TOWLE & CO.

DEEP VALUE INVESTING

(314) 822-0204

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Spend, spend, spend! Confidence in a strong economic reopening has grown in earnest. Broad vaccine distribution, ongoing stimulus checks, interest rates at historically low levels, and an infrastructure plan reminiscent of the New Deal all point to a reinvigorated U.S. economy. Towle & Co.'s economically sensitive holdings should benefit as revenue growth is no longer reserved for pricey growth stocks.

The Towle Deep Value Composite (Towle DVC) returned 28.4% net of fees in the first quarter versus 21.2% for the Russell 2000 Value and 6.2% for the S&P 500. For the trailing twelve months ended March 31, 2021, the Towle DVC appreciated 168.7% net of fees, again outpacing the Russell 2000 Value (up 97.1%) and the S&P 500 (up 56.4%). The value rotation seems to have arrived! Even so, we believe there are many innings remaining.

Towle Deep Value Composite returns are highlighted below with periods greater than one year annualized.

Periods ending 3/31/21	*Towle DVC (Gross of fees)*	*Towle DVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
3 months	28.64%	28.41%	21.17%	6.17%
1 year	170.67	168.72	97.05	56.35
3 years	9.02	8.19	11.57	16.78
5 years	14.55	13.71	13.56	16.29
10 years	10.82	10.03	10.06	13.91
20 years	13.69	12.83	9.53	8.47
30 Years	15.51	14.68	11.26	10.42
Inception (1/1/82)	15.84	15.01	12.02	12.05

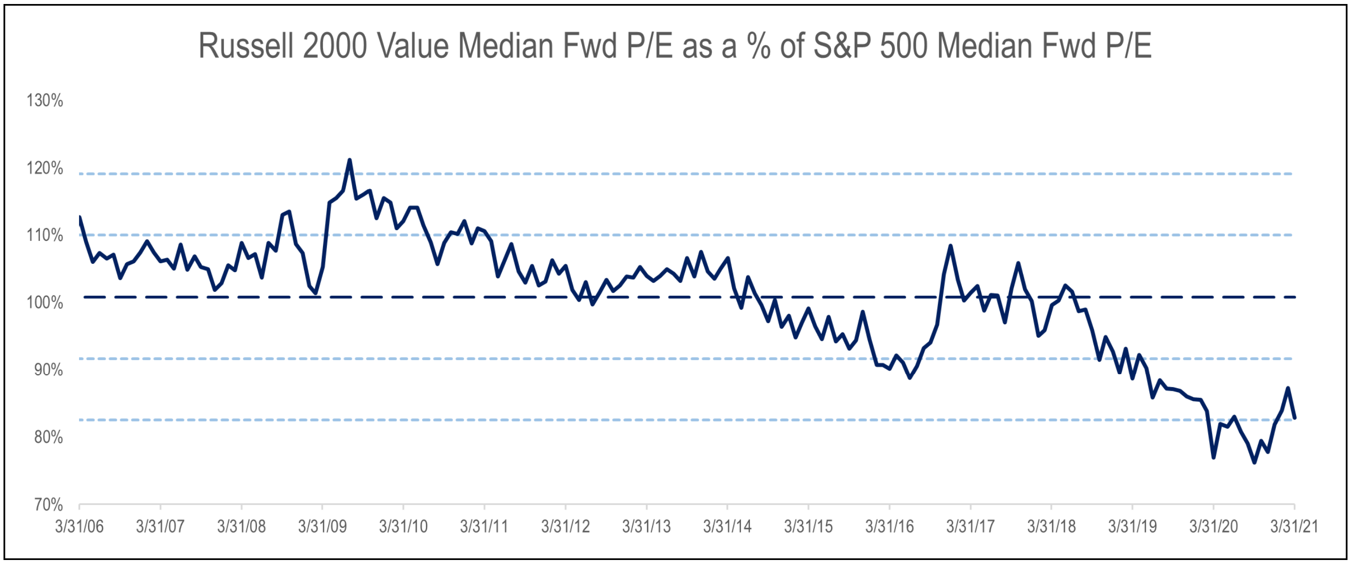
Returns are preliminary and subject to change. Past performance is no guarantee of future outcome.
Please refer to the last page for additional disclosures.

