

Recoveries, Rotations and Business Risk

March 26, 2021

Stratified LargeCap Index up 89.8% since trough as rotation begins

Markets have come a long way in the last year. Following the panic selling in February and March 2020, record fiscal and monetary stimulus shored up equity markets. The S&P 500 has hit new highs, up 77.8% since the low on March 23rd, 2020. The Stratified LargeCap Index, which reweights to capture a broader range of business opportunities, significantly outperformed, up 89.8% (Exhibit 1).

As we wrote at the time in our piece, “Sell-offs, Reversals & Business Risk” (26th March 2020) the best performing sectors in the sell-off usually underperform in the recovery, and vice versa, the worst performing sectors should outperform. Indeed, the recent recovery has played out in-line with this theory. The bull-run in mega-cap technology stocks left cap-weighted indices significantly overexposed to tech and underexposed to the bombed-out Consumer sector, which created a drag as the rotation into under-owned, smaller, value segments took hold. Stratified Weight allocates equitably across business risks. As such, the Stratified LargeCap Index was able to fully capitalize on the reversal; no upside opportunities were underrepresented and Stratified Weight added value in every sector (Exhibit 2).

We believe that the rotation into value is just getting started. Following the strong rally, equity multiples are looking stretched. When market valuations hit historical highs, investors usually seek stocks and sectors with cheaper multiples and Value comes back in style, as has been the case recently.

Rory Riggs

 rriggs@syntaxindices.com
 +1 212 880 0233

**Jonathan Chandler,
CFA**

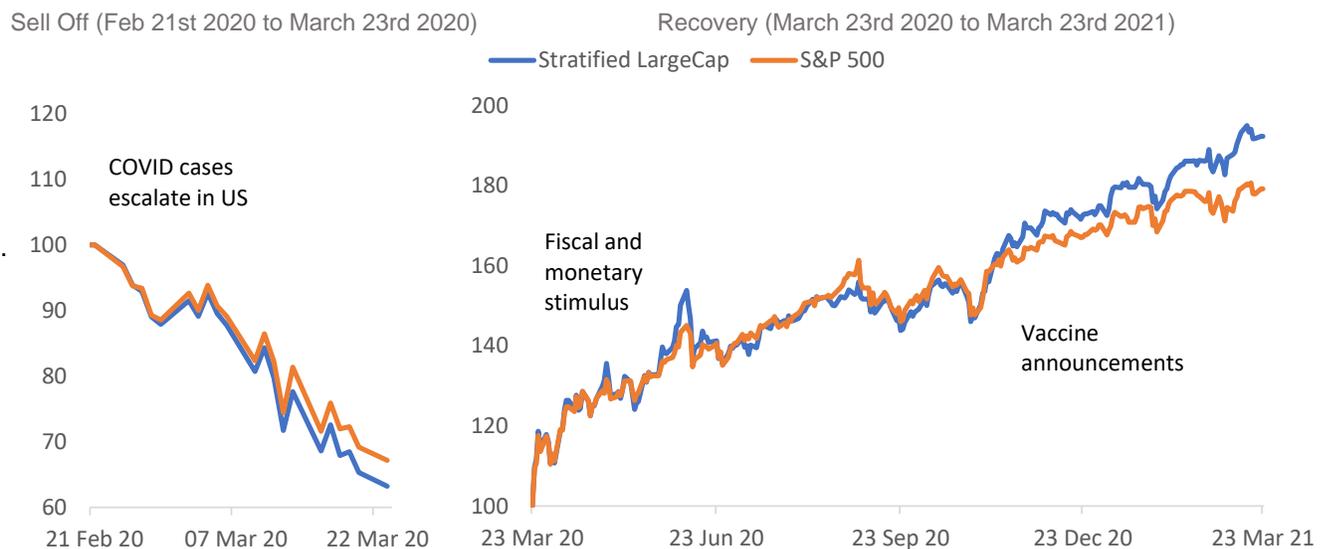
 jchandler@syntaxindices.com
 +1 212 880 0211

