

# Market Review: A stellar year for stocks as the Fed fuels the market and investors pile on risk

2021 was a third straight strong year for the stock market. Stocks continued to rise through social, political, and economic tensions. In 2021, we saw more Covid variants, supply chain disruptions, negative real interest rates, the highest inflation in almost 40 years, unemployment falling below 5%, strong economic growth and consumer demand, and robust fiscal support. There was also increased speculation and risk-taking by investors as the Federal Reserve continued its massive bond-buying program and kept interest rates near zero. New retail investors piled into “meme stocks” gaining popularity on social media, cryptocurrencies created buzz among investors, and there was a surge in options and leveraged trading.

Inflation concerns have dominated the markets in recent months. However, strong corporate earnings above expectations, the reopening of the economy, the continued pandemic intervention by the Fed, and near-zero interest rates helped the market reach all-time highs.

While the “stock market” and the major indexes kept moving to new all-time highs, underneath the surface many individual stocks

“We are buying smaller-cap names that we believe have been unfairly punished during the recent market volatility due to the Omicron variant.”

—Sandy Villere, III

pulled back in the fourth quarter after posting large gains, especially in the small- and mid-cap space. Despite the turmoil in the financial markets in the fourth quarter, big tech valuations remained high, even during the tech “sell-off” in November.

The S&P 500 Index gained 11.03% in the fourth quarter and 28.71% for the year. The index hit 70 new closing highs in 2021, second only to 1995. The Russell 2000 Index, which tracks stock performance of small companies, rose 2.14% and 14.82%, respectively. In 2021, large-cap stocks outperformed mid- and small-caps, value stocks significantly outperformed growth stocks in the small- and mid-cap space, and the stock market’s rise in 2021 narrowed around a short list of big tech companies.

The yield on the U.S. 10-year Treasury was 1.52% at the end of the 2021, up from 0.93% at the start of the year. Another reason for the strong performance of equities is the belief of many investors that “there is no alternative” to stocks, given the extremely low yields on bonds. The Bloomberg Intermediate Government/Credit Bond Index was down 0.57% in the fourth quarter and declined 1.44% in 2021.

## VILLERE BALANCED FUND PERFORMANCE (VILLX)

INCEPTION 9/30/1999\*

12/31/2021	Total Return			Average Annual Total Return				Cumulative	
	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	*Since Inception	*Since Inception	
Villere Balanced Fund	0.95%	7.16%	7.16%	13.17%	8.26%	8.02%	7.82%	433.60%	
Lipper Balanced Funds Index	4.50%	13.18%	13.18%	15.36%	10.80%	9.55%	6.38%	295.90%	
S&P 500 TR	11.03%	28.71%	28.71%	26.07%	18.47%	16.55%	8.11%	467.56%	
Bloomberg Intermediate Government/Credit Index	-0.57%	-1.44%	-1.44%	3.86%	2.91%	2.38%	4.24%	152.19%	

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 0.95% during the quarter, while the Lipper Balanced Funds Index gained 4.50% and the S&P 500 Index increased 11.03%. 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. Large-cap stocks significantly outperformed smaller stocks in the fourth quarter, hurting the Fund's relative performance. The Fund held more cash than normal and our cash position detracted from the relative performance.

The asset allocation in the Fund was 75.6% in stocks, 16.5% in bonds, and 7.9% in cash at the end of December.

## Portfolio Review—Bonds

The fixed income component usually ranges from 20-30% of assets, depending on market conditions. The Fund is currently positioned slightly below that range as we reduced our holdings and we still do not believe the bond market is attractive as yields are artificially depressed. In this environment, any return in bonds is likely to come from the interest income generated. Since we mainly use the fixed income component for potential income and stability, we kept duration short in an effort to reduce risk.

## Portfolio Review—Equities

ON Semiconductor Corp., Freeport-McMoRan, Inc., and Pool Corp. were the top contributors to the Fund's performance in the fourth quarter. Detractors from performance included Open Lending Corp., Palomar Holdings, Inc., and ViacomCBS, Inc.

