

Equity Risk Management Strategy

Portfolio Manager Commentary

As of 12/31/2023



Q4 2023 Overview

U.S. stock markets reverted back to positive territory in the last three months of the year after posting modest declines in the third quarter. The cap-weighted S&P 500 Index gained 11.69% for the quarter and finished up 26.29% for the full year. With narrow market breadth throughout the first three quarters of 2023, it was encouraging to observe widening participation in equity advances, as evidenced by the S&P 500 Equal Weight Index, up 11.87%, just ahead of its cap-weighted counterpart. For the year, however, the S&P 500 Equal Weight Index returned 13.87%, significantly lagging the cap-weighted index. The calendar year performance spread of 12.42% ranks as the second largest dating back to 1990—only exceeded in 1998 when the market cap-weighted S&P 500 bested its equal-weight counterpart by 16.39%.

Nearly all sectors advanced for the quarter with Financials and Real Estate the particular beneficiaries of the ongoing speculation around the Federal Reserve's (Fed) interest rate pause, which eventually materialized in December. Real Estate, Information Technology, and Financials were the best performers, advancing 18.47%, 17.09%, and 13.85%, respectively. The only sector to decline for the quarter was Energy, which fell 7.20%, commensurate with the drop in crude oil prices by 21.21% over the same time frame. For the year, the top performing sectors—and generally the more economically-sensitive by nature—were Information Technology, Communication Services, and Consumer Discretionary, which advanced 57.41%, 55.36%, and 41.99%, respectively. Conversely, the more defensive sectors—Utilities, Energy, and Consumer Staples—were the only ones to post negative returns for the full year declining 8.03%, 2.38%, and 0.29%, respectively.

Allocation Overview

The **Equity Risk Management Strategy (ERMS)** remained in a neutral position throughout the fourth quarter, split between 50% equity and 50% short-term Treasuries and cash. This allocation has been in place since mid-July 2022. Despite advancing forward earnings estimates, they continue to underperform the price performance of the S&P 500. Our forward 12-month earnings estimate at the end of the year was \$240.68, increasing 1.36% for the quarter. However, the S&P 500, excluding dividends, was up 11.24%. Similarly, for the full year, earnings estimates have risen by 6.17% cumulatively while the S&P 500 increased 24.23%. With prices climbing at a faster pace than underlying earnings expectations, valuation risk has been rising throughout the year. At the end of 2022, the 12-month forward price-to-earnings (P/E) multiple for the S&P 500 stood at 16.9x, expanded to 18.1x by the end of the third quarter, and finished the year at 19.8x.

Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

Portfolio Management Team



Christopher M. Mutascio
Senior Managing Director



Timothy M. McCann
Senior Portfolio Manager

About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets over \$4.7 billion as of December 31, 2023.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

Total Returns				Annualized Returns					Calendar-Year Returns									
	3-Mos	6-Mos	YTD	1-year	3-year	5-year	10-year	Incp.	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross %	6.17	4.89	11.60	11.60	4.86	4.69	5.68	7.53	12.82	-0.41	7.32	21.24	-5.45	5.97	2.91	27.15	-18.75	11.60
Benchmark %	5.51	4.50	10.44	10.44	3.49	8.24	5.21	6.04	1.81	-0.97	5.47	13.29	-7.14	13.71	17.89	11.67	-10.13	10.44
Net %	5.36	3.32	8.33	8.33	1.78	1.61	2.57	4.37	9.45	-3.31	4.15	17.70	-8.25	2.82	-0.10	23.50	-21.19	8.33

As of 12/31/2023; Inception – October 1, 2012; Benchmark = HFRI Equity Hedge Index

ERMS performance represents the standalone Separately Managed Account (SMA) strategy on Stifel's Custom Advisory Portfolio platform.

Net returns reflect the deduction of the maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees.

Actual fees may vary.

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Technical conditions, however, remain favorable as stability in credit spreads, coupled with low and falling implied volatility, continue to signal that swift-developing risk-off behavior is not forming in financial markets. Credit spreads, as measured by the yield spread between Baa-rated corporate bonds to that of the 10-year U.S. Treasury, continued to fall throughout the quarter and year. The yield on Baa-rated corporate bonds finished the year just 1.55% higher than that of 10-year Treasuries, down significantly from the 2.03% level at the end of 2022, and near its lowest level since 1998. Additionally, the CBOE Volatility Index (VIX), which is an implied measure of equity risk, finished the year 43% lower than at the end of 2022 and is solidly below its pre-pandemic lows.

With the exception of a consistently resilient U.S. labor market, other economic indicators continue to paint a mixed outlook. Continuing jobless claims and the Institute of Supply Management Services Survey have yet to confirm any particular trend of economic strength or deterioration. However, current negative indicators that tend to precede economic recession, such as a declining Leading Economic Indicators Index and a prolonged inverted yield curve, have substantial variance in their lead times ahead of future economic recessions that range anywhere from a few months to a few years.

With the aggregation of fundamental, technical, and economic considerations neither firmly bullish nor firmly bearish, we continue to maintain our neutral posture. Furthermore, with fairly attractive yields in the short-duration funds, we feel comfortable in our positioning until the bond/equity risk-reward tradeoff becomes more favorable, albeit through lower fixed income yields and/or higher equity earnings yields.

DISCLOSURES

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The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. **Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.** Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

The **S&P 500®** is regarded as the best single gauge of large-cap U.S. equities. According to our Annual Survey of Assets, an estimated USD 15.6 trillion is indexed or benchmarked to the index, with indexed assets comprising approximately USD 7.1 trillion of this total (as of Dec. 31, 2021). The cap weighted index includes 500 leading companies and covers approximately 80% of available market capitalization. The **S&P 500 Equal Weight Index** is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ. The **HFRI Equity Hedge Index** is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. The Chicago Board Options Exchange (CBOE) created the VIX (**CBOE Volatility Index**) to measure the 30-day expected volatility of the US stock market, sometimes called the "fear index". The VIX is based on the prices of options on the S&P 500 Index and is calculated by aggregating weighted prices of the index's call and put options over a wide range of strike prices. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

*Total assets combines both Assets Under Management and Assets Under Advisement as of December 31, 2023. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

Past performance does not guarantee future performance or investment results.

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