DISCIPLINED EQUITY

ALLCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Second Quarter 2020

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MARKET REVIEW

U.S. equities recovered sharply across the board during the second quarter, following the bloodbath of Q1. Year-to-date losses for larger-cap stocks now stand in the low single digits, while smaller-cap stocks have losses in the low double-digits.

Russell 3000

The Russell 3000 Index recorded a 22% advance during Q2, but remains 3.5% lower for the calendar year.

Size/Style

- Within the R3000, small-caps outperformed both mid-caps and large-caps during Q2 (a reversal from Q1).
- From a style perspective, growth outpaced value across the capitalization spectrum (a continuation of Q1). Growth stocks have a substantial lead over value stocks for the 3, 5, and 10 year periods.

Russell 3000 Sectors

We observe a negative quarter-to-quarter correlation of relative sector performance within the Russell 3000 Index. Defensive, counter-cyclical stocks faded the rebound, which was instead led by cyclicals:

- Technology was able to continue its strong relative performance, and was the second-best performing sector overall with a 30.9% advance. Energy stocks paced the Russell 3000 Index with a 31.5% gain, and Consumer Discretionary stocks rebounded 30.6%.
- Utilities stocks were the clear laggards during Q2, scratching out a 2.8% gain; the next-worst sector (Consumer Staples) added 8.5%.

SECOND QUARTER ATTRIBUTION

The AllCap strategy advanced a heady 25.1% during the quarter, beating the benchmark Russell 3000 Index's 22% advance. The table on the following page breaks down the contributions from sector positioning and stock selection.

In total, sector positioning added 1.78% to active return.

Stock selection within the respective sectors added an additional 1.27% to active return.

SECTOR	GLA WEIGHTING	R3000 WEIGHTING	% ACTIVE	GLA RETURN	R3000 RETURN	% ADDED	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIB
Comm Services	8.14	9.92	-1.78	24.63	21.03	3.60	0.02	0.30	0.32
Consumer Disc.	15.94	10.79	5.14	30.04	37.51	-7.47	0.76	-1.14	-0.38
Cons. Staples	1.61	6.67	-5.06	5.58	8.89	-3.31	0.76	-0.14	0.62
Energy	0.76	2.74	-1.98	44.32	32.34	11.97	-0.48	0.09	-0.39
Financials	6.76	10.96	-4.20	10.30	12.67	-2.37	0.24	-0.17	0.06
Health Care	11.70	15.45	-3.75	25.76	16.72	9.03	0.14	1.09	1.24
Industrials	14.43	8.74	5.68	17.41	18.41	-1.00	-0.23	-0.21	-0.44
Technology	27.50	25.17	2.33	38.93	31.63	7.30	0.12	1.84	1.96
Materials	6.17	2.66	3.50	22.54	26.25	-3.71	0.15	-0.22	-0.06
Real Estate	5.86	3.68	2.18	9.53	13.50	-3.97	-0.13	-0.12	-0.25
Utilities	1.15	3.22	-2.07	6.12	2.38	3.75	0.43	-0.06	0.37
TOTAL	**100**	**100**		**25.07**	**22.03**	**3.04**	**1.78**	**1.27**	**3.04**

Source: GLA and Bloomberg. Performance numbers are gross of fees.

MARKET OUTLOOK

This quarter reveals the exceptional nature of this COVID-19-driven recession (as formally declared by the NBER). And this says little or nothing of the massive dislocation of the oil market, the unprecedented fiscal and monetary policy responses, and the social and political unrest in the country at this time. And the financial markets appear to be confounding many an investment legend, from Cliff Asness to David Tepper to Stan Druckenmiller and even Warren Buffet.

But we must ground ourselves in data. As Sherlock Holmes said: "Data! Data! Data! ... I can't make bricks without clay."

A number of widely-followed economic indicators hit record levels, some by a wide margin. Among the data which highlight the damage:

- Highest level of unemployment since the Great Depression
- Consumer Confidence falls off a cliff
- Retail sales drop the most on record during April
- Industrial Production posts its sharpest monthly decline
- Capacity Utilization hits record low
- Leading Economic Indicators turn negative; Coincident to Lagging Indicators hitting all-time low
- Housing permits, starts, and existing home sales plunged early in Q2
- Oil Prices drop below $0 briefly, and Goldman Sachs Commodity Index hits 30+ year low

The collective policy response to the first wave of COVID-19 has been quite effective. Financial conditions have eased substantially as the Fed's balance sheet swelled by some 85% over the past 10 months (recall, quantitative easing actually began last September) and M2 leapt by 20%+. This led to a string of positive economic surprises as the quarter wore on. Yields on 10yr Treasuries remain near record lows, the USD remains strong – even while Gold approaches a record high – quality spreads have narrowed, and home prices have remained surprisingly resilient. A true second wave could, however, bring about the need for additional stimulus.

The U.S. equity market appears to have priced in a pretty solid and quick recovery scenario. By almost any traditional valuation metric (granted, valuation metrics under this type of economic volatility are iffy), U.S. equities are expensive. The exception points to TINA* as the excuse to drive sustained gains: both the S&P 500 and Russell 2500 are inexpensive relative to bonds as measured by the Equity Risk Premium.

*TINA: There is no alternative

Positioning:

The AllCap models have moved away from risk-averse positioning, but aren't demonstrating a tremendous appetite for risk just yet, either. Momentum and Growth are the characteristics most in favor, while Earnings Yield, Value, and Yield are all out of favor. Growth is also in favor across all capitalization and style groups.

Tech stocks have swung modestly into favor, led by the Software industry group. Health Care (especially Biotech and Medical Service) is most in favor as we enter Q3. By contrast, Financials (especially Banks) have become unattractive.

From a return-driver perspective, the Quality category has moved from most in favor to generally out of favor. The Value cohort has also fallen out of favor. Growth factors are modestly in favor, led by trailing 5 year Sales & Earnings growth, respectively. Momentum has turned favorable, as have most factors which proxy volatility.

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The data in the attribution table represent the returns for each sector and for the gross returns for a representative composite account for one quarter ending the current calendar quarter. Individual account returns may vary.

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