



Passive Perspectives

Fourth Quarter 2021

- S&P 500 finishes 2021 with strongest quarter amidst supply chain relief
- Omicron surge keeps interest rates suppressed, supporting tech stocks
- Thematic Trends: airlines plummet while autos rally

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Stratified LargeCap outperforms S&P 500 during banner year

The S&P 500 finished 2021 with its strongest quarter of the year (11.0%), completing its third best annual performance of the past 20 years (28.7%). The Stratified LargeCap Index also performed strongly (9.6%) in the fourth quarter and outperformed the cap-weighted benchmark for the full year (29.4%). A preference for value sectors like Energy, Industrials and Financials lifted the Stratified LargeCap index above its cap-weighted counterpart (Exhibit 1).

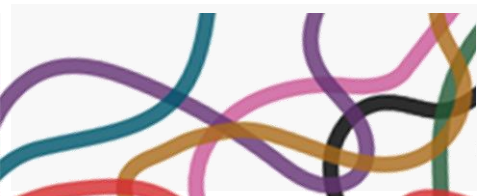
The S&P MidCap 400 and SmallCap 600 indices also had strong quarters, rising 8.0% and 5.6% respectively. Stratified Weight slightly underperformed in the mid caps for the full year (23.4%), though outperformed in the small caps (27.7%). Unlike the large cap indices, the S&P 400 and 600 are dominated by Energy and Financial companies which performed well. International benchmarks lagged their US counterparts in 2021, with Stratified Weight struggling as larger companies significantly outperformed. MSCI EAFE was driven by large IT (Sony and ASML) and Consumer names (LVMH), which account for a much larger weight in MSCI EAFE than SEADM.

Exhibit 1. Core Index Comparison

Index	Benchmark	Q4 2021 (%)			2021		
		Stratified	Benchmark	Rel.	Stratified	Benchmark	Rel.
Stratified LargeCap	S&P 500	9.6	11.0	-1.5	29.4	28.7	0.7
Stratified MidCap	S&P MidCap 400	7.0	8.0	-1.0	23.4	24.8	-1.4
Stratified SmallCap	S&P SmallCap 600	4.8	5.6	-0.9	27.7	26.8	0.8
SEADM*	MSCI EAFE	-0.6	2.7	-3.4	6.5	11.8	-5.3
Stratified LargeCap	S&P 500 Eq. Wt.	9.6	9.0	0.5	29.4	29.6	-0.2

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.

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



Fed commitment to low rates fuels end of year rally

The crippling supply chain problems, which were widely reported in September, dissipated in Q4 and the market recovered its September losses. A strong Q3 earnings season, particularly for key large cap software and information companies also helped the S&P 500 in October – Microsoft and Alphabet posted much stronger than expected results, both beating their earnings estimates by 10% and rallying 5%. As inflation concerns began to dominate headlines in November, the Fed committed to their accommodative policy stance, dismissing recent data as transient. High growth and highly leveraged companies outperformed once more. These trends supported tech and hence cap-weighted US large cap indices once again outperformed alternatively weighted ones. In December, the then new Omicron COVID variant raised fresh concerns for investors, but as with previous surges, the market was able to shrug off its initial worries as the Fed repeated their commitment to low interest rates. Risk assets, and in particular value stocks, rallied in December and Stratified Weight recovered some of its relative underperformance from the previous two months (Exhibit 2).

**Fed dismissed
inflation data as
transitory in Q4**

Exhibit 2. Q4 2021 Performance, month-by-month

	Stratified LargeCap	S&P 500	Relative
Oct 21	5.1	7.0	-1.9
Nov 21	-2.1	-0.7	-1.4
Dec 21	6.4	4.5	1.9
Q4 2021	9.6	11.0	-1.5

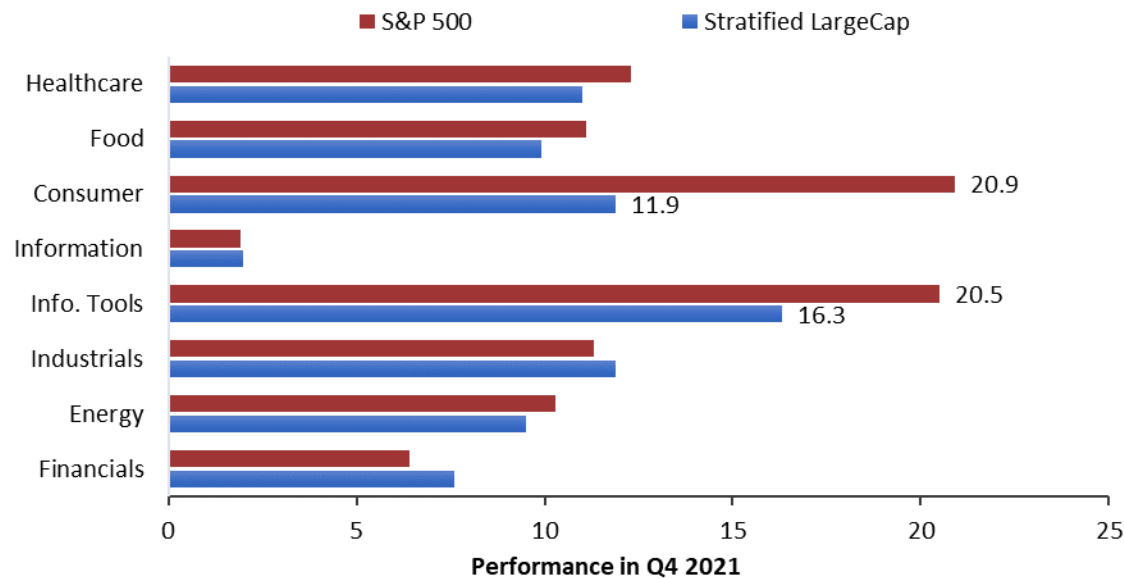
Source: Syntax, S&P Dow Jones Indices. Total return performance does not reflect fees or implementation costs as an investor cannot directly invest in an index.

