Syntax

STRATIFIED LARGECAP Q3 2024 REVIEW

Paul Kenney November 5, 2024

STRATIFIED LARGECAP Q3 2024 REVIEW

Executive Summary

- **The Stratified LargeCap Index (SYLC) returned 8.6% in Q3 2024 vs. 5.9% for the S&P 500. SYLC performed well as 22 of 24 sub-sectors produced positive returns as market breadth improved from last quarter.**

- **Financials were the top performing sector returning 12.2% in SYLC, exceeding the 10.4% return for this sector in the S&P 500.**

- **SYLC benefited from its exposure to interest rate sensitive stocks as the Fed cut interest rates in September by 50 basis points. Utilities (+18.5%) and Real Estate (+17.0%) were the top two performing sub-sectors within both SYLC and the S&P 500.**

- **The Information Tools sector was the worst performing sector in both SYLC (+3.8%) and the S&P 500 (+1.3%). Last quarter, the Information Tools sector returned 14.4% within the S&P 500, led by the performance of NVIDIA (+36.7% in Q2, but -1.7% in Q3).**

Domestic Equity Market Performance Summary

Exhibit 1 shows a reversal in market leadership in Q3 relative to Q2 as large cap value stocks (+9.1%) outperformed growth stocks (+3.7%). Small cap (+10.1%) and mid cap stocks (+6.9%) outperformed the large cap S&P 500 index (+5.9%). SYLC performed well, its 8.6% return in the quarter outperformed the S&P 500 by 270 basis points. The one-year results for all of the domestic equity benchmarks in Exhibit 1 show remarkably strong performance with results ranging from the 25.9% for the S&P SmallCap 600 to 41.1% for the S&P 500 Growth index. Growth stocks have displayed strength over the past five years, returning 17.6% vs. 13.2% for the S&P 500 Value index. Interestingly, the S&P 500 Value (+13.1%) has outperformed the S&P 500 Growth (10.1%) over the past three years, reflecting the impact of the 2022 bear market on growth stocks. A 50/50 blend of SYLC and the S&P 500 has returned 14.6% over the past five years, with SYLC posting an annualized 13.3% return compared to 16.0% for the S&P 500.

Exhibit 1: Domestic Equity Market Performance Summary (%)

Index	3Q24	YTD	1 Year	3 Year	5 Year
Syntax Stratified LargeCap	8.6	14.9	27.4	9.4	13.3
S&P 500	5.9	22.1	36.4	11.9	16.0
50/50 Blend*	7.2	18.5	31.9	10.6	14.6
S&P 500 Growth	3.7	28.2	41.1	10.1	17.6
S&P 500 Value	9.1	15.4	31.1	13.1	13.2
S&P MidCap 400	6.9	13.5	26.8	7.5	11.8
S&P SmallCap 600	10.1	9.3	25.9	4.0	10.2

*Blend of 50% Stratified LargeCap Index and 50% S&P 500 Index.
Total Return as of 9.30.2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones

For a change, the performance story in Q3 was not the Magnificent Seven or one of its members leading returns higher. In fact, the Magnificent Seven as a group was a drag on performance as only three of the seven companies beat the return on the S&P 500 while four were negative[1]. At the same time, the market enjoyed good breadth as all sectors produced positive results. The Fed decision to cut interest rates supported the market and provided a tailwind in particular for interest rate sensitive stocks in the Utility and Real Estate sub-sectors. The market also shrugged off concerns surrounding the escalating conflict in the Middle East, the ongoing war in Ukraine, and the upcoming presidential election.

Exhibit 2: Stratified LargeCap (SYLC) and S&P 500 Asset Allocation

Sector (Sub-Sector)	SYLC	S&P 500	Difference
Information Tools	12.6%	30.4%	-17.7%
Integrated Circuits	4.2%	11.3%	-7.2%
IT Hardware	4.3%	8.7%	-4.4%
Software	4.2%	10.4%	-6.2%
Information	12.5%	20.6%	-8.1%
Commercial Information Services	4.1%	7.0%	-2.8%
Media and Telecommunications	4.1%	1.9%	2.2%
Internet Services and Websites	4.2%	11.7%	-7.5%
Healthcare	12.3%	11.9%	0.4%
Pharmaceuticals	4.0%	5.5%	-1.5%
Healthcare Industry	4.1%	4.1%	0.0%
Consumer Healthcare	4.2%	2.2%	1.9%
Industrials	12.8%	10.1%	2.6%
Materials	3.2%	2.3%	0.9%
Components	3.3%	2.1%	1.2%
Equipment	3.0%	3.7%	-0.6%
Services	3.2%	2.1%	1.1%
Financials	12.4%	9.9%	2.5%
Banking	4.3%	4.2%	0.1%
Insurance	4.1%	3.3%	0.9%
Real Estate	4.0%	2.5%	1.5%
Consumer	12.4%	5.9%	6.5%
Household, Personal Care	3.1%	1.3%	1.8%
Apparel and Accessories	3.1%	0.7%	2.4%
Equipment and Services	3.0%	1.6%	1.4%
Transportation	3.2%	2.2%	1.0%
Energy	12.7%	5.8%	6.9%
Oil and Gas	6.3%	3.3%	3.0%
Utilities	6.4%	2.5%	3.9%
Food	12.2%	5.3%	6.9%
Food Production	6.0%	2.6%	3.4%

Comments: SYLC vs. S&P 500

- All SYLC sectors (shaded in gray) have a target weight of 12.5% to provide balanced exposure to business risks.