Simon Whitten

 swhitten@syntaxindices.com
 +1 617 823 0632

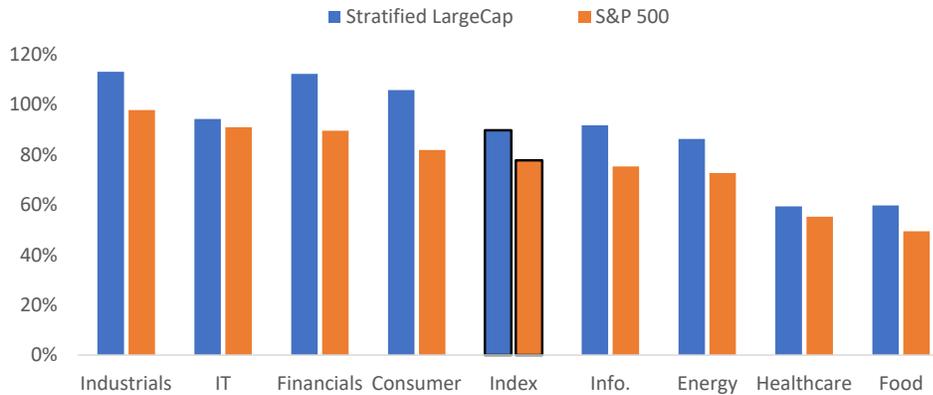
3.23.20 – 3.23.21
**Stratified Weight
89.8%**
**S&P 500
77.8%**

Exhibit 1: Coronavirus Pandemic: Sell Off and Subsequent Recovery



Cumulative total return, Stratified LargeCap Index and S&P 500 Index, 2.21.2020-3.23.2020 and 3.23.2020-3.23.2021. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: S&P Dow Jones Indices, Syntax.

Exhibit 2: Stratification added value in every sector



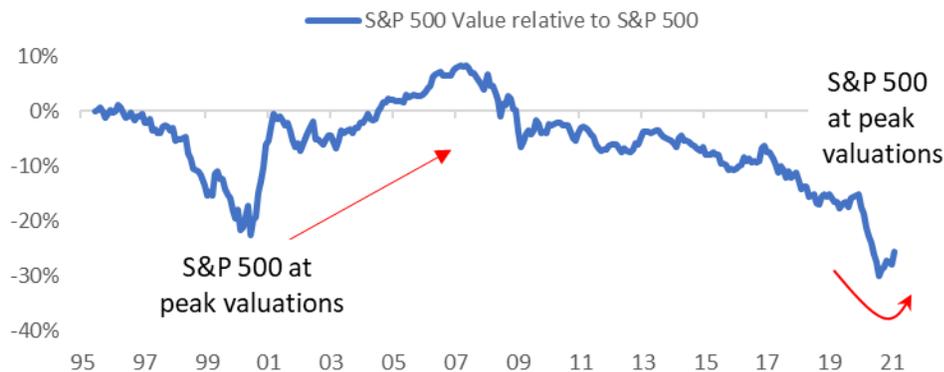
**On average
Stratified Weight
sectors beat cap-
weighted ones
by 13.7% over
the year**

Cumulative total return, Stratified LargeCap Index and S&P 500 Index and sector subsets, 3.23.2020 - 3.23.2021. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: S&P Dow Jones Indices, Syntax.

After the rally comes the value rotation

Last year's panic sell-off has now fully reversed and equity markets are at historically high valuations. The S&P 500 traded at 27x forward earnings at the start of 2021. The last time P/E multiples were at that level was March 2000, the height of the DotCom bubble! When the bubble burst, investors rotated into lower valuation (cheaper) segments and value stocks beat the market for several years.