During the quarter, we trimmed our positions in Euronet Worldwide, Inc. and Abiomed, Inc., and we sold eHealth, Inc. and ViacomCBS entirely. We bought more shares of TTEC Holdings, Inc., Paya Holdings, Inc., Open Lending Corp., and Teleflex, Inc.

### 4TH QUARTER TOP CONTRIBUTORS

#### ON Semiconductor Corp.

ON Semiconductor manufactures and sells semiconductors for various devices worldwide. ON has benefited from the global chip shortage, especially the shortage of automotive chips. The stock gained 48.4% in the fourth quarter. We believe that ON Semiconductor is well-positioned to benefit from the massive 5G cellular buildout over the next several years, as well as the trend to increase technology in automobiles, including growth in electric and autonomous vehicles. The 5G wireless transition should continue to lift chipmakers involved in cellular infrastructure and smartphones, and ON makes chips that handle power in wireless base stations. We are also optimistic that ON's new CEO, Hassane El-Khoury, will continue to make ON more capital efficient.

#### Freeport-McMoRan, Inc.

Freeport-McMoRan is the largest public copper miner. The stock rose 28.5% in the fourth quarter. We believe electric vehicles will see significant growth for a long time, and they use more than twice as much copper as internal combustion engine vehicles. Also, to grow out the infrastructure for the charging network, more copper is needed. We think copper is going to be a strong commodity going forward and Freeport-McMoRan is well positioned to take advantage.

#### Pool Corp.

Pool Corp. is one of our long-term holdings. It is the dominant distributor of products for swimming pools. During the pandemic, we have seen consumers spend heavily on their homes and other forms of recreation that do not necessarily involve significant social contact. Pool became a "stay-at-home COVID-19 stock" due to the incredible number of people investing in their homes. The stock increased 30.5% in the fourth quarter. We believe Pool will continue to enjoy not only the spike in swimming pool installations, but also the long-term maintenance spend (chemicals, replacement parts) for these new pools for years to come. About two-thirds of Pool's sales are repair and maintenance of swimming pools. We continue to like Pool's growth profile and competitive position.

### 4TH QUARTER TOP DETRACTORS

#### Open Lending Corp.

Open Lending helps automotive lenders offer loans to traditionally underserved borrowers with near-prime credit ratings. Open Lending's primary offering pairs loan default insurance with its proprietary analytics to allow the lenders to give these car buyers more attractive rates. The company itself is not a lender, and does not provide the insurance coverage, but serves as an intermediary. The stock pulled back sharply in the fourth quarter, down 37.7%, as management guidance predicted a significant drop in revenues from new car sales on its platform. Essentially, as new car supplies are significantly below new car demand, there are fewer transactions for Open Lending. Further, given this unique supply/demand imbalance, the car companies prefer to simply focus on prime customers and avoid subprime and near-prime borrowers entirely. We view this as a temporary issue, and have added to our position in Open Lending as we view the long-term prospects for the business favorably.

#### Palomar Holdings, Inc.

Palomar is a fast-growing, small-cap specialty insurer that offers protection for properties at risk of earthquakes, wind, and flooding. The stock fell 19.9% in the fourth quarter as Hurricanes Ida and Nicholas, as well as wildfires in California, resulted in higher expenses and underwriting losses. However, Palomar should continue to benefit from new business generation, strong premium retention rates, and new partnerships across multiple lines of business. We believe that Palomar uses technology more efficiently than its competitors, and the company has a large exposure to the California earthquake market, where it uses more granular data to more accurately price policies and risk.

#### ViacomCBS, Inc.

We bought ViacomCBS back in the spring when its shares plummeted as hedge fund Archegos Capital Management and its bankers became forced sellers of the stock. The company's assets include Paramount Studios, CBS, Nickelodeon, Comedy Central, and BET. The stock declined 23.5% in the fourth quarter. In addition to the high-quality scripted content it produces, the company is also aggressive in its live television offerings—thus far this year, it has televised the Super Bowl, the Grammy Awards, and the NCAA March Madness basketball tournament. Paramount+, the company's paid streaming product, has 47

million subscribers, up four million in the fourth quarter of this year. We sold this position during the quarter as we looked to deploy the capital elsewhere.

