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Most expect 2021 to look nothing like 2020. In addition to a new administration in Washington and the new policies that will be put forth, the pandemic is receding thanks to mass vaccination efforts, the economy is reopening, and the country is beginning to gauge our new normal.

Winds of change are also blowing over the financial markets, and as the dust settles, we are seeing market participants, not surprisingly, favor more economically sensitive investments. Already in the first quarter, we witnessed a massive shift from growth-oriented investments to the value stocks that were largely left behind during the rally in 2020. Interest rates have moved up sharply as investors speculate that massive amounts of government stimulus will create transitory inflation. Smaller cap stocks have also taken the leadership reins away from large cap stocks to drive the equity market higher. Despite weakness in some high-profile technology stocks, the broader equity markets rest near all-time highs.

The year began with political upheaval as the Georgia Senate runoff elections provided the Democrats with full control of both legislative chambers and the White House. This seismic shift is enabling massive government stimulus and paving the way for considerable tax hikes. Later in the quarter, rising interest rates blunted the momentum of many technology stocks that were so instrumental in driving the markets last year. Investors embraced risk, as evidenced by the strong performance of blank-check companies known as SPACs, Reddit-driven short squeezes, and an insatiable appetite for Bitcoin.

The Riverbridge portfolios, which performed so well in 2020, were generally flat in the first quarter and lagged their benchmarks. Investors favored more cyclical, economically sensitive areas of the market as opposed to the companies with high recurring revenues in which Riverbridge tends to invest. The requisite ingredient for investor attention seemed to be the degree to which a company is expected to benefit from government stimulus and economic reopening. These companies were also generally punished most during pandemic-

induced economic shutdowns. Perhaps best highlighting the risk-on nature of the first quarter, however, were the so-called "Reddit traders" who conspired to bid up some companies struggling to survive with the intent of causing a short squeeze.

As we look ahead, we expect the speculative nature of the first quarter to persist. The economy should continue to strengthen as more states reopen following mass vaccination efforts. Central banks and governments will continue their attempts to catalyze the global economy. Investors will carefully monitor moves in interest and inflationary rates. A rise in interest rates will suppress those investments with the longest anticipated durations. An increase in inflation will dampen the multiples that investors will be willing to pay for investments as they fear an inflationary erosion of earnings. Eventually, investors will pivot away from the short-term market catalysts to the underlying fundamental prospects of their investments.

The Riverbridge investment team is pleased with our portfolio positioning as we look ahead. While in the short-term our portfolios may continue to lag more speculative investments, our portfolio companies are exhibiting high degrees of fundamental strength

A new economic normal is about to emerge. This new normal will favor companies that are creating efficiencies and skilled management teams with the ability to adapt to fast-changing market conditions.

By and large, Riverbridge's portfolio companies have a head start. Many of our investments provide mission critical products or services that their customers find indispensable. Furthermore, our companies enable their customers to operate more efficiently and become more adaptable. These characteristics have our team confident that our portfolios are well-positioned to fundamentally flourish.

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