Exhibit 3: Value outperformed following periods of high market multiples



**Value stocks
significantly
underperformed
the broad market
over the past
decade**

Cumulative total return, S&P 500 Value Index and S&P 500 Index, 2.21.2020 – 3.23.2020 and 3.23.2020-3.23.2021. Source: S&P Dow Jones Indices

Furthermore, after a decade of underperformance, value stocks are languishing at a comparable discount to that seen in 2000. We see scope for the rotation into value to persist to the benefit of alternative weight products such as Stratified Weight. By allocating across a broad range of industries and rebalancing frequently the Stratified LargeCap Index offers an attractive blend of diversification and value in every sector (Exhibit 4).

Exhibit 4: The Stratified LargeCap Index is trading at a discount to the S&P 500 in every sector

	Price/Earnings			Price/Sales			Price/Book		
	Strat. LargeCap	S&P 500	+/-	Strat. LargeCap	S&P 500	+/-	Strat. LargeCap	S&P 500	+/-
Index	19.1	21.7	-11.8%	1.47	2.66	-44.5%	2.95	3.87	-23.7%
Financials	15.6	16.9	-7.1%	1.86	2.53	-26.5%	1.44	1.45	-0.5%
Energy	18.3	19.7	-6.9%	1.24	1.54	-19.6%	1.78	1.78	-0.1%
Industrials	20.1	21.8	-7.5%	1.97	2.28	-13.8%	3.49	4.37	-20.0%
IT	22.0	25.0	-12.2%	3.79	6.27	-39.6%	7.18	9.92	-27.7%
Information	21.5	25.8	-16.9%	2.86	4.01	-28.8%	3.21	4.70	-31.6%
Consumer	24.2	28.1	-14.0%	1.46	1.96	-25.6%	5.19	8.03	-35.4%
Food	20.6	21.3	-3.5%	1.09	1.63	-33.5%	4.81	7.32	-34.3%
Healthcare	14.5	16.0	-9.3%	0.74	1.67	-55.7%	2.84	3.88	-26.8%

Source: Bloomberg Estimates, Syntax. Valuations as at 3.23.2021.

Important Disclaimers

Past performance is no guarantee of future results. Index performance does not represent actual fund or portfolio performance and such performance does not reflect the actual investment experience of any investor. An investor cannot invest directly in an index. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in a portfolio invested in accordance with an index. None of the Syntax Indices or the benchmark indices portrayed herein charge management fees or incur brokerage expenses, and no such fees or expenses were deducted from the performance shown; provided, however that the returns of any investment portfolio invested in accordance with such indices would be net of such fees and expenses. Additionally, none of such indices lend securities, and no revenues from securities lending were added to the performance shown. Charts and graphs are provided for illustrative purposes only.

The Syntax Stratified LargeCap Index (“the Index”) is the property of Locus Analytics, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, “S&P Dow Jones Indices”). S&P Dow Jones Indices will not be liable for any errors or omissions in calculating the Index. “Calculated by S&P Dow Jones Indices” and the related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Locus Analytics, LLC. S&P® is a registered trademark of Standard & Poor’s Financial Services LLC (“SPFS”), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”). Syntax®, Stratified®, Stratified Indices®, Stratified Weight™, and Locus® are trademarks or registered trademarks of Syntax, LLC or its affiliate Locus, LP.

This report is for informational purposes only and is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, any security. Additionally, the information herein is not intended to provide, and should not be relied upon for, legal advice or investment recommendations. You should make an independent investigation of the matters described herein, including consulting your own advisors on the matters discussed herein. In addition, certain information contained in this report has been obtained from published and non-published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for the purpose used in this report, such information has not been independently verified by Syntax and Syntax does not assume any responsibility for the accuracy or completeness of such information. Syntax LLC, its affiliates and their independent providers are not liable for any informational errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein.

Certain information contained in this report is non-public, proprietary and highly confidential and is being submitted to selected recipients only. Accordingly, by accepting and using this report, you will be deemed to agree not to disclose any information contained herein except as may be required by law. This report and the information herein may not be reproduced (in whole or in part), distributed or transmitted to any other person without the prior written consent of Syntax. Distribution of Syntax data and the use of Syntax indices to create financial products requires a license with Syntax and/or its licensors. Investments are not FDIC insured, may lose value and have no bank guarantee.