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GLOBAL INVESTMENTS

QUARTERLY UPDATE: 4Q 2021
LARGE CAP CORE UNSCREENED COMMENTARY

Separately Managed Account
(Formerly Large Cap Core Growth)

written by
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Large Cap Core Unscreened Top 10 Model Holdings [1]

Microsoft Corp.	7.9%
Apple, Inc.	7.2%
Alphabet Class C	5.7%
UnitedHealth Group, Inc.	3.2%
JP Morgan Chase & Co.	2.7%
Ford Motor Co.	2.5%
Abbott Labs	2.4%
Mastercard, Inc.	2.4%
Abbvie, Inc.	2.4%
Home Depot, Inc.	2.2%

% of Total Portfolio: 38.6%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2021.

Markets and Performance

U.S. equities were up in 2021 for a third straight year. The most significant tailwinds came from "pedal to the metal" monetary and fiscal policies. Earnings exceeded expectations by a record amount driven by solid revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations. The U.S. economy grew at the fastest pace since 1984, with real GDP estimates at 5.5%. In the November report, unemployment fell to 4.2%, with average hourly earnings up 3.5% through eleven months. However, the CPI rose 6.8% over the last twelve months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, ISM manufacturing and services, and housing were strong. Within equities, growth outperformed value, and large stocks outperformed small. The Large Cap Core Unscreened model portfolio benefited from a focus on value, returning 11.94% in the fourth quarter, outperforming its benchmark (Russell 1000 Index) by 217 basis points.

Positive and Negative Contributors to Performance

As noted, the Large Cap Core Unscreened Strategy continues to be re-positioned less towards growth and more towards value. This view paid off in the fourth quarter and resulted in the Strategy soundly beating its benchmark. The largest positive contributors to performance included Ford (2.5% of total net assets), UnitedHealth (3.2% of total net assets), AbbVie (2.4% of total net assets), Anthem (2.0% of total net assets), Microsoft (7.9% of total net assets), and Lennar (1.7% of total net assets). Negative contributors included Capital One Financial (1.7% of total net assets), Charter Communications (1.3% of total net assets), and L3Harris Technologies (2.0% of total net assets).

Looking Ahead

It will be difficult for companies to sustain year-end 2021 profitability levels as revenue growth slows in the coming quarters.

Looking Ahead (continue)

That said, some of the headwinds to margins from moderating top-line growth could be offset by declining shipping and raw materials input costs, as bottlenecks begin to gradually ease in response to stepped-up efforts by policymakers to resolve logistical logjams. Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace. The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategy to become more cautious in the months to come. We continue to be a trimmer of expensive (high P/E) growth names while recycling the proceeds into cheaper, more cyclically oriented, value names. We begin 2022 with healthcare providers, software companies, and banks representing our largest industry weights.

Our Firm

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