Investment Environment

Buttressed by an accommodative Federal Reserve, a White House eager to spend, and excess consumer savings, the rapidly expanding U.S. economy continues to support our deep value strategy. Rising equity and housing prices, combined with fiscal stimulus, have created a powerful wealth effect on the U.S. consumer whose spending accounts for roughly 70% of GDP. In his memo "2020 In Review" dated March 4, 2021, Oaktree Capital Co-Chairman Howard Marks states, "The combination of this extra disposable income with the ending of a prolonged period of isolation and release of pent-up demand has the potential to add substantially to short-term economic growth." Fittingly, a growing consensus among economists at the Federal Reserve, Morgan Stanley, and Goldman Sachs points to strikingly above-trend GDP growth for 2021 <u>and</u> 2022.

However, never-before-seen monetary and fiscal stimulus remains a potentially double-edged sword. Market participants must weigh the improving economic outlook against the likelihood of higher inflation and interest rates. Already we have seen growth stocks subdued and value stocks energized, likely because of rising rate expectations. If this "gravitational pull" of rising inflation and rate expectations continues, we believe our economically sensitive, high earnings power portfolio is well-positioned.

We have been showcasing a chart that we believe illustrates the historic relative valuation discount of our universe. Despite the recent outperformance of the small-cap value space, the median forward P/E ratio of the Russell 2000 Value relative to the median forward P/E ratio of the S&P 500 remains nearly two standard deviations below its 15-year average. Compared to the broader market, we believe small-cap value still looks cheap:



Median forward P/E ratios for the Russell 2000 Value and the S&P 500 are calculated using all companies with positive forward earnings estimates in the iShares Russell 2000 Value ETF (IWN) and SPDR S&P 500 ETF Trust (SPY), respectively, calculated on a month-end basis.
Source: S&P Capital IQ, Towle & Co.

As noted previously, we believe further closing of this valuation disparity will reward the patient value investor.

Portfolio Review

This section has been removed for compliance reasons to exclude discussing specific securities transactions.

Looking Ahead

It was only twelve months ago when COVID-19 set in and forced shutdowns around the world. And while in some ways the pandemic has changed us and how we interact, in many respects the new normal isn't really all that new. From our view, the pandemic served more as an accelerant than a change agent, adding wind to the sails of remote work, online shopping, streaming media, casual dress, and a host of other pre-existing trends. We are simply arriving at the future sooner.

In addition, the brief recession in 2020 was atypical. Rather than the overleveraged, excessive, exhausted environment that typically precedes recessions, corporate and personal balance sheets were generally solid in early 2020. Underlying demand was largely healthy. Over the course of the year, elevated savings rates and robust fiscal stimulus strengthened household financial conditions even further. As we come out the other side, released pent-up demand and de-bottlenecked supply chains should support strong growth.

Another outcome of the pandemic has been corporate optimization around labor forces, physical footprints, supply chains, and capital structures. Surviving businesses are significantly leaner, which should produce structurally higher margins when revenues return. Not only are the survivors leaner, but they should benefit from greater market share given competitor bankruptcies, forced consolidations, or strategic market exits.

Additionally, multiple industries are working through prolonged periods of underinvestment. The homebuilding space may be the best example, wherein a decades-long under-build following the 2008 housing crisis has yet to catch up to normalized demand, let alone the surge of first-time Millennial homebuyers. This same underinvestment dynamic can be found in energy, commodities, transportation, and utility infrastructure, to name a few. All told, we believe this longer-term dynamic adds further potential upside to the widely anticipated economic reopening.

In sum, the fire has been stoked – corporate and personal balance sheets are healthy, corporate cost structures are lean, our American infrastructure is primed for reinvestment, and underlying demand has been bottled up and shaken. Finally, "new normal" may be giving way to "new economic growth."

Fully invested, we believe the Towle portfolio is well positioned for a continued economic rebound.

J. Ellwood Towle
Christopher D. Towle
Peter J. Lewis, CFA
James M. Shields, CFA
Wesley R. Tibbetts, CFA
G. Lukas Barthelmess

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