

Quarterly Commentary: Market Series Quantitative Portfolios (QPs) Large 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 Large 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 9.90% compared with the 10.12% return of the CRSP US Large Cap Index. For the full year, the strategy delivered a total return of 27.66% compared with the 27.06% 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 contributed 10 basis points to performance, whereas stock selection within sectors detracted 32 basis points during the quarter. The sectors in which positive stock selection occurred included Information Technology and Financials. Sectors that experienced negative stock selection included Consumer Staples and Utilities.

Positively contributing to the Market Series Large 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 NVIDIA Corp. (NVDA). The semiconductor company surged almost 43%, and contributed 15 basis points to performance.

Accenture PLC Class A's (ACN) overweight position relative to the benchmark contributed 11 basis points to the portfolio. The IT services company outperformed the overall Information Technology sector.

An overweight position to PayPal Holdings Inc. (PYPL) detracted 16 basis points from the portfolio's active return. The IT services company sank about 26% during the quarter.

Block Inc. Class A (SQ) experienced a 31% decline during this quarter, detracting 12 basis points from the portfolio as a result of its overweight allocation.

The portfolio also suffered during the quarter from having an overweight to Twitter Inc. (TWTR). The interactive media company's stock declined almost 27% in the quarter, even as the Communication Services sector gained more than 1%.

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	Synopsys Inc. (SNPS)	+17 bps	Overweight	1.43%	The software company gained almost 24% in the quarter.
	NVIDIA Corp. (NVDA)	+15 bps	Overweight	2.15%	The semiconductor company surged almost 43%.
	Accenture PLC Class A (ACN)	+11 bps	Overweight	1.17%	The IT services company outperformed the overall Information Technology sector.
	Zoetis Inc. Class A (ZTS)	+9 bps	Overweight	0.87%	The pharmaceuticals stock gained more than 26%, outpacing the 11% return of the health care sector.
	Pfizer Inc. (PFE)	+7 bps	Overweight	0.98%	The pharmaceuticals giant surged almost 37%.
Detractors	PayPal Holdings Inc. (PYPL)	-16 bps	Overweight	0.97%	The IT services company sank about 26% during the quarter.
	Block Inc. Class A (SQ)	-12 bps	Underweight	0.46%	The stock declined about 31% in the quarter, far underperforming the Information Technology sector.
	Twitter Inc. (TWTR)	-11 bps	Overweight	0.34%	The interactive media company's stock declined about 26% in the quarter, even as the Communication Services sector gained more than 1%.
	Verizon Communications Inc. (VZ)	-11 bps	Overweight	1.30%	The telecom services company's stock fell by about 2%.
	Medtronic PLC (MDT)	-11 bps	Overweight	0.74%	The stock of the health care equipment manufacturer fell by about 16%, underperforming the broader sector's 11% gain.

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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.

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