

Syntax Index Insights: Fourth Quarter 2020

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Stratified Indices continue strong performance in Q4

Equity markets continued to perform well in the fourth quarter of 2020, with the S&P 500 rising 12.15% to finish the full year up 18.40%. This return masks the economic destruction caused by the Coronavirus pandemic.

Stratified Weight Indices outperformed across all US size categories (small, mid and large) in the fourth quarter, with the Stratified LargeCap Index outperforming the flagship S&P 500 by 5.76%. The Stratified MidCap and Stratified SmallCap Indices continued their strong performance in Q4 (up 26.20% and 31.96% respectively), and for the full year outperformed the S&P MidCap 400 and S&P SmallCap 600 by 4.12% and 14.10% respectively. The Stratified Europe & Asia Developed Markets (SEADM) Index finished the year up 8.32%, in line with MSCI EAFE (see Exhibit 1).

Syntax, LLC is an index provider and financial analytics company based in New York. Syntax offers a suite of Stratified Benchmark Indices which reweight the most widely used benchmarks

Exhibit 1. Core Index Comparison: Stratified, Cap, and Equal Weight

Index	Benchmark	Q4 2020 (%)			Year to date (%)		
		Stratified	Benchmark	Rel.	Stratified	Benchmark	Rel.
Stratified LargeCap	S&P 500	17.91	12.15	5.76	12.37	18.40	-6.03
Stratified MidCap	S&P MidCap 400	26.20	24.37	1.83	17.78	13.66	4.12
Stratified SmallCap	S&P SmallCap 600	31.96	31.31	0.65	25.39	11.29	14.10
SEADM*	MSCI EAFE	14.86	16.09	-1.23	8.32	8.28	0.04
Stratified LargeCap	S&P 500 Eq. Wt.	17.91	18.46	-0.54	12.37	12.83	-0.46

Source: Syntax, S&P Dow Jones Indices, MSCI. Total return performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Year-to-date covers period from 1.1.2020 to 12.31.2020.

* Syntax Europe & Asia Developed Markets Index, based on the MSCI EAFE universe.

Despite surging infections, the raft of good news regarding successful trials of several COVID-19 vaccines sparked a movement towards risky assets in November, as investors favored companies that were derated the most in Q1 2020 (Tourism, Energy and Corporate Real Estate stocks) over the high-flying Technology companies that carried the market in Q2 and Q3.

Due to its larger exposure to these mean-reverting segments, the Stratified LargeCap Index delivered significantly higher returns in each month in Q4, outperforming the S&P 500 in October's sell-off as well as during November's strong rebound (Exhibit 2).

Exhibit 2. Q4 2020 Performance, month-by-month

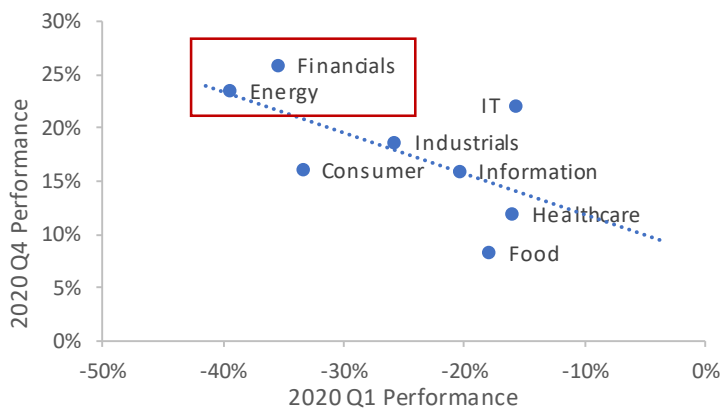
	Stratified LargeCap	S&P 500	Relative
Oct 20	-0.93	-2.66	1.73
Nov 20	14.03	10.95	3.09
Dec 20	4.37	3.84	0.53
Q4 2020	17.91	12.15	5.76

Source: Syntax, S&P Dow Jones Indices. Total return performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

Sector Reversal. The Value Trade Builds Momentum

The rotation into Energy and Financials, the two best performing sectors in the S&P 500 in Q4, was a continuation of the reversal trade that has seen the worst performing sectors during the Q1 sell-off become the best performing sectors (Exhibit 3).

Exhibit 3. Performance reversal in Q4



	2020	Q1	Q4
Energy	-18.1	-39.5	23.5
Financials	1.5	-35.4	25.9
Consumer	10.0	-33.4	16.1
Healthcare	11.1	-16.1	12.0
Food	12.4	-17.9	8.3
Information	19.7	-20.4	15.9
Industrials	22.5	-25.8	18.7
IT	39.3	-15.8	22.1

Source: Syntax, FactSet. Total return performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

