

Quarterly Commentary: Market Series Quantitative Portfolios (QPs) Large Cap Dividend Income

First Quarter (Q1) 2022

Market Environment

The US economy generated accelerated growth in the quarter, as pandemic-related restrictions had increasingly been lifted and the Omicron variant emerged too late to have affected the data. Against this backdrop, the Bureau of Economic Analysis released the third estimate of the fourth-quarter 2021 real GDP, a seasonally adjusted annualized increase of 6.9%, slightly lower than the prior estimate, but a meaningful improvement over the 2.3% increase in the prior quarter. The employment situation surprised on the upside in the quarter, as gains were far above expectations. The February report showed that employers added 678,000 jobs in the month, and that the unemployment rate fell to 3.8%. The Federal Open Market Committee (FOMC) began what is expected to be a long cycle of interest rate increases, raising its federal funds rate target range to 0.25%-0.50%, from a range of 0%-0.25%. The FOMC signaled that this increase will be the start of what it referred to as an "ongoing" series of increases. Analysts expect the FOMC to implement an additional five or six rate hikes by year end as it attempts to cool inflation while not harming the economy.

Portfolio Commentary

The Market Series Large Cap Dividend Income strategy generated modest positive absolute returns in the quarter, but performance slightly lagged the benchmark on a relative basis. The strategy generated a total return of 0.27% compared with the 1.00% return of the CRSP US Large Cap Value Index. At the end of the quarter, the portfolio offered a dividend yield of 4.15% compared with a yield of 2.40% for the benchmark.

The CRSP US Large Cap Value Index's quarterly return significantly outperformed the -10.28% return for the CRSP US Large Cap Growth Index. The portfolio is designed to provide beta exposure and returns similar to those of the benchmark, but with a substantially higher dividend yield. Portfolio holdings include dividend-paying stocks that rank highly according to quality metrics, which underpin a company's ability to continue payments to shareholders.

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 from performance, whereas stock selection within sectors detracted 56 basis points during the quarter. The sectors in which positive stock selection occurred included Consumer Discretionary and Materials. Sectors that experienced negative stock selection included Financials and Industrials.

Positively contributing to the Market Series Large Cap Dividend Income strategy's performance during the quarter was an overweight to AbbVie Inc. (ABBV), which gained about 21%. The stock also outperformed the -2.5% return of the Health Care sector.

The portfolio also benefited from having an overweight to Exxon Mobil Corp. (XOM). The oil and gas giant surged more than 36%, and contributed 36 basis points to performance.

An overweight to Steel Dynamics Inc. (STLD) resulted in a 30 basis-point contribution for the portfolio. The metals and mining company's stock jumped approximately 35% in the quarter.

A lack of exposure to Berkshire Hathaway Inc. Class B (BRK.B) detracted 34 basis points from the portfolio's active return. The stock of the financial services giant rose more than 18% during the quarter.

Chimera Investment Corp (CIM) dropped 18% during this quarter, detracting 33 basis points from the portfolio as a result of its overweight allocation.

The portfolio also suffered during the quarter from having an overweight to Annaly Capital Management Inc. (NLY). The mortgage company's stock declined about 7% in the quarter, detracting 32 basis points from portfolio performance as a result of its overweight allocation.

Inflation is at the highest level in more than 40 years, and investors are anxious about how the FOMC will attempt to dampen further price increases. Supply chain issues persist, but economic growth is expected to continue over the next few quarters. New virus variants and an expansion of geopolitical tensions could create additional financial markets volatility, as could the lead-up to this fall's mid-term elections.

Model Portfolio Attribution

	Performance Driver	Active Return Contribution	Portfolio Exposure	Average Weight in Model	Comments
Contributors	AbbVie Inc. (ABBV)	+75 bps	Overweight	5.45%	The biotechnology company's stock gained about 21%.
	Exxon Mobil Corp. (XOM)	+36 bps	Overweight	3.12%	The oil and gas giant's stock surged more than 36%.
	Steel Dynamics Inc. (STLD)	+30 bps	Overweight	0.85%	The stock of the metals and mining company advanced about 35%.
	Nucor Corp. (NUE)	+22 bps	Overweight	0.99%	The materials company's stock gained 31%.
	Antero Midstream Corp. (AM)	+17 bps	Overweight	1.34%	The oil and gas services firm's stock advanced about 15%.
Detractors	Berkshire Hathaway Inc. Class B (BRK.B)	-34 bps	No exposure	0.00%	The stock of the financial services giant gained more than 18% during the quarter.
	Chimera Investment Corp (CIM)	-33 bps	Overweight	1.57%	The mortgage REIT fell by 18% during this quarter, detracting 33 basis points from the portfolio as a result of its overweight allocation.
	Annaly Capital Management Inc (NLY)	-32 bps	Overweight	3.85%	The mortgage company's stock declined about 7% in the quarter.
	Eaton Corp PLC (ETN)	-32 bps	Overweight	2.62%	The electrical equipment manufacturer's stock fell by almost 12%, detracting 32 basis points from performance.
	AGNC Investment Corp (AGNC)	-26 bps	Overweight	2.09%	The stock of the mortgage REIT declined by about 11%.

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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 Value Index** measures the investment return of large-capitalization value stocks. The **CRSP US Large Cap Index** includes U.S. companies that comprise the top 85% of investable market capitalization. The **CRSP US Large Cap Growth Index** employs a version of banding and migration between value and growth similar that can occasionally result in splitting securities between the two style assignments.

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