Syntax Index Insights

Highlights

- Markets rise, but volatility reemerges as macro business risks linger
- Cap-weighted indices under pressure as DOJ investigates Big Tech
- Healthcare in the cross hairs of political posturing
- International markets vulnerable as global economic uncertainty rises
- Smaller companies lag

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Volatility persists in Q2 as macro business risks linger

Following a constructive April (S&P 500 +4.0%), the lingering trade dispute and interest rate uncertainty drove markets lower in May (S&P 500 -6.4%). The Fed reassured markets that rates would not rise imminently and that the most likely direction for the Fed Funds rate this year would in fact be lower, seeing markets fully recover in June (S&P 500 +7.0%, its strongest June since 1955). By comparison, the Syntax Stratified LargeCap Index rose broadly in line with its cap-weighted counterpart in Q2 (+3.5% vs +4.3%), leaving the Stratified LargeCap Index marginally higher than the S&P 500 for the year (18.7% versus 18.5% through the end of Q2).

The Stratified LargeCap Index continues to outperform YTD

	2019 Q2 (total return %)		2019 YTD (total return %)	
	Stratified LargeCap	S&P 500	Stratified LargeCap	S&P 500
Total	**3.5**	**4.3**	**18.7**	**18.5**
Financials	6.4	6.8	20.9	17.6
Energy	-1.5	-0.4	13.4	13.8
Industrials	5.3	4.1	23.2	21.2
Info. Tools	5.1	5.5	28.1	26.0
Information	7.2	6.1	21.1	22.8
Consumer	1.9	3.8	19.1	18.9
Food	3.8	4.9	17.8	17.7
Healthcare	0.7	0.9	9.2	6.8

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

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

Active Business Risk Alert: DOJ investigates Big Tech causing largest one-day outperformance for SYLC since the DotCom bubble

Technology stocks remain the largest business risk concentrations within cap-weighted indices

At the start of June, the US regulators at the Department of Justice and the Federal Trade Commission announced progress towards launching anti-trust investigations into Apple, Amazon, Alphabet and Facebook. These four companies comprised 10.9% of the S&P 500 Index on June 3rd as news of this announcement saw the aggregate index fall -0.3%. The Syntax Stratified LargeCap Index, which has a combined 0.7% weight in Apple, Amazon, Alphabet and Facebook on that date, rose 0.6%. This was the largest one-day outperformance since the collapse of the DotCom bubble in March 2000. The oversized exposure to Mega Cap tech in many market cap-weighted indices remains one of our key concerns and we view the recent DOJ announcement as another warning signal.

Weights of Apple, Amazon, Alphabet and Facebook

Weight As of 6.3.2019	**Stratified LargeCap**	**S&P 500**
Apple	0.4%	3.4%
Amazon	0.1%	3.1%
Alphabet	0.1%	2.8%
Facebook	0.1%	1.7%
Total	0.7%	10.9%

Source: Syntax

Active Business Risk Alert: Healthcare remains in the cross hairs of political posturing

HealthCare exposure remains a drag for index performance

Healthcare has been the worst performing FIS sector this year, appreciating only 6.8% and underperforming the S&P 500 by 11.7%. The sector has suffered political headwinds with both parties speaking out against high drugs prices and health care services being widely discussed at the Democratic presidential primary debates. The S&P 500 is highly exposed to Big Pharma, with a 5.2% allocation to pharmaceuticals and an additional 2.3% allocation to diversified drug and device companies at the end of Q2. Year to date, the Stratified Healthcare sector has outperformed its cap-weighted equivalent by 2.4% (9.2% Stratified vs 6.8% Cap weighted), demonstrating the value in diversifying business risk even in rising markets.

Global economic uncertainty calls for a more diversified approach

International markets rose in Q2 (MSCI EAFE +4.0%), amidst a backdrop of global trade and interest rate concerns. With no clarity on trade and widespread negative interest rates (Japanese, German, French and Swiss 10-year bonds all trading at negative yields), economic uncertainty has sharply increased to near its yearend 2018 peak, high above levels seen in the past decade.

