

# Quarterly Commentary: Market Series Quantitative Portfolios (QPs) All Cap Core

Fourth Quarter (Q4) 2021

## Market Environment

The US economy delivered slowing growth in the quarter, having been adversely affected by the Delta variant of Covid-19 as well as fading economic stimulus. The results were somewhat weaker than the numbers indicated, as consumer spending rose at its slowest rate since the recovery began. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the third-quarter 2021 real GDP, a seasonally adjusted annualized increase of 2.3%, slightly higher than the prior estimate, but a significant decline from the 6.7% increase in the prior quarter. The employment situation disappointed in the quarter, as gains were far below expectations. The November report showed that employers added 210,000 jobs in the month, and that the unemployment rate fell to 4.2%. The Federal Open Market Committee (FOMC) maintained its federal funds rate target range of 0% to 0.25%. However, the central bank increased the amount of its tapering program from \$15 billion to \$30 billion in an acknowledgement that it has underestimated the level and persistence of inflation. In addition, the FOMC removed the word "transitory" from its accompanying statement in describing the high inflation rate. The FOMC's "dot plot," a forecast of future rate changes, indicates the Committee now expects three 25-basis-point rate hikes in 2022, and another three in 2023.

## Portfolio Commentary

The Market Series All Cap Core strategy generated robust positive absolute returns in the quarter, and performance was in line with the benchmark on a relative basis. The strategy generated a total return of 9.63% compared with the 9.16% return of the CRSP US Total Market Index. For the full year, the strategy delivered a total return of 25.86% compared with the 25.72% return for the benchmark.

Sector selection has a relatively minor effect on performance, as the QPs are constructed to be sector neutral at rebalancing. Accordingly, the portfolio's relative performance was driven primarily by individual security selection. Sector allocation detracted 17 basis points to performance, whereas stock selection within sectors contributed 64 basis points during the quarter. The sectors in which positive stock selection occurred included Financials and Real Estate. Sectors that experienced negative stock selection included Communication Services and Energy.

Positively contributing to the Market Series All Cap Core strategy's performance during the quarter was an overweight to Synopsys Inc. (SNPS), which gained almost 24%. The stock also outperformed the 17% return of the Information Technology sector.

The portfolio also benefited from having an overweight to Pfizer Inc. (PFE). The pharmaceuticals giant surged almost 37%, and contributed 13 basis points to performance.

Ford Motor Co.'s (F) overweight position relative to the benchmark resulted in a 12-basis-point contribution to the portfolio. The auto manufacturer jumped approximately 45% on the quarter.

An overweight position to NovoCure Ltd. (NVCR) detracted 23 basis points from the portfolio's active return. The stock of the health care equipment company declined about 31% during the quarter.

PayPal Holdings Inc. (PYPL) experienced a 26% decline during this quarter, detracting 19 basis points from the portfolio as a result of its overweight allocation.

The portfolio also suffered during the quarter from having an overweight to DocuSign Inc. (DOCU). The software company's stock declined about 39% in the quarter, even as the Information Technology sector gained more than 17%.

The economy's growth slowed somewhat during the quarter, as supply chain issues and the effects of the Omicron variant of the COVID-19 virus caused disruptions. Earnings growth was strong in the third quarter, bringing down stock valuations from all-time highs, even as the market itself closed the quarter near record levels. Analysts expect increased volatility in 2022 as the Federal Reserve seeks to normalize monetary policy.

## Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	Pfizer Inc. (PFE)	+13 bps	Overweight	1.09%	The pharmaceuticals giant surged almost 37%.
	Ford Motor Co. (F)	+12 bps	Overweight	0.57%	The auto manufacturer jumped approximately 45% in the quarter.
	CMC Materials Inc. Ordinary Shares (CCMP)	+11 bps	Overweight	0.28%	The semiconductor manufacturer rallied about 55%.
	Rexford Industrial Realty Inc. (REXR)	+11 bps	Overweight	0.39%	The equity real estate investment trust (REIT) advanced more than 42% in the quarter.
	First Industrial Realty Trust Inc. (FR)	+10 bps	Overweight	0.65%	Another equity REIT position, the stock gained 27%.
Detractors	NovoCure Ltd. (NVCR)	-23 bps	Overweight	0.47%	The stock of the health care equipment company declined about 31% during the quarter.
	PayPal Holdings Inc. (PYPL)	-19 bps	Overweight	0.95%	The IT services company sank about 26% during the quarter.
	DocuSign Inc. (DOCU)	-15 bps	Overweight	0.34%	The software company's stock declined about 39% in the quarter, even as the Information Technology sector gained more than 17%.
	Peloton Interactive Inc. (PTON)	-13 bps	Overweight	0.17%	The leisure products company's stock fell by more than 55%.
	Broadcom Inc. (AVGO)	-12 bps	No exposure	0.00%	The stock of the semiconductor manufacturer rose by about 38%, outperforming the broader sector's 17% gain.

# Q | R | G

### Disclosure

The **Russell 1000 Index** is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The **Russell 1000 Value Index** refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability. The **CRSP US Large Cap Index** includes U.S. companies that comprise the top 85% of investable market capitalization.

**Returns displayed represent model returns.** Model performance is not based on actual client assets, does not represent actual trading, and may not reflect the impact that material economic and market factors might have had on the advisor's decision-making if the advisor were actually managing client assets. The actual performance of an actively managed account will not completely mirror model returns, and actual client returns may vary from model returns. The returns shown do not reflect any customized investment screens or other investment restrictions that an investor may place on an investment strategy. The portfolio's current actual performance may be lower or higher than the performance data quoted, and these returns should not be considered as indicative of the skills of Envestnet. Model returns are based on data received from the asset manager as reported to Morningstar. Actual investment advisory fees of Envestnet Asset Management, Inc. are described in Part 2A or, Part 2A – Appendix I of Form ADV, as applicable. Investments in the proposed strategy involve risk, including the loss of principal. The information presented is intended for advisor use only or with an advisor in a one-on-one consultant basis with a client. Model returns are calculated by obtaining the weighted monthly returns of the strategy component holdings from the prior month end to the current month end. These weighted returns are then added to the prior month's return history and annualized. Performance is calculated based upon the historical asset allocations at the beginning of each month during the periods shown, which may differ from the current allocation. The performance results of the underlying holdings in the model portfolio assume the reinvestment of dividends and other earnings. The holdings comprising the strategies and the allocations to those holdings have changed over time and may change in the future. The historical model performance has not been adjusted to reflect current holding allocations. An investment pursuant to this model portfolio is subject to market risk, and an investor may experience loss of principal.

The information, analysis, and opinions expressed herein are for general and educational purposes only. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Nothing contained in this brochure is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment vehicle. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

**Past performance is not indicative of future results.**

Neither Envestnet, Envestnet | PMC™ nor its representatives render tax, accounting or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor. Indexes are unmanaged. It is not possible to invest directly in an index.

If interested in the attribution calculation methodology, or for the full list of portfolio contributors and detractors, please e-mail [qrg@envestnet.com](mailto:qrg@envestnet.com).