

# Equity Risk Management Strategy

## Portfolio Manager Commentary

As of 6/30/2021



### Q2 2021 Overview

In 2020, the economic impact of COVID-19 caused U.S. real Gross Domestic Product (GDP) growth to decline 2.4%—the first negative yearly reading in over 10 years. However, with the introduction of vaccines beginning in November of last year, the U.S. economy began to slowly reopen. In the first quarter of 2021, U.S. real GDP advanced 0.4%—a small economic advance but definitely in the right direction. With several vaccines being administered and more doors of the U.S. economy starting to open, the recovery was soon full speed ahead.

Thus far, the economy and the stock market have rebounded as we expected. In the second quarter of 2021, U.S. real GDP growth is expected to register 13.0%—the fastest economic growth since World War II. After enduring a recession in 2020, the U.S. economy is now expected to grow 6.6% in 2021—more than twice its long-term sustainable growth rate. Consensus earnings growth rates for value stocks in 2021, measured by the Russell 1000 Growth Index, are forecast to reach 34% year-over-year compared to growth stocks at 24%. Year to date, the Russell 1000 Value Index is up 17.05% versus the Russell 1000 Growth Index, which has gained 12.99%, including dividends.

However, the best performing broad based index year to date has been the S&P 500 Low Volatility High Dividend Total Return Index, up 19.68%. Six months ago, investors wanted nothing to do with high dividend-paying stocks; today, they are the best performing equity investments.

In the second quarter of 2021, the NASDAQ Composite Total Return Index led the way gaining 9.68%. After underperforming for the last two quarters, growth stocks along with technology companies bounced back in the second quarter. The S&P 500 Total Return Index came in second place posting 8.55% for the quarter followed by the Dow Jones Industrial Average Total Return Index (Dow) which gained 5.08%. Year to date, the best performing index is the S&P 500 up 15.25%, followed by Dow +13.79%, and the NASDAQ +12.92%.

Small and mid cap stocks, also the net beneficiaries of an expanding economy, have generated strong performance gains. In the second quarter, the S&P SmallCap 600 Total Return Index gained 4.51% while the S&P MidCap 400 Total Return Index posted a 3.64% return. Although small and mid cap stocks underperformed large cap in the second quarter they continue to outperform year to date up 23.56% and 17.60%, respectively.

Parsing the internals of the stock market, the best performing S&P 500 sectors in the second quarter include Real Estate +12.86%, Information Technology +11.48%, Energy +10.95%, Consumer Staples +10.65%, Communication Services +10.65%, and Health Care +8.28%. The laggards include Financials +8.23%, Consumer Discretionary +6.90%, Materials +4.83%, Industrials +4.37%, and Utilities slightly down 0.62%.

Year to date, the best performing sectors in rank order are Energy +44.66%, Financials +25.33%, Real Estate +22.83%, Communication Services +19.50%, and Industrials +16.15%. The laggards include Materials +14.19%, Information Technology +13.60%, Health Care +11.58%, Consumer Discretionary +10.17%, Consumer Staples 4.61%, and Utilities +1.90%.

### Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

### Portfolio Management Team



Christopher M. Mutascio  
Senior Managing Director



Timothy M. McCann  
Senior Portfolio Manager

### About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets over \$4.6 billion as of June 30, 2021.\*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

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Overseas, the MSCI All Country World ex-USA Index posted a +5.48% return in the second quarter. The best performing large developed foreign markets were, in order, the Kospi Index (South Korea) +7.68%, CAC 40 Index (France) +7.26%, FTSE 100 Index (United Kingdom) +4.82%, Shanghai A Share Index (China) + 4.34%, DAX Index (Germany) +3.48%, IBEX 35 Index (Spain) +2.81%, Hang Seng Index (Hong Kong ) +1.58%, and the Nikkei 225 Index (Japan) -1.33%.

### Allocation Overview

The **Equity Risk Management Strategy (ERMS)** entered the second quarter of 2021 in a fully invested position with a 100% allocation to equities. There were no changes to the allocation during the quarter as neither our technical model nor our fundamental model experienced any defensive triggers. As such, ERMS remains fully invested in equities entering the third quarter.

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\*Total assets combines both Assets Under Management and Assets Under Advisement as of June 30, 2021. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

Any investment involves risks, including the risk of a loss of principal. Any investment involves risks, including a possible loss of principal. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials. It should not be assumed that any holdings included in these materials were or will prove to be profitable, or that recommendations or decisions that the firm makes in the future will be profitable or will equal the investment performance of the securities discussed herein. Diversification and/or asset allocation does not ensure a profit or protect against loss. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. **Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.** Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

The HFRI Equity Hedge Index (HFRIEHI) is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. The TR (Total Return) version of the index assumes that all cash distributions, such as dividends, are reinvested. The Dow Jones Industrial Average (DJIA) is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The S&P 500 Total Return Index tracks both the capital gains of the stocks in the S&P 500 Index over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company. The NASDAQ Composite Index, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The S&P MidCap 400<sup>®</sup> provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid cap universe on an ongoing basis. The S&P SmallCap 600<sup>®</sup> seeks to measure the small cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values. The MSCI All Country World ex-USA Net Total Return Index is a free-float weighted equity index. The Korean Composite Stock Price Index (KOSPI) is a market capitalization weighted index comprised of 200 of the largest and most liquid issues traded on the Korean Stock Exchange. The IBEX 35 is the official index of the Spanish Continuous Exchange. The index is comprised of the 35 most liquid stocks traded on the Continuous market. It is calculated, supervised and published by the Sociedad de Bolsas. The equities use free float shares in the index calculation. The Nikkei 225 Stock Average is a price-weighted index composed of Japan's top 225 blue chip companies traded on the Tokyo Stock Exchange. The Hang Seng Index is a market capitalization-weighted index of the largest companies that trade on the Hong Kong Exchange. The index aims to capture the leadership of the Hong Kong exchange and covers approximately 65% of its total market capitalization. The CAC 40 Index is a market-capitalization weighted index of the 40 largest and most liquid companies traded on the Paris Bourse stock exchange. The FTSE 100 is a market-capitalization weighted index of UK-listed blue chip companies designed to measure the performance of the 100 largest companies traded on the London Stock Exchange that pass screening for size and liquidity. The Shanghai A-Share Stock Price Index is a capitalization-weighted index tracking the daily price performance of all A-shares listed on the Shanghai Stock Exchange that are restricted to local investors and qualified institutional foreign investors. The DAX (Deutscher Aktienindex) Index is a blue chip index in Germany tracking the performance (including dividends) of the 30 most actively traded stocks on the Frankfurt Stock Exchange. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

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