At the sector level, the outperformance of the S&P 500 was driven by large cap companies in the IT sector. Apple had a blowout quarter, rising 25.7% and together with Microsoft (which rose 19.5%) account for 11.9% of the index – almost as much weight as the entire IT exposure of the Stratified LargeCap index. The result was that the cap-weighted IT sector outperformed the Stratified Weighted one by 4.2% for the quarter.

As was the case in Q3, large Cap consumer stocks rose in the fourth quarter. The five largest companies account for over half of the cap-weighted consumer sector and all delivered very strong performance: Tesla (up 36.3% in Q4); Home Depot (27.0%); Proctor & Gamble (17.7%); Lowes (27.9%) and Nike (15.0%). The cap-weighted consumer sector rose 20.9% strongly outperforming the equal-weighted (10.8%) and Stratified Weight (11.9%) consumer sectors (Exhibit 3).

**Large Cap
Consumer stocks
drove cap-weighted
outperformance in
Q4**

Exhibit 3. US LargeCap Q4 sector performance by different weighting methodologies



Total return performance from 9.30.2021 – 12.31.2021. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones Indices.

Trending and Emerging Themes

Affinity™, Syntax’s market intelligence technology, can identify dozens of investable themes, including Technology, Tourism, Retail, ESG, Infrastructure, Commodities and many more. Such themes often exhibit persistent performance trends, which we observe as they develop (Exhibit 4).

As the pandemic lingered on, the most polarizing trend in Q4 was a preference for auto transport versus air. Auto manufacturers rallied strongly in Q4, Ford (47.4%) even outperformed Tesla (36.3%). Auto services also outperformed the market: O’Reilly (ORLY, 15.6%), Autozone (AZO, 23.5%) and Genuine Parts (GPC, 16.4%) all rose. In contrast, airlines all corrected course, with negative returns from Jetblue (-6.9%), Southwest (-16.7%), American Airlines (-12.5%), and United Airlines (-8.0%). The correction was a result of the high oil price (>\$80) and the emergence of the highly contagious Omicron COVID variant, once again deterring travelers.

Cars rally as airlines plummet

As the supply chain opened up, Commodity Rail Transport stocks: CSX (26.8%), Union Pacific (29.1%), and Norfolk Southern (24.9%) all rebounded sharply. As industrial channels remained open for business, infrastructure suppliers, particularly infrastructure materials companies like Freeport (28.6%), Nucor (16.4%), Vulcan (22.9%) and Martin Marietta (29.1%) continued their strong performance in Q4.

