



Passive Perspectives

Third Quarter 2021

- **New trends emerge in Q3 as pandemic contagion hits supply chain. Consumer goods and transport & logistics stocks are most affected.**
- **Software companies, with low supply chain exposure, outperformed in Q3, boosting US cap weighted benchmarks.**
- **Companies with recurring revenue streams rewarded with higher multiples in Q3.**

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Virus disrupts supply chain and mutates into inflationary strain

The liquidity fueled rebound amidst the backdrop of a persistent global infection rate saw the Pandemic mutate from being a reopening story (tourism vs tech), to disrupting the global supply chain and causing a rise in inflation (affecting consumer goods, energy, transportation & logistics). Using Affinity™ we analyze the most popular benchmark indices in the context of these industry and thematic trends.

Once again, the S&P 500 benefited from having a large exposure to mega-cap software companies (GOOGL, MSFT, FB) which are insulated from the worst supply chain bottlenecks (cargo ships). The flagship S&P 500 index outperformed the Syntax Stratified LargeCap index by 1.3% in Q3 (0.6% vs -0.7%), however, the Stratified LargeCap Index remains 9.0% above the S&P 500 for the 12 months to 30th September 2021 (39% vs 30%).

Exhibit 1. Core Index Comparison

Index	Benchmark	Q3 2021 (%)			12-months		
		Stratified	Benchmark	Rel.	Stratified	Benchmark	Rel.
Stratified LargeCap	S&P 500	-0.69	0.58	-1.27	39.0	30.0	9.0
Stratified MidCap	S&P MidCap 400	-3.34	-1.76	-1.58	45.7	43.7	2.0
Stratified SmallCap	S&P SmallCap 600	-4.06	-2.84	-1.22	60.9	57.6	3.3
SEADM*	MSCI EAFE	0.31	-0.35	0.66	23.2	26.3	-3.1
Stratified LargeCap	S&P 500 Eq. Wt.	-0.69	-0.22	-0.47	39.0	40.9	-1.8

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. 12-months covers period from 9.30.2020 to 9.30.2021

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



Small and Midcap stocks underperformed their Large Cap counterparts in Q3 (the S&P 400 fell 1.8% and the S&P 600 fell 2.8%). Stratified Weight indices underperformed, with the Stratified MidCap and SmallCap falling 3.3% and 4.1%, respectively. The underperformance of the Stratified Smallcap index was driven by a high relative weight in the Consumer sector (14.6% in Stratified SmallCap vs 11.5% in the S&P 600) and a low relative weight in Financials (26.1% in the S&P 600 vs only 14.8% in Stratified SmallCap) which was largely unaffected by the supply chain issues.

The Stratified Smallcap index has a higher exposure to Consumer stocks than the S&P 600

MSCI EAFE was not as exposed to the supply chain disruption as the US indices (MSCI EAFE Equal Weighted fell 0.1% and its Stratified Weight counterpart, SEADM rose 0.3%). Like the US indices, the Stratified Consumer sector was the worst of our eight broad sector groups (-3.2%). SEADM has a 12.5% weight in Consumer stocks vs 15.7% in MSCI EAFE (Exhibit 2).

Exhibit 2. Q3 sector performance by different weighting methodologies

Q3 2021 (%) Sector	US LargeCap (S&P 500)			International (MSCI EAFE)		
	Stratified	Equal	Cap	Stratified	Equal	Cap
Index	-0.7	-0.2	0.6	0.3	-0.1	-0.4
Financials	2.1	1.8	2.2	0.7	-0.2	0.8
Energy	-0.2	0.7	-0.1	1.0	1.5	1.9
Industrials	-1.4	-1.9	-3.9	0.2	-0.8	-1.5
Info. Tools	0.4	1.0	2.7	5.4	5.0	5.0
Information	-2.0	-0.6	-0.5	-0.8	-0.4	-1.0
Consumer	-4.5	-4.3	1.4	-3.2	-2.5	-3.6
Food	0.4	-1.7	0.6	0.3	0.4	-2.0
Healthcare	-0.4	1.4	0.6	0.7	1.3	0.6

Total return performance from 6.30.2021 – 9.30.2021. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones Indices, MSCI.

The fallout from the Coronavirus pandemic evolved in Q3. From March 2020 through the first half of 2021, as cases rose and fell, investors switched between the more value oriented “Reopening” industries such as travel and tourism and “Stay at home” growthier groups like Software, Internet Services and IT.

Cap weighted Consumer sector outperforms as investors prefer large cap names

In Q3 2021, the market focused on more secondary effects, such as supply chain disruption and inflation (Headline CPI rose from 1.4% at the start of the year to 5.4% by the end of Q3). These themes manifested as underperformance of the Consumer sector, (which is highly supply chain dependent) and outperformance of Financials (which is not). Large Cap consumer stocks such as Tesla (+ 14.1% in Q3), Home Depot (3.5%) and Lowes (5%) rose, leading to significant outperformance of the Cap Weighted Consumer Sector versus the equal and stratified weighted equivalent.

