

Actively managed portfolio of high-dividend-yield and dividend-growth stocks

Strategy Overview

An actively managed large cap value strategy that relies on fundamental research and analysis to capture the benefits of both high-dividend-yield and dividend-growth stocks.

Key Takeaways

- The financial markets broadly delivered an upbeat fourth quarter of 2021, with strong gains among the major U.S. equity indexes and decent returns among international developed market equities
- For the quarter, the Merrill Lynch Large Cap Core-Value SMA underperformed the S&P 500 Total Return index (the "index")
- Undergirding these results were still easy financial conditions and expectations that monetary policy will remain supportive even with the Federal Reserve's recent pivot toward faster action

Market Review

The financial markets broadly delivered an upbeat fourth quarter of 2021, with strong gains among the major U.S. equity indexes and decent returns among international developed market equities. By contrast, emerging market equities and fixed income assets generally struggled. While the market trajectory was upward, the path through the quarter was bumpy. Doubts about inflation vanished as the Consumer Price index marked its fastest rise in three decades. Central banks reacted with hawkish policy shifts that augured higher future interest rates. Upsurging infections of Omicron, the latest Covid-19 variant, further clouded the outlook with worries about renewed social restrictions.

Portfolio Review

For the quarter ended December 31, 2021, the Strategy underperformed the index due to unfavorable stock selection.

Stock selection was the weakest within the consumer discretionary and communication services sectors. At the individual stock level, not owning Apple Inc., Tesla Inc. and NVIDIA Corporation were among the SMA's largest detractors for the quarter.

Stock selection within the information technology, financials and materials sectors had the largest positive impact on performance. At the individual stock level, the overweight positions in Broadcom Inc. and Microsoft Corporation, and not owning PayPal Holdings, Inc. were among the key contributors for the quarter.

Current Strategy and Outlook

Undergirding these results were still easy financial conditions and expectations that monetary policy will remain supportive even with the Federal Reserve's recent pivot toward faster action. Also supportive were expectations for record corporate profits in 2022, and the likelihood that companies would put more of those profits into share buybacks and dividends.

Thus far, S&P 500 companies have been able to pass through rising prices to consumers; as a result, we believe earnings growth will be solid in 2022, if not as spectacular as in 2021. In our view, equity markets have room to absorb modestly higher interest rates. Funding costs remain at record low levels and strong fundamentals should help insulate credit-sensitive debt instruments from rising rates.

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General Risk(s): All investments are subject to market risks.

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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