MULTI-ASSET STRATEGY

COMMENTARY

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Third Quarter 2020

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MARKET REVIEW

While global markets ended the 3rd quarter with positive gains, volatility increased throughout the last three months with September returns for all global asset classes turning negative. The winding down of fiscal stimulus programs, lack of any additional fiscal stimulus on the horizon, pending U.S. election, and uneven progress against the spread of COVID-19 all contributed to rising volatility during the quarter and negative returns in September.

International Small Cap, up 10.5%, and Emerging Markets, up 9.6%, led asset class returns during the quarter as their distance from U.S. politics and better local progress against the pandemic continued to show in results for the quarter. While U.S. Large Cap stocks kept pace with an 8.9% gain, market leadership remained very narrow with fewer than ten stocks accounting for most of the outperformance of larger cap stocks over small cap stocks, which only gained 4.9% for the quarter.

THIRD QUARTER STRATEGY PERFORMANCE

Great Lakes' Multi-Asset Strategy programs slightly trailed a representative basket of similarly weighted global indexes during the quarter. Manager selection, isolated primarily in two specific strategies, drove 90% of the underperformance. The strategies' allocations between different asset classes also detracted from performance in the quarter, but was limited to two asset classes with all others showing positive contribution.

- Our underweight position to U.S. Large Cap Growth vs. an overweight in U.S. Large Cap Value was the sole detractor from asset allocation. Depending on strategy, the growth-value disparity cost portfolios 12 to 23 basis points.
- The allocation to the Infrastructure asset class, a net contributor for the year, subtracted 7 to 21 basis points in the third quarter as Global Listed Infrastructure was the sole asset class to post negative returns for the quarter.

Manager selection detracted 20 to 47 basis points in the quarter depending on strategy allocation, with income-based strategies at the low end, balanced strategies at the high end, and growth-based strategies falling in the middle.

MARKET OUTLOOK

Electoral history points to a diminishing probability of a Trump reelection as we will now reach November 3rd with the highest level of unemployment on Election Day since the Department of Labor began keeping the official record after World War II. In total, the economy is down 4.7 million jobs since President Trump's 2017 inauguration, far exceeding the prior high of 650,000 set by George W. Bush by the end of his first term. Additionally, we have to cast back to the reelection of William McKinley in 1900 to find the last incumbent reelected to a second elected term when a recession occurred on or up to two years before Election Day.

In reaction to these and other recent developments in the election cycle, the market appears to be moving toward pricing in a "blue wave" election result regardless of the increased volatility brought by recent rhetoric. This move could result in the capitalization weighted S&P 500 Index posting narrower gains than the equal-weighted version of the same index as the narrow market leadership of 2020 gives way to a broader recovery. Such movement would be cathartic, even if the headline S&P 500 return looked anemic or even negative, as many investors sit in stocks trailing the outsized performance of the few market leaders.

With the last month until the election grabbing the short-term focus of investors, we prefer to look beyond the daily gyrations of the market and focus on the longer-term. Hope for much needed fiscal stimulus remains positive for early 2021 as do prospects for a vaccine in the new year. The increasing probability of a Biden victory might ordinarily weigh on risk assets to the tune of a 10% pullback, similar to the 10% that President Trump's election caused based on the implied policy shift from Obama; however, the urgent need for fiscal stimulus to support the nascent recovery supersedes fears of increased taxation and may see markets react positively in the short to intermediate term.

We remain positioned for increased levels of volatility in the short-term as implied volatility in U.S. markets remains elevated through January. Once certainty around the U.S. election emerges, we are likely to see markets settle back into a slow crawl forward with larger moves again linked to progress against the global pandemic and any tailwinds for the economic recovery. We also remain poised to rebalance portfolio weightings and asset class exposures as the path forward becomes clearer.

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