M U L T I - A S S E T   S T R A T E G Y

COMMENTARY

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY

Fourth Quarter 2020

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MARKET REVIEW

Global markets surged in the fourth quarter driven by the arrival of COVID-19 vaccines, the passing of Election Day in the U.S., and anticipation for additional fiscal stimulus. Equity market performance for much of the year had been dominated by a small group of large technology stocks while most other areas of the market lagged significantly. In fact, the divergence in performance between the high-flying cadre of technology companies and the rest of the market reached historical extremes in 2020. However, the fourth quarter finally saw broader participation from traditional value stocks, international equities, and smaller capitalization stocks.

For the quarter, U.S. small cap stocks led asset class performance with a 31.4% return. Developed international stocks bested U.S. large cap stocks 16.1% to 12.2% as international markets are comprised of a larger weighting of more traditional “value” sectors. Emerging market equities also performed well with a 19.7% return driven by improving prospects for energy exporters, like Brazil and Russia, along with strong economic results from China. Emerging market debt also performed well for similar reasons, leading fixed income asset classes with a 5.8% return in the quarter.

FOURTH QUARTER STRATEGY PERFORMANCE

Great Lakes’ Multi-Asset Strategy programs outperformed a representative basket of similarly weighted global indexes during the quarter. Manager selection drove 86% of the outperformance in balanced strategies with international equity, U.S. large cap, and emerging market debt managers of particular note. The strategies’ allocations between different asset classes also aided returns in the quarter in aggregate with positive contributions from most weightings and one notable detractor.

- Our underweight position to investment grade bonds, both U.S. and international, contributed to outperformance as all other asset classes showed strong positive gains in the quarter. An overweight position in emerging market equity was also a net contributor, while the overweight in international equity was the largest contributor to outperformance from asset allocation.
- The sole notable detractor was an underweight position in U.S. small cap stocks, which were the best performing asset class for the quarter. The allocation still provided significant positive contribution to return from an absolute basis but was a relative detractor.

Manager selection added 73 to 99 basis points in the quarter for balanced and growth oriented strategies while income oriented strategies saw their returns driven primarily by asset allocation.

MARKET OUTLOOK

We noted in last quarter’s commentary that the equal weighted S&P 500 Index was positioned to outperform the headline, market-cap weighted Index. That quickly became reality in the fourth quarter as the equal weighted index outperformed its market-cap weighted sibling by more than 6.3% (18.47% to 12.15%) in the quarter. However, this still does not close the chasm between the two for the full year with the equal weighted index still trailing by 5.6%.

Conditions appear supportive of the recent trend of outperformance by traditional value stocks, international equities, and smaller capitalization stocks to continue into 2021. Both the continued global rollout of the vaccines for COVID-19 and prospects for further fiscal support – in the form of the incoming administration’s American Rescue Plan – are broadly supportive of areas of the market that trailed in 2020. Barring a significant negative development in the fight against COVID-19 or unforeseen economic difficultly, markets are likely to continue their steady, if sometimes volatile, recovery path moving forward.

The much predicted “blue wave”, previously noted as a possible market disruptor, manifested as a “blue ripple” with Democrats capturing the White House and Senate but seeing their advantage in the House actually decline and the Senate results needing two run-off elections in Georgia to secure a 50-50 tie to be broken by the incoming Vice President. This result likely gives the Democrats some room

for additional stimulus and other “easier” legislative changes but does not provide the broad mandate, implied by the “blue wave”, to make sweeping changes. This more careful legislative path is likely to be less disruptive to markets’ current trajectories.

We closed the year positioned for short-term volatility as economic data in the first quarter is likely to be somewhat negative driven by a surge in COVID-19 infections and associated restrictions. However, we believe markets will continue to look past much of the potential short-term stresses and remain focused on longer-term prospects for a lasting recovery. While portfolios are currently well positioned to mitigate short-term volatility and capture broader recovery trends, we are approaching a rebalancing point to better align portfolio weights that have drifted with market performance particularly given the prospects for a continued broad-based recovery in 2021.