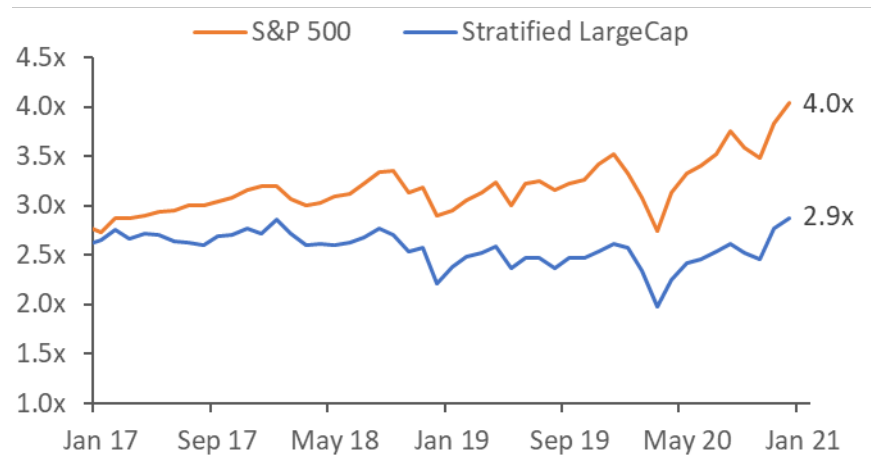
This reversal trade, largely spurred by optimism of a successful vaccine roll-out and a return to a pre-COVID environment, parallels the sector reversals seen from March 2009 following the Financial Crisis (see “Sell-offs, Reversals and Business Risk”).

Though much of the March 2020 sell-off has now recovered, there are reasons to believe that the reversal can continue from here. Financials and Energy were the worst performers in 2020 and offer attractive valuations relative to the rest of the market.

At the same time, if value stocks continue to outperform, they will eventually be included in trend following strategies and would benefit from inflows into the associated portfolios. Furthermore, as the new administration sets its sights on corporate tax reform and regulation, the outlook for tech seems increasingly uncertain.

Stratified Weight Indices typically carry more Small Cap and Value exposure than cap-weighted indices. As of the end of 2020, the Stratified LargeCap index is trading at a 27.5% Price / Book discount to the S&P 500 (2.9x vs 4.0x respectively). The two indices had traded at a comparable multiple at the start of 2017 and then separated as the weight of high-multiple technology stocks gradually increased.

Exhibit 4. Price / Book Ratio: Stratified LargeCap vs S&P 500



Source: Bloomberg, Syntax

Thematic Exposure: Inflation and Real Assets

Inflation expectations have risen a full percentage point since the US elections on November 3rd (as measured by the 2-year breakeven rate, Exhibit 5) and inflation sensitive segments of the market have performed strongly.

Exhibit 6. Performance of Real Asset Index

	4Q20	2020	1Y	5Y
Syntax Real Asset Index	24.57	5.02	5.02	11.70
S&P Real Assets Equity Index	13.53	-5.95	-5.95	6.54
S&P 500	12.15	18.40	18.40	15.22

Source: Syntax, S&P Dow Jones Indices.

The Syntax Real Asset Index is a Stratified Weight equity index of developed markets companies that have substantial physical or tangible asset exposure, including real estate, timberland, commodity reserves, and infrastructure. The index is calculated by NYSE and designed to offer liquid equity exposure to traditional real asset companies and serve as an effective hedge against inflation and commodity supply shocks.

In Q4 2020, the Syntax Real Asset Index returned 24.6%, significantly outperforming the S&P Real Assets Equity Index and the broader market (Exhibit 6).

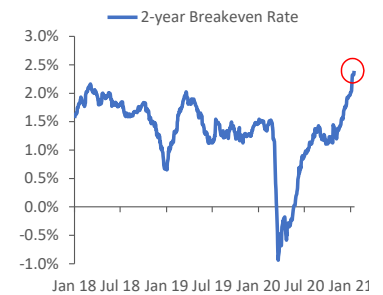
Dollar Weakness: S&P 500 more exposed to foreign revenues than Stratified LargeCap

Coinciding with a dramatic increase of the Federal Reserve's balance sheet from \$4.2tn to \$7.3tn in 2020, the US Dollar (DXY) weakened over 10% for the year.

Given that currency movements can significantly affect the bottom line of companies who derive a meaningful amount of their revenues abroad, it is useful for investors to understand the geographical exposure of their portfolios from a revenue perspective. Companies with high international revenues could benefit from a weaker dollar, especially if their cost-base is predominantly in US dollars.

Syntax's Affinity™ analysis platform allows users to breakdown their portfolios into regional and country exposure. For example, the S&P 500 has many companies with greater than 75% of their revenues derived internationally (Exhibit 7).

Exhibit 5. Inflation on the rise



Source: Syntax, Bloomberg

Syntax Real Asset Index

- Real Asset equity proxy
- Stratified stock weights
- Designed to hedge inflation
- 100% Developed Markets Allocation
- Calculated by NYSE

Exhibit 7. % non-US Revenue

		2019 non-US Revenue %
PM	Philip Morris Int.	92.6
LRCX	Lam Research	92.2
BKNG	Booking Holdings	89.8
QCOM	QUALCOMM	88.6
TXN	Texas Instruments	87.3
AMAT	Applied Materials	87.2
KLAC	KLA Corp	86.9
QRVO	Qorvo Inc	84.5
LVS	Las Vegas Sands	84.1
AVGO	Broadcom	81.3
IPGP	IPG Photonics	78.6
INTC	Intel Corp	78.3
WDC	Western Digital	78.3
FTI	TechnipFMC	77.4
ALB	Albemarle	76.1

Source: Syntax Affinity™

The weight of each company in the portfolio will therefore have an impact on the strategy's overall geographic revenues and consequentially its indirect currency exposures.

