

# FUNDAMENTAL EQUITY LARGE CAP VALUE



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

## MANAGER COMMENTARY *Second Quarter 2020*

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## MARKET REVIEW

U.S. equities ended 2Q20 on a strong note following the sharp decline of 1Q20. Notwithstanding the material rebound, volatility continued during the quarter reflecting massive monetary and fiscal actions coupled with a relaxation of some COVID-19 restrictions. The Russell 1000 Value Index advanced 14.3% in the second quarter of 2020. The broader market, represented by the S&P 500, gained 20.5%.

### *Russell 1000 Value Sectors*

In a reversal of 1Q20, all sectors had positive returns in 2Q20 led by Energy +32.3%, Consumer Discretionary +29.2%, and Materials +27.7%. Typically less economic sensitive sectors trailed with Consumer Staples +7.6% and Utilities +3.0% - the only sectors up less than double digits.

## SECOND QUARTER ATTRIBUTION

The Great Lakes Advisors Large Cap Value strategy gained 14.7%, 35 bps above the benchmark.

In total, sector positioning enhanced active return by 47 bps:

- Our underweight position in Utilities helped relative performance by 53 bps, and our overweight exposure to Energy improved relative performance by 30 bps.
- A higher than typical cash position and our underweight allocation to Materials were negative contributors and detracted 90 bps and 33 bps, respectively, from relative performance.

Stock selection within the respective sectors detracted 12 bps from active return.

## 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

## SECOND QUARTER ATTRIBUTION

SECTOR	GLA WEIGHTING	GLA RETURN	R1000V WEIGHTING	R1000V RETURN	SECTOR ALLOCATION	STOCK SELECTION	ACTIVE CONTRIBUTION
Financials	23.04	15.90	21.65	11.30	0.00	1.03	1.03
Health Care	18.07	10.61	15.34	11.28	0.04	-0.39	-0.35
Industrials	13.99	13.34	9.00	17.45	0.13	-0.54	-0.41
Consumer Disc.	7.93	32.51	5.94	29.15	0.27	0.26	0.53
Energy	7.28	11.42	6.19	32.27	0.30	-1.31	-1.02
Comm. Services	6.94	19.34	8.19	11.28	0.06	0.56	0.62
Consumer Staples	6.63	6.97	10.20	7.56	0.28	0.06	0.34
Technology	6.36	13.60	7.46	19.59	-0.02	-0.38	-0.40
Utilities	2.93	10.99	7.36	3.01	0.53	0.23	0.76
Materials	1.75	56.73	4.45	27.66	-0.33	0.36	0.03
Real Estate	--	--	4.22	11.92	0.11	--	0.11
Cash	5.09	0.03	--	--	-0.90	--	-0.90
<b>Total</b>	<b>100</b>	<b>14.65</b>	<b>100</b>	<b>14.30</b>	<b>0.47</b>	<b>-0.12</b>	<b>0.35</b>

Source: GLA, FactSet. Percentages may not add to 100% due to rounding. Performance numbers are gross of fees.

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

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The data in the attribution table represent the returns for each sector and 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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