DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY
FIRST QUARTER 2018

Jon Quigley, CFA
Chief Investment Officer,
Disciplined Equities

John D. Bright, CFA
Senior Portfolio Manager,
Disciplined Equities

Deepesh Bhatia, MBA, MS
Research Analyst

Dmitri Prokhorov
Research Analyst

Lyn Taylor
Research Analyst

Market Review

U.S. equities charged sharply higher across the board during January, boosted by record consumer and business confidence numbers. By late January, however, volatility had resurfaced and the S&P 500 Index suffered its first correction since early 2016. Tariff and trade war jawboning have led to continued volatility and pressure on the market as we closed the first quarter with modest losses on most headline U.S. equity indexes.

Size/Style

Unlike 2017, performance improves as we slide down the capitalization spectrum during Q1. Growth again dominated value, but the relative performance of the two styles turned increasingly in value's favor as the quarter progressed.

- Small-caps outperformed both mid-caps and large-caps during Q1 (a reversal from 2017).
- From a style perspective, growth outpaced value across the capitalization spectrum (a continuation of 2017).

Russell 3000 Sectors

Given the relative consistency of sector performance at the top end of the market, overall Russell 3000 sector performance was fairly consistent with Q4 2017:

- Technology and Consumer Discretionary stocks continued their strong relative performance, occupying the top two slots.
- Consumer Staples continued their relatively weak performance, as did Energy and Utility stocks.

Market Outlook

Recent market volatility brought us our first correction in a couple of years, and has curbed some of the excess valuation (and optimism) from U.S. equity markets. The economy remains quite solid; confidence is very high, small businesses are bullish due in large part to the regulation tide moving out, and excess inflation is largely absent. The Fed is of course now practicing QT (Quantitative Tightening), as well as now having bumped the Federal Funds Rate six times. We're in late innings, but the economy itself is not flashing any red lights.

The AllCap portfolio currently favors growth over value, especially within the large and mid-capitalization spectrum, and has an emphasis on strong share price momentum and low P/E ratios, while tilting against companies paying a high dividend yield (which are less attractive in a rising rate environment) having high historical earning variability. Technology (Software) and Industrial (Industrial Parts) sectors are in favor, while Health Care (Biotech), Energy (Energy Reserves) and Financials (Equity REITs) sectors are most out of favor.