- Relative to SYLC, the S&P 500 remains overweight Information Tools which has a weight of 31%, 18.5 percentage points higher than this sector's weight in SYLC.

- The S&P 500's weight to the Information sector is 8 percentage points higher than SYLC, driven by the index's 12.6% weight to the Internet Services and Website sub-sector (e.g., Alphabet, Amazon and Meta Platforms).

- SYLC has significant over-weights to the Consumer (6.7%), Energy (6.7%), and Food (7.4%) sectors, all of which are under represented in the S&P 500 Index.

The goal of the Stratified LargeCap Index is to deliver an unbiased return that is representative of all the business opportunities in the market, not just the largest ones. The index holds the exact same stocks as the S&P 500; the only difference is the weighting scheme is designed to reduce concentration risk to both individual stocks and sectors.

Exhibit 3 looks at the performance of Stratified LargeCap relative to the S&P 500 by Syntax's eight primary sectors. The favorable market breadth during the quarter is highlighted by the fact that all primary sectors had positive returns in both SYLC and the S&P 500. Financials led the way with a return of 12.2% in SYLC, followed by Industrials at 10.6%. Information Tools was the weakest sector returning 3.8% in SYLC, compared to 1.3% for the S&P 500. SYLC outperformed the S&P 500 in the tech focused Information sector as well (9.5% to 5.2%) as mega cap tech stocks' performance was relatively weak as a group in Q3.

Exhibit 3: Stratified LargeCap (SYLC) and S&P 500 Q3 2024 Performance by Sector

Sector	SYLC	S&P 500	Difference
Financials	12.2%	10.4%	1.9%
Industrials	10.6%	10.6%	0.0%
Information	9.5%	5.2%	4.4%
Consumer Products and Services	9.0%	13.1%	-4.1%
Food	8.8%	11.4%	-2.6%
Energy	7.7%	5.3%	2.5%
Healthcare	5.7%	6.6%	-1.0%
Information Tools	3.8%	1.3%	2.4%

Total Return by sector, 7.1.2024- 9.30.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

Exhibit 4 on the following page displays the results of the 24 sub-sectors found within the eight primary sectors of Syntax's FIS® industry classification system. Looking at results at this more granular level provides insights into the industries and companies that drove performance for the past quarter.

In total, 22 of the 24 sub-sectors in SYLC produced positive results in Q3. Highlights include:

- 21 sub-sectors generated a return of 5% or more.
- 8 sub-sectors had returns of 10% or more.
- Utilities (+18.5%) and Real Estate (+17.0%) were the top two performing sub-sectors as both are interest rate sensitive and benefited from the Fed's 50 basis point rate decline.
- The worst performing sub-sector was Integrated Circuits, which was down 6.3% in SYLC and down 3.6% in the S&P 500. Last quarter, Integrated Circuits were up +21.9% in the S&P 500 and 9.8% in SYLC, largely driven by investor interest in AI-related technology.

Performance for a majority of the sub-sectors for SYLC and S&P 500 were in a relatively close range of ±3%; however, there were a few outliers. Below are some examples where performance diverged meaningfully in specific sub-sectors tied to the performance of one or more large individual stocks within the S&P 500.

- Software: SYLC returned 11.2% for the quarter, outperforming the S&P 500's return of 0.9% by 10.4 percentage points; the S&P 500 was adversely impacted by the -3.7% return for Microsoft during the quarter.

- Internet Services and Websites: SYLC returned 7.6% for the quarter, compared to -0.2% for the S&P 500, which was impacted by the weak returns of Alphabet (-9.0%) and Amazon (-3.6%).
- Consumer Transportation Services: This sub-sector returned 19% for the quarter in the S&P 500 compared to 5.7% for SYLC, an outperformance of 13.4 percentage points. The S&P's strong performance was driven by Tesla, which was up 32.2% for the quarter.

