payments to individuals, strengthening unemployment insurance, additional healthcare funding, and loans and grants to businesses are all supporting the economic recovery.

The Fed’s action made interest rates on cash and bonds so low that many investors also felt that they had little choice but to buy stocks. The yield on the 10-year U.S. Treasury Note was 0.65% at the end of the quarter. The Bloomberg Barclays Intermediate Government/Credit Bond Index posted a gain of 2.8% for the quarter.

**“The stimulus from the Fed is simply unprecedented and the old saying ‘Don’t fight the Fed’ is very relevant today.”**

—Sandy Villere III

## VILLERE BALANCED FUND PERFORMANCE (%) VILLX

INCEPTION 9/30/1999\*

6/30/2020	Total Return			Average Annual Total Return				Cumulative
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception
Villere Balanced Fund	12.59%	-8.60%	-5.97%	1.90%	1.92%	8.80%	7.04%	310.04%
Lipper Balanced Funds Index	11.96%	-2.53%	3.90%	5.89%	5.95%	8.15%	5.45%	200.58%
S&P 500 TR	20.54%	-3.08%	7.51%	10.73%	10.73%	13.99%	6.38%	260.97%
Bloomberg Barclays Intermediate Government/Credit Index	2.81%	5.28%	7.12%	4.43%	3.46%	3.13%	4.58%	153.09%

Expense Ratio: 1.00%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Current performance data to the most recent month end may be obtained by visiting [www.villere.com](http://www.villere.com).

## Portfolio Review—Asset Allocation

The Fund rose 12.59% during the quarter, while the Lipper Balanced Funds Index gained 11.96% and the S&P 500 Index increased 20.54%. The Fund is somewhat different from the typical balanced fund in that it holds primarily small- and mid-cap stocks versus its peers, which tend to hold large-cap stocks. Small- and mid-cap growth stocks' strong quarter helped the Fund's relative performance even though the overall stock market rally in the second quarter was led by a concentration in narrow group of large-cap technology stocks, such as Apple, Amazon, and Microsoft.

At the end of June, the Fund's asset allocation was 70.9% in stocks, 23.7% in bonds, and 5.4% in cash.

We use the fixed income allocation mainly to balance the risk in the Fund. The fixed income component usually ranges from 20-30% of assets, depending on market conditions. We find current bond yields relatively unappealing and the Fund is positioned close to the middle of that range. Since we mainly use the fixed income component for potential income and stability, we have kept duration short in an effort to reduce risk. We held slightly more cash than normal at the end of the quarter.

## Portfolio Review—Equities

Eldorado Resorts, Inc., ON Semiconductor Corp., and Ligand Pharmaceuticals, Inc. all had an outstanding quarter and were the top contributors to the Fund's performance. Detractors from performance included eHealth, Inc., Kearny Financial Corp., and 3D Systems Corp.

We purchased J.B. Hunt and added to our position in Stryker Corp. in the beginning of the quarter, holdings that we believe should do well over the long term. We also added to our position in Eldorado Resorts.

J.B. Hunt is one of the largest transportation logistics companies in North America. We thought the stock was oversold because it was exposed to the economy and impacted in the short-term by the COVID-19 lockdown. We believe it provided an excellent opportunity to buy an industry-leading company at a great valuation, which also served us well during the quarter.

Stryker is an industry-leading medical device company. They supply their products to hospitals and orthopedic surgeons that are installing anything from knee and hip replacements to spine surgeries. Stryker is gaining market share with its Mako robotic arm, which enables a more predictable surgical experience when performing joint replacement surgery. Due to the lockdown, many of these procedures were considered nonessential, and Stryker's stock fell. It provided an opportunity to add to our position at a very good valuation.

During the quarter, we trimmed our positions in Pool Corp. and eHealth after strong gains due to the run-up in the market. We also trimmed our holding in 3D Systems.

### 2ND QUARTER TOP CONTRIBUTORS

#### Eldorado Resorts, Inc.

Eldorado Resorts is a casino entertainment company and it engages in gaming operations and manages hotels, restaurants, bars, racing, retail shops, and other services. The stock had a staggering decline in February and March along with other casino stocks after they had to close due to COVID-19, but Eldorado's stock rebounded sharply in the second quarter, gaining 178.2%. Eldorado is currently in the process of acquiring Caesars Entertainment, a deal that should close in July. It will make Eldorado the largest operator of gambling establishments in the U.S. Tight controls on costs as they reopen are helping to make the company's regional casinos more profitable.

#### ON Semiconductor Corp.

ON Semiconductor manufactures and sells semiconductors for various devices worldwide. The stock bounced back 59.3% in the second quarter, benefitting from stay-at-home trends during the COVID-19 pandemic. Semiconductors have also been the most important drivers of the overall growth in technology. We believe that ON is well-positioned to benefit from what we think will be a massive 5G cellular buildout over the next several years as well as the trend to increase technology in automobiles.

#### Ligand Pharmaceuticals, Inc.

Ligand Pharmaceuticals is a biopharmaceutical company focused on developing or acquiring technologies that help partner pharmaceutical companies discover and develop medicines. The stock rose 53.8% in the second quarter. The company has great products in the pipeline and partnerships in place, providing opportunities for future revenue generation that could lead to meaningful upside potential for the company and stock. Ligand also has a big tail wind with its Captisol drug delivery technology that it is selling to Gilead Sciences for Remdesivir to treat COVID-19.