Infrastructure, materials, and rail transport stocks had a great quarter

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

	3M	12M	10Y	Full		3M	12M	10Y	Full
S&P 500 Equal Weight	9.0%	29.6%	15.6%	12.3%	S&P 500 Equal Weight	9.0%	29.6%	15.6%	12.3%
Distribution Models					Recurring Revenue Model	9.1%	29.3%	14.5%	11.8%
Sell Through a Retailer	11.2%	17.6%	10.6%	8.3%	Cloud and Telecommunication	-6.1%	1.4%	10.3%	9.7%
Sell to an OEM	13.8%	26.6%	19.3%	9.9%	Content Subscription	6.0%	49.4%	38.8%	14.3%
Direct-to-Consumer	6.0%	24.7%	13.2%	9.9%	Equipment Rental and Leasing	4.7%	36.7%	24.1%	8.9%
Government-Subsidized	10.0%	21.3%	16.5%	12.7%	Rate Regulated Utilities	11.0%	12.9%	10.7%	9.5%
Advertisement Revenue Model	0.3%	35.7%	15.6%	9.3%	Software Subscription	3.6%	31.9%	23.3%	17.7%
Franchisor	14.2%	33.4%	16.8%	8.4%					
Supply Chains					Commodities	11.0%	37.5%	6.3%	8.5%
Electronics Supply Chain	20.6%	39.7%	19.1%	13.3%	Energy Commodities	6.8%	47.8%	-1.5%	6.4%
Industrial Equipment Supply Chain	9.6%	27.0%	17.8%	12.5%	Agricultural Commodities	15.2%	31.3%	14.7%	12.4%
Transportation Equipment Supply Chain	10.3%	34.9%	13.4%	7.6%	Metal Commodities	10.6%	38.1%	7.5%	8.3%
Consumer Goods Supply Chain	9.9%	20.4%	9.8%	8.0%	Commodity Rail Transport	21.0%	28.1%	16.3%	12.3%
Pharmaceutical and Medical Equipment	5.4%	20.2%	15.9%	13.1%	Chemical Commodities	11.9%	23.1%	15.6%	9.4%
Food Supply Chain	9.0%	17.3%	12.2%	9.8%					
Energy Supply Chain	8.7%	29.0%	3.9%	6.6%	Infrastructure	12.4%	23.6%	10.0%	7.2%
Cross-Sector Thematics					Infrastructure Suppliers	14.1%	46.4%	11.4%	8.6%
Aerospace	-1.5%	14.4%	14.6%	10.4%	Construction and Engineering	3.1%	28.7%	5.8%	1.5%
Automotive	13.9%	39.6%	13.8%	7.4%	Infrastructure Operators	10.3%	16.2%	9.9%	7.5%
Consumer	5.9%	21.5%	13.0%	10.0%					
Retail	8.6%	30.0%	13.3%	9.7%	Real Estate	9.6%	31.0%	8.5%	9.0%
Technology	10.1%	25.4%	20.9%	14.3%	Real Estate Owners/Operators	10.9%	32.1%	10.6%	9.3%
Telecoms	16.0%	27.8%	13.5%	10.9%	Real Estate Construction	2.8%	34.6%	12.1%	11.7%
					Real Estate Services	4.1%	23.2%	19.8%	5.6%
					Real Estate Components	15.5%	39.4%	20.5%	9.4%
					Real Estate Financial Products	5.7%	41.1%	8.6%	-0.9%

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 9.30.21 to 12.31.21. YoY shows total return from 12.31.20 to 12.31.21. 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	
	Q4	12 months	Q4	12 months	Q4	12 months	Q4	12 months
Index	9.5	29.4	-0.6	6.5	7.0	23.4	4.8	27.7
Financials	7.6	40.3	2.1	14.3	8.5	34.2	9.0	31.7
Banking	1.4	46.1	3.6	25.7	4.9	37.9	8.8	46.0
Insurance	5.8	29.0	3.6	15.2	3.9	16.7	6.0	10.2
Real Estate	16.3	45.2	-1.0	2.6	17.2	47.3	12.2	41.1
Energy	9.5	33.5	2.9	8.5	7.6	27.6	3.6	34.3
Oil And Gas	6.2	47.1	-0.2	13.2	6.4	46.8	-6.0	44.4
Gas And Electricity	13.0	20.0	5.8	4.1	8.4	11.8	17.8	26.1
Industrials	11.9	33.9	1.7	14.9	9.9	24.6	9.8	31.0
Industrial Materials	16.3	40.1	2.0	11.7	11.6	38.4	10.3	50.4
Industrial Components	9.9	31.2	2.7	15.0	11.3	14.9	12.6	17.8
Industrial Equipment	7.8	24.4	2.0	11.1	3.3	18.7	8.2	24.5
Industrial Services	13.5	39.9	-0.1	21.5	12.9	26.8	8.3	31.8
Information Tools	16.3	36.9	1.8	16.7	15.5	32.2	9.7	24.4
Integrated Circuits	20.3	37.7	9.8	31.6	23.7	52.4	20.2	49.6
Hardware	21.0	50.6	-5.0	13.5	16.9	37.7	5.6	16.9
Software	7.1	21.6	1.6	6.1	5.0	6.5	3.0	7.5
Information	2.0	20.4	-3.5	0.6	-1.1	17.0	1.0	44.2
Commercial	8.3	30.1	0.3	8.8	2.8	23.9	5.5	30.2
Consumer	-7.0	6.3	-4.2	-1.0	-4.4	11.1	-3.5	55.3
Internet Services	5.2	23.2	-6.4	-5.6	-2.1	14.0		
Consumer	11.9	25.4	-4.3	-4.5	9.4	25.5	2.5	29.0
Hhld & Personal Prod.	15.6	12.8	-4.8	-17.9	16.2	7.5		
Apparel	6.9	17.9	1.4	8.1	0.0	16.3	10.5	61.1
Home Office	14.7	30.0	-5.6	-3.4	10.3	36.4	-2.4	12.3
Consumer Transport	10.5	39.3	-7.2	-3.4	8.6	37.0	0.3	19.3
Food	9.9	21.7	-0.3	3.5	6.5	16.1	6.4	30.5
Food Production	10.3	14.5	0.3	-0.7	5.3	9.0	16.7	40.2
Food Sales	9.4	28.7	-0.9	7.9	7.8	22.9	-2.8	21.9
Healthcare	11.0	26.4	-3.6	0.7	1.7	7.7	-0.8	3.8
Pharmaceuticals	10.3	16.3	-4.3	-2.1	-3.8	-2.9	6.1	9.4
Healthcare Industry	5.4	25.7	-3.0	3.4	3.2	26.5	-8.9	1.3
Consumer Healthcare	16.0	35.3			5.5	2.3	-0.1	-0.5

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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