Trending and Emerging Themes

Affinity™ groups companies depending on their exposures to various themes. This quarter, we focus on the market from the perspective of different supply chains. The Affinity™ supply chain taxonomy includes companies involved with all aspects of a particular product type. For example, the consumer electronics supply chain comprises component manufacturers (Corning, Nvidia), OEMs (LG, GoPro), distributors (Arrow) and retailers (Best Buy).

Affinity™ can view the market from the perspective of different supply chains

During the supply chain disruption in Q3, stocks related to the Consumer Goods Supply Chain group declined 6.3%. However, there were some areas of the consumer goods supply chain that outperformed. For example, the Home Improvement grouping which includes both lumber producers (e.g. timberland stocks like Weyerhaeuser) as well as lumber retailers (e.g. Home Depot) rose 0.9% for the quarter.

Elsewhere in the supply chain, Transport and Logistic stocks (e.g. CSX, Fedex, Prologis) fell 6.9% as bottlenecks at key ports caused container ships to anchor off-coast and wait several days for processing. Exhibit 4 shows the performance of various supply chain groups in the S&P 500.

Tourism stocks also performed poorly in Q3 (-3.6%), as the persistent infection rate hurt demand and a high oil price impacted the bottom lines of the airlines and cruise ships.

As was the case in the second quarter, one of the best performing themes in Q3 was the outperformance of stocks with recurring revenue models (including subscription services, software licenses, telecoms and REITs). This may signal investors are taking a defensive stance and placing a higher multiple on cashflow stability. The Recurring Revenues group rose 4.5% in Q3.

Companies with recurring revenues outperformed in Q3

Rising real estate prices and robust demand attracted investors into related equities, seeing Real Estate Services (+6.4%) and Real Estate Financial Products (5.4%) outperform strongly, further boosting Construction and Engineering stocks (+12.5%).

Exhibit 3. Trending and Emerging Themes

Trending Positive

Real Estate > Services
Real Estate > Financial Products
Infrastructure > Construction & Engineering

Fading Positive

Advertisement Revenue Model
Tourism

Trending Negative

Distribution Models > Sell Through a Retailer
Supply Chain > Consumer Goods
Commodities > Commodity Rail Transport

Negative becoming positive

Commodities > Agricultural Commodities

Source: Syntax, Affinity.

Exhibit 4. Thematic Performance and Exposure within the US LargeCap universe

	3M	12M	10Y	Full		3M	12M	10Y	Full
S&P 500 Equal Weight	-1.1%	38.1%	15.5%	11.6%	S&P 500 Equal Weight	-1.1%	38.1%	15.5%	11.6%
Distribution Models	3M	12M	10Y	Full	Commodities	3M	12M	10Y	Full
Sell Through a Retailer	-6.4%	20.5%	10.8%	7.9%	Energy Commodities	0.7%	93.7%	-0.4%	6.2%
Sell to an OEM	-5.5%	38.8%	18.5%	9.4%	Agricultural Commodities	-0.8%	29.6%	15.2%	12.1%
Direct-to-Consumer	-0.8%	36.6%	13.7%	9.8%	Metal Commodities	-2.5%	55.2%	8.1%	8.0%
Recurring Revenue Model	4.5%	42.4%	14.7%	11.9%	Commodity Rail Transport	-8.1%	18.2%	16.3%	11.7%
Government-Subsidized	-3.9%	24.4%	16.6%	12.4%	Chemical Commodities	-3.2%	30.9%	15.4%	9.0%
Advertisement Revenue Model	-5.1%	50.0%	16.7%	8.9%	All Commodities	-1.4%	58.0%	6.9%	8.3%
Franchisor	6.2%	35.5%	16.8%	8.0%					
Supply Chains	3M	12M	10Y	Full	Infrastructure	3M	12M	10Y	Full
Electronics Supply Chain	-3.1%	40.9%	18.0%	12.4%	Infrastructure Suppliers	-3.1%	61.8%	11.6%	8.1%
Industrial Equipment Supply Chain	-3.9%	36.2%	18.4%	12.2%	Construction and Engineering	12.5%	67.5%	7.0%	1.4%
Transportation Equipment Supply Chain	-1.7%	47.2%	14.1%	7.5%	Infrastructure Operators	-2.1%	10.3%	9.5%	7.2%
Consumer Goods Supply Chain	-6.3%	28.8%	9.9%	7.5%	All Infrastructure	-1.0%	23.4%	9.7%	6.8%
Pharma and Medical Equip. Supply Chain	1.5%	26.0%	16.0%	13.0%					
Food Supply Chain	-1.7%	18.4%	12.6%	9.6%	Real Estate	3M	12M	10Y	Full
Energy Supply Chain	-0.9%	44.8%	4.3%	6.4%	Real Estate Owners/Operators	-0.8%	34.2%	11.5%	9.3%
					Real Estate Construction	-0.9%	62.3%	13.7%	11.6%
Cross-Sector Thematics	3M	12M	10Y	Full	Real Estate Services	6.4%	52.9%	18.2%	5.5%
Aerospace	-3.8%	43.2%	15.7%	10.5%	Real Estate Components	-2.5%	34.0%	21.3%	9.0%
Automotive	-0.9%	38.6%	14.8%	7.4%	Real Estate Financial Products	5.4%	80.0%	14.3%	6.1%
Consumer	-2.9%	33.5%	13.7%	9.9%	All Real Estate	-1.6%	37.0%	9.0%	8.7%
Retail	-0.6%	33.7%	13.1%	9.4%					
Technology	-0.8%	34.0%	20.7%	14.0%	ESG	3M	12M	10Y	Full
Telecoms	-3.1%	22.2%	12.5%	10.4%	Bad Values	-2.5%	38.1%	6.2%	7.9%
Tourism	-3.6%	49.8%	13.1%	7.3%	Rest of Market	-0.8%	37.9%	16.5%	11.4%