### 2ND QUARTER TOP DETRACTORS

#### eHealth, Inc.

eHealth, Inc. is a leading online health insurance platform that simplifies the process for consumers to compare and shop for private health insurance plans. eHealth offers more than 10,000 plans from over 180 companies, including many of the nation's leading health insurance companies. The company primarily provides plans related to Medicare, with an opportunity to capitalize on the large number of Americans turning 65 every day and the growth in Medicare Advantage. After a very strong first quarter, eHealth fell 30.2% in the second quarter. Although there was a negative report from a hedge fund regarding revenue recognition, we believe this is unfounded as eHealth is using standard accounting practices for its industry.

**Kearny Financial Corp.**

Kearny Financial is the parent company of Kearny Bank, which has 42 retail branch offices in New Jersey and New York. The stock was down 3.9% for quarter. The banking industry has been hard-hit by the heightened credit risk from COVID-19, compelling banks to ramp-up loan loss reserves. Kearny Financial's acquisition of MSB Financial Corp. is expected to be completed in July, which will expand Kearny's footprint.

**3D Systems Corp.**

3D Systems is a pioneer in 3D printing and provides comprehensive 3D products and services, including 3D printers, print materials, on-demand parts services, and digital design tools. Shares of 3D's stock decreased 9.3% during the quarter. The COVID-19 pandemic hurt the company's results, including lower customer demand. 3D's new management also said that the company experienced supply chain interruptions. We trimmed our position in 3D during the quarter and are watching the company closely for continued revenue growth and new product launch details. This should occur as a result of end-user demand from increases in industries like automotive, aerospace, and healthcare.

**Villere Balanced Fund—Top Contributions & Detractors**

Top Performers 3/31/2020–6/30/2020	Average Portfolio Weight (%)	Return (%)
Eldorado Resorts, Inc.	1.95	178.19
ON Semiconductor Corp.	3.40	59.32
Ligand Pharmaceuticals Inc.	3.64	53.81
Teleflex Inc.	5.37	24.41
Pool Corp.	4.10	38.53

Bottom Performers 3/31/2020–6/30/2020	Average Portfolio Weight (%)	Return (%)
eHealth, Inc.	5.39	-30.24
Kearny Financial Corp.	3.50	-3.86
3D Systems Corp.	1.96	-9.34
Flowers Foods, Inc. 4.375% 4/1/2022	3.59	-2.59
Hubbell, Inc. 3.5% 2/15/2028	0.62	-3.00

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

**Outlook and Strategy**

We are cautiously optimistic about the outlook and we believe the stock market will be choppy in the second half of 2020. We may see a quick economic recovery, powered by unprecedented monetary and fiscal stimulus and the reopening of states' economies, and there is optimism about potentially finding a vaccine and treatment for COVID-19. On the other hand, the recent spike in COVID-19 cases may slow the recovery, unemployment will likely remain high for a long time, there is uncertainty regarding the election in November, and tensions between U.S. and China over the virus and the trade agreement.

Very low interest rates make stocks look more attractive compared to bonds. Small-cap stocks typically outperform large-cap stocks coming out of a recession and during an economic recovery. Despite the strong second quarter, we think there is more value offered in the small- and mid-cap area compared to large caps.

Our focus is on individual companies. Given the prospects of more uncertainty and volatility, we will continue to run our selective, disciplined investment process. We believe it is important invest in high quality stocks in the small- and mid-cap space as well, and in companies that are profitable businesses that display profit growth and have a strong outlook.

Thank you for your continued support and confidence in the Villere Funds.

St. Denis J. Villere II, George V. Young,  
St. Denis J. Villere III, Lamar G. Villere, CFA

**IMPORTANT INFORMATION**

***A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling 866.209.1129 or visiting www.villere.com. Read carefully before investing.***

*Mutual fund investing involves risk; loss of principal is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility than large cap companies. The Balanced Fund will invest in debt securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and nonrated securities present a great risk of loss to principal and interest than higher rated securities.*

The opinions expressed above are those of Villere & Co., are subject to change, are not guaranteed, and should not be considered recommendations to buy or sell any security.

**The Top 10 equity holdings in the funds as of 6/30/2020 were:****VILLERE BALANCED FUND**

Progressive Corp.	(PGR)	6.9%
Visa, Inc.	(V)	5.6%
Steris Plc	(STE)	5.6%
Roper Technologies, Inc.	(ROP)	5.6%
Teleflex, Inc.	(TFX)	5.6%
LKQ Corp.	(LKQ)	4.3%
Pool Corp.	(POOL)	4.2%
ON Semiconductor, Inc.	(ON)	4.1%
Ligand Pharmaceuticals, Inc.	(LGND)	4.0%
Eldorado Resorts, Inc.	(ERI)	3.4%

All holdings in the portfolio are subject to change without notice and may or may not represent current or future portfolio composition. The mention of specific securities is not intended as a recommendation or an offer of a particular security, nor is it intended to be a solicitation for the purchase or sale of any security. Investment-grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

The Fund does not hold any shares of Gilead Sciences, Apple, Amazon, or Microsoft.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa. Average Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Earnings growth is a key indicator for measuring a company's success and a driving force behind stock price appreciation. Earnings growth is the percentage gain in net income over time.

**INDEXES**

**Bloomberg Barclays US Intermediate Government/Credit Bond Index** measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

**Lipper Balanced Index** is an equally weighted performance index of the largest qualifying funds in its Lipper Categories. The Lipper average represents a universe of Funds with similar investment objectives.

**S&P 500** is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The stock index does not incur expenses and is not available for investment.

**Russell 2000 Index** consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization and serves as a benchmark for small-cap stocks in the United States.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.