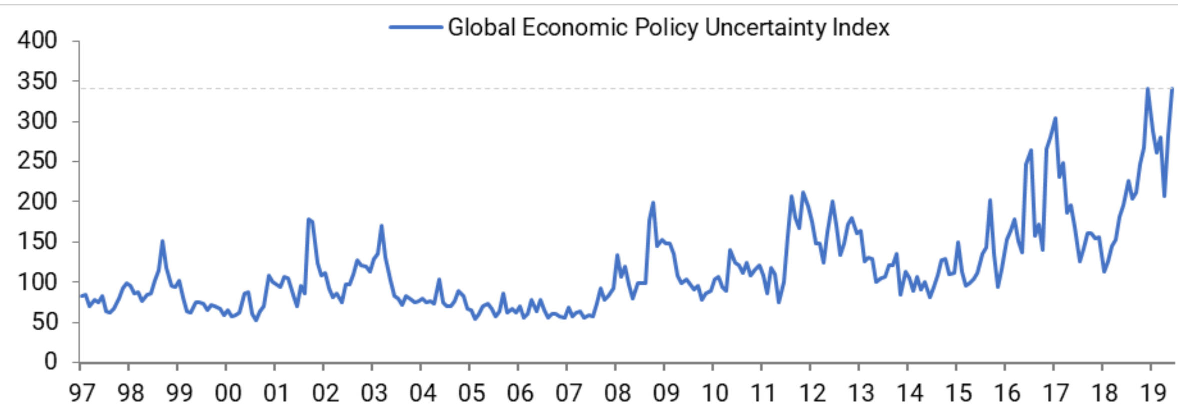
Economic uncertainty near multi-year highs

International markets are highly correlated with domestic markets

	2019 Q2 (total return %)		2019 YTD (total return %)	
	SEADM	MSCI EAFE	SEADM	MSCI EAFE
Total	**2.0**	**4.0**	**11.4**	**14.5**
Real Estate	0.6	-0.3	11.8	13.7
Financials	4.0	4.0	9.8	10.8
Energy	-1.3	0.5	9.6	10.2
Industrials	4.5	5.1	14.3	17.3
Info. Tools	6.6	10.0	21.5	22.8
Information	6.9	6.5	16.2	14.8
Consumer	-0.1	5.0	9.0	14.4
Food	-2.1	1.7	7.0	15.5
Healthcare	0.9	2.1	9.2	12.3

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

Global Economic Policy Uncertainty Index is near multi-year highs



Source: Economic Policy Uncertainty, www.policyuncertainty.com. PPP-adjusted Global Economic Policy Uncertainty

MidCap struggles after a strong Q1 2019

	2019 Q2 (total return %)		2019 YTD (total return %)	
	Stratified MidCap	S&P MidCap 400	Stratified LargeCap	S&P MidCap 400
Total	**1.6**	**3.0**	**16.2**	**18.0**
Financials	6.2	4.2	17.7	16.9
Energy	0.5	-4.3	17.3	9.0
Industrials	3.8	4.6	22.7	23.4
Info. Tools	3.1	4.6	20.2	20.0
Information	4.1	5.9	20.9	24.6
Consumer	-0.7	3.3	10.0	14.6
Food	-1.7	-0.5	12.5	10.4
Healthcare	-5.1	0.5	9.4	13.9

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

Sector performance mixed within the MidCap universe

Similar to the S&P 500, the mid cap universe had a volatile second quarter. A strong April and June bookended a painful May, where 331 of 400 securities had negative returns. The S&P MidCap 400 finished the quarter up 3.0%, while the Stratified MidCap index rose 1.6%. The Stratified MidCap Index allocated greater weight than the cap-weighted index in the Consumer and Healthcare sectors. The Household and Personal Products (-11.7% for Q2), Pharmaceuticals (-9.3%) and Medical Devices groups (-17.1%) all caused a headwind for relative performance. A lower weight in Commercial Information (+7.7%) for the Stratified MidCap Index also negatively impacted relative performance. This relative underperformance was offset by outperformance in the Energy sector, driven by lower exposure to poor-performing upstream energy companies, where the largest companies had significantly worse performance than their smaller peers.

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 Core	SYCORETR	S&P 900
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 Social Core Tier 1	SOCIAL1TR	Custom US Large & Mid Cap
Syntax US Social Core Tier 2	SOCIAL2TR	Custom US Large & Mid Cap

Disclaimers

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The S&P 500® Index is an unmanaged index considered representative of the US mid- and large-cap stock market. The MSCI EAFE Index is an unmanaged index considered representative of the European, Australian, and East Asian large-cap stock market. Benchmark data for the S&P 500 and S&P MidCap 400 Indices are provided by S&P Dow Jones through FactSet®. Benchmark data for the MSCI EAFE index is provided by MSCI through FactSet.

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