The S&P 500 derives at least 24% of its revenues abroad, so should have a higher sensitivity to the US Dollar than the Stratified LargeCap Index, which has more of a domestic focus, earning at least 18% of its revenues internationally (Exhibit 8).

Exhibit 8. Aggregate Geographic Revenue Exposure

	Stratified LargeCap	S&P 500	Relative
Americas	72.1%	63.4%	8.7%
EMEA	10.1%	12.0%	-1.9%
Asia	8.3%	11.5%	-3.2%
Other	9.6%	13.2%	-3.6%

Source: Syntax Affinity™. Weights may not sum to 100% due to rounding.

Sector and Composite Performance

US LargeCap (S&P 500 universe)

	2020 Q4 Total Return		
	Stratified LargeCap	S&P 500 Equal Wgt	S&P 500
Total	17.9	18.5	12.1
Financials	25.9	25.5	22.1
Energy	23.5	21.9	15.2
Industrials	18.7	18.5	15.5
Info. Tools	22.1	23.6	11.7
Information	15.9	16.7	11.1
Consumer	16.1	17.4	8.0
Food	8.3	8.2	8.1
Healthcare	12.0	11.5	8.1

Source: Syntax. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

US MidCap (S&P MidCap 400 universe)

	2020 Q4 Total Return		
	Stratified MidCap	S&P 400 Equal Wgt	S&P 400
Total	26.2	28.3	24.4
Financials	28.7	33.1	28.7
Energy	22.9	21.6	14.0
Industrials	31.0	31.8	28.5
Info. Tools	28.6	26.4	27.2
Information	26.3	27.4	21.7
Consumer	32.8	31.0	25.2
Food	8.9	10.9	12.5
Healthcare	21.2	22.8	18.8

Source: Syntax. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

US SmallCap (S&P SmallCap 600 universe)

	2020 Q4 Total Return		
	Stratified SmallCap	S&P 600 Equal Wgt	S&P 600
Total	32.0	35.1	31.3
Financials	26.0	31.8	27.8
Energy	37.4	52.7	36.7
Industrials	30.8	35.4	30.8
Info. Tools	39.0	43.7	43.6
Information	34.3	34.6	27.5
Consumer	40.0	42.3	40.3
Food	18.4	19.3	18.1
Healthcare	25.3	25.0	26.3

Source: Syntax. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

International Developed (MSCI EAFE universe)

	2020 Q4 Total Return		
	SEADM	MSCI EAFE Equal Wgt	MSCI EAFE
Total	14.9	16.5	16.1
Financials	19.5	21.9	22.7
Energy	21.1	17.5	21.6
Industrials	19.2	20.0	19.7
Info. Tools	19.7	17.9	15.0
Information	14.8	15.3	16.2
Consumer	15.7	17.4	18.6
Food	8.9	9.9	10.1
Healthcare	3.8	3.9	3.7

Source: Syntax. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

Syntax Core Index Suite

Index	Ticker (TR)	Base Universe
Stratified Benchmark Indices™		
Syntax Stratified LargeCap	SYLCTR	S&P 500
Syntax Stratified MidCap	SYMIDTR	S&P MidCap 400
Syntax Stratified SmallCap	SYSCTR	S&P SmallCap 600
Syntax Stratified Core	SYCORETR	S&P 900
Syntax Stratified 1000	SY1KTR	Russell 1000
Syntax Europe & Asia Developed Markets	SEADMTR	MSCI EAFE
Syntax Stratified Wilshire 5000	SW5KTR	Wilshire 5000
Stratified Sector Indices™		
Syntax Stratified Financials	SYFINTR	S&P 900
Syntax Stratified Energy	SYENYTR	S&P 900
Syntax Stratified Industrials	SYINDTR	S&P 900
Syntax Stratified Info. Tools	SYITTR	S&P 900
Syntax Stratified Information	SYINFOTR	S&P 900
Syntax Stratified Consumer	SYCPSTR	S&P 900
Syntax Stratified Food	SYFOODTR	S&P 900
Syntax Stratified Healthcare	SYHLTHTR	S&P 900
Stratified Thematic Indices™		
Syntax US Large Cap Value	SPVT	Custom US Large Cap
Syntax US Social Core Tier 1	SOCIAL1TR	Custom US Large & Mid Cap
Syntax US Social Core Tier 2	SOCIAL2TR	Custom US Large & Mid Cap
Syntax Real Asset	SRAIT	Custom Large & Mid Cap
Syntax Stratified LargeCap ESG	SYESGTR	Custom US Large Cap

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