Source: Syntax, Affinity, S&P Dow Jones Indices. Performance is calculated as the weighted average total return of the subset of the S&P 500 Equal Weight Index constituents who are members of the Affinity Theme. QoQ shows total return for 6.30.21 to 9.30.21. YoY shows total return from 9.30.20 to 9.30.21. Full performance period uses period from 12.31.1991 when available. Performance does not reflect fees or implementation costs.

Exhibit 5. Sector performance for Stratified US size segments and Stratified International universes

	US LargeCap		International		US MidCap		US SmallCap	
	Q3	12 months	Q3	12 months	Q3	12 months	Q3	12 months
Index	-0.7	39.0	0.3	23.2	-3.3	45.7	-4.1	60.9
Financials	2.1	63.7	0.7	32.9	0.1	59.2	-0.1	52.2
Banking	5.8	101.4	2.2	41.2	1.3	92.6	5.9	87.0
Insurance	1.5	51.3	2.3	34.6	-2.5	38.9	-5.8	22.3
Real Estate	-1.1	42.6	-2.3	22.8	1.4	47.0	-0.4	52.1
Energy	-0.2	50.6	1.0	28.0	-2.6	42.9	-6.7	74.0
Oil And Gas	-1.2	88.9	2.4	52.7	0.2	72.7	-8.3	136.4
Gas And Electricity	0.4	19.6	-0.5	8.1	-5.4	17.8	-5.8	13.9
Industrials	-1.4	41.9	0.2	34.2	-4.1	50.5	-3.5	58.0
Industrial Materials	-3.4	45.7	-2.1	36.2	-4.4	57.4	0.7	82.4
Industrial Components	-2.0	44.3	0.6	32.5	-5.8	42.3	-6.7	40.0
Industrial Equipment	-3.5	39.0	-0.7	32.5	-4.1	49.1	-7.4	58.0
Industrial Services	3.0	39.0	3.0	34.8	-2.3	52.2	-0.3	53.2
Information Tools	0.4	43.4	5.4	38.9	-2.9	47.7	-2.1	58.0
Integrated Circuits	-1.1	45.7	9.0	66.8	0.5	63.3	7.8	71.0
Hardware	0.5	58.4	0.7	38.1	-4.6	50.6	-7.7	49.7
Software	1.8	26.4	6.0	12.5	-4.7	28.6	-7.1	23.4
Information	-2.0	36.9	-0.8	19.9	-1.4	49.4	0.2	89.5
Commercial	0.5	43.7	1.3	24.7	1.6	53.0	2.4	64.6
Consumer	-5.9	29.5	0.2	17.5	-3.3	42.1	-1.8	111.4
Internet Services	-0.9	18.1	-3.8	2.6	-2.3	23.5		
Consumer	-4.5	29.9	-3.2	15.2	-8.1	53.6	-8.8	75.7
Hhld & Personal Prod.	-3.0	0.2	-8.1	-4.9	-15.1	29.2		
Apparel	-8.6	43.3	-6.3	28.7	-13.4	73.6	-7.0	119.0
Home Office	-5.2	23.4	1.3	15.2	-4.4	43.5	-18.0	52.4
Consumer Transport	-1.5	55.3	0.0	23.4	0.2	67.8	-0.8	60.5
Food	0.4	19.9	0.3	14.2	-4.8	18.9	-7.4	48.3
Food Production	-4.9	12.2	-1.1	7.3	-7.0	14.6	-6.2	38.6
Food Sales	5.7	27.6	1.7	21.6	-2.6	22.8	-8.4	58.2
Healthcare	-0.4	27.8	0.7	8.6	-3.1	29.8	-6.8	33.8
Pharmaceuticals	-2.1	12.3	-0.3	3.8	-5.1	17.5	0.3	26.0
Healthcare Industry	4.2	36.1	1.5	13.2	4.5	52.1	-10.0	46.5
Consumer Healthcare	-3.7	34.9			-8.4	21.0	-10.6	28.5

Source: Syntax, Affinity™. Performance does not reflect fees or implementation costs.

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 US Total Market	SYUSTMTR	SYLC + SYMID + SYSC
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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