Villere Balanced Fund—Top Contributions & Detractors		
Top Performers 9/30/2021–12/31/2021	Average Portfolio Weight (%)	Return (%)
ON Semiconductor Corp.	4.32	48.39
Freeport-McMoRan, Inc.	4.02	28.54
Pool Corp.	3.84	30.49
STERIS Plc	3.98	19.38
J.B. Hunt Transport Services, Inc.	2.90	22.42

Bottom Performers 9/30/2021–12/31/2021	Average Portfolio Weight (%)	Return (%)
Open Lending Corporation Class A	3.10	-37.68
Palomar Holdings, Inc.	3.68	-19.87
ViacomCBS Inc. Class B	2.97	-23.48
Paya Holdings Inc Class A	1.28	-41.67
Caesars Entertainment Inc.	3.20	-16.70

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

## Outlook and Strategy

The Fed has indicated it will speed up the tapering of its bond purchases and may now raise interest rates three times in 2022 as it tries to rein in inflation. Risk is rising with stock valuations at current levels and as the Fed gets closer to winding down its emergency monetary support. We expect a bumpier ride for the stock market in 2022, and while returns may moderate, our outlook remains positive due to strong fundamentals.

We continue to take a balanced approach to our holdings, and prefer stocks that tend to perform better in a rising rate scenario. The forward price/earnings ratio (P/E) on the S&P 500 is 21.5x versus 15.5x for the Russell 2000. We believe small caps can outperform large caps given the disparity in P/E multiples.

We have generally reduced portfolio risk and will continue to focus on individual companies. We believe it is becoming more of a stock picker's market where companies will be rewarded for their earnings, as opposed to investors just pouring into large-cap technology stocks and passive investments.

While Omicron and other variants of Covid-19 are a concern, the worst economic impact of the virus was caused by the policy lockdowns in March and April of 2020. Since things have opened up, there has been extraordinary economic strength and growth. We do not anticipate any further lockdowns and believe that further panic-selling is unlikely.

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](http://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 fund as of 12/31/2021 were:****VILLERE BALANCED FUND**

ON Semiconductor Corp. (ON) 4.5%	(ON)	5.3%
Freeport-McMoRan, Inc.	(FCX)	4.6%
First Hawaiian, Inc.	(FHB)	4.5%
Ligand Pharmaceuticals, Inc.	(LGND)	4.5%
Stryker Corp.	(SYK)	4.5%
Steris PLC	(STE)	4.4%
Pool Corp.	(POOL)	4.3%
Roper Technologies, Inc.	(ROP)	4.2%
Kearny Financial Corp.	(KARNY)	4.1%
Progressive Corp.	(PGR)	3.6%

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.

Real interest rates have been adjusted for inflation. The real interest rate equals the nominal interest rate minus the inflation rate.

Yield is the income return on an investment and refers to the interest or dividends received from a security; is usually expressed annually as a percentage based on the investment's cost, its current market value, or its face value.

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. The information on earnings growth is based on certain assumptions and historical data and is not a prediction of future results for the Fund or the Fund holdings.

Price-to-Earnings (P/E) Ratio measures share price compared to earnings per share for a stock or stocks in a portfolio.

Price-to-Earnings (P/E) Multiple is used to compare a company's market value (price) with its earnings. A P/E of 10x means a company is trading at a multiple that is equal to 10 times earnings. A company with a high P/E is considered to be overvalued and a company with a low P/E is considered to be undervalued.

Cryptocurrency is a digital asset designed to work as a medium of exchange where individual coin ownership records are stored in a ledger existing in a form of computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership.

**INDEXES**

**Bloomberg 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 Funds 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 Index** 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.