Exhibit 4: Stratified LargeCap and S&P 500 Performance by Sub-Sector

Sub-Sector	Sector	SYLC	S&P 500	Difference
Utilities	Energy	18.5%	18.8%	-0.3%
Real Estate	Financials	17.0%	16.1%	1.0%
Industrial Components	Industrial	14.6%	13.0%	1.5%
Consumer Equipment and Services	Consumer	14.3%	14.2%	0.1%
Commercial Information Services	Information	14.0%	14.2%	-0.2%
Insurance	Financials	13.6%	13.9%	-0.4%
Industrial Equipment	Industrial	11.3%	11.5%	-0.2%
Software	Information Tools	11.2%	0.9%	10.4%
Apparel and Accessories	Consumer	9.2%	8.2%	1.0%
Food Sales	Food	8.9%	12.3%	-3.3%
Food Production	Food	8.7%	10.6%	-2.0%
Industrial Materials	Industrial	8.2%	9.7%	-1.5%
Industrial Services	Industrial	8.0%	7.7%	0.3%
Internet Services and Websites	Information	7.6%	-0.2%	7.9%
Media and Telecommunications	Information	7.5%	7.3%	0.2%
Household and Personal Care	Consumer	7.3%	6.3%	1.0%
Healthcare Industry	Healthcare	7.3%	6.5%	0.8%
IT Hardware	Information Tools	6.9%	9.7%	-2.9%
Banking	Financials	6.3%	4.6%	1.7%
Consumer Healthcare	Healthcare	6.2%	14.5%	-8.3%
Consumer Transportation Products	Consumer	5.7%	19.0%	-13.4%
Pharmaceuticals	Healthcare	3.3%	4.4%	-1.2%
Oil and Gas	Energy	-3.0%	-2.8%	-0.2%
Integrated Circuits	Information Tools	-6.3%	-3.6%	-2.7%

Total Return by sub-sector, 7.1.2024- 9.30.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

Conclusion

Q3 was a strong quarter for the Stratified LargeCap Index which returned 8.6%, exceeding the return on the S&P 500 by 270 basis points. For the year-to-date, SYLC has returned 14.9% compared to 22.1% for the S&P 500, an underperformance of 7.2

percentage points.

The performance narrative for this quarter changed as the market was led higher by stocks other than the headline-grabbing Magnificent Seven (Apple, Microsoft, NVIDIA, Alphabet, Amazon, Meta Platforms, Tesla). To put the strong performance trend of the Magnificent Seven into perspective, we calculated the return on this group of stocks to quantify their impact on the large cap market. Our analysis, based on the five years ending August 31st, 2024, found that:

- The Magnificent Seven as a group returned 30.3% per year over the past five years.
- Their collective market cap increased from $4 trillion to over $14 trillion.
- These seven stocks accounted for 34% of the market's total return.
- The remaining 493 stocks in the Syntax 500 universe returned 12.7%.

The question investors continue to grapple with is: can these mega cap growth stocks continue to lead the market higher? Also, is the recent quarterly outperformance of SYLC signaling a potential inflection point? We do not know the answers to these questions, but research from Goldman Sachs expects market returns for the next ten years to be 3% annually, well below the 13% of the past decade.[2] The report cited valuations and extreme market concentrations as areas of concern as highlighted by the following quotes:

> **"When equity market concentration is high, performance of the aggregate index is strongly dictated by the prospects of a few stocks"**

> **"Our historical analyses show that it is extremely difficult for any firm to maintain high levels of sales growth and profit margins over sustained periods of time. The same issue plagues a highly concentrated**

index"

From Syntax's perspective, we have long been aware that cap-weighted benchmarks like the S&P 500 often have biases to both individual securities, as well as to hot industries and sectors. We also recognize, as Goldman points out, these biases are now at heightened levels in the S&P 500. SYLC was designed to minimize these risks. SYLC holds the same securities as the S&P 500 but limits the impact of individual security weights—no stock typically has a weight greater than 0.8%. Additionally, each of the eight primary sectors are rebalanced back to their 12.5% target each quarter. Importantly, within sectors, the exposure is also equally weighted at the sub-sector, industry, and sub-industry groups to provide exposure to a diversified and balanced set of businesses.

If the concentration risks presently found in the S&P 500 mean revert, placing downward pressure on future returns, the balanced exposures found in SYLC could help mitigate the concentration risks embedded in the S&P 500.

1. https://www.bostontrustwalden.com/insights/q3-2024-investment-commentary/

2.Why S&P 500's Golden Decade of Double-Digit Returns Is Over: Goldman Sachs - Markets Insider

Important Disclaimers

Index performance does not represent actual fund or portfolio performance and such performance does not reflect the actual investment experience of any investor. An investor cannot invest directly in an index. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in a portfolio invested in accordance with an index. None of the Syntax Indices or the benchmark indices portrayed herein charge management fees or incur brokerage expenses, and no such fees or expenses were deducted from the performance shown; provided, however, that the returns of any investment portfolio invested in accordance with such indices would be net of such fees and expenses. Additionally, none of such indices lend securities, and no revenues from securities lending were added to the performance shown. Benchmark data for the S&P 500 is provided by S&P Dow Jones Indices. Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only.

The Syntax Stratified LargeCap Index (“the Index”) is the property of Syntax, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third-party licensors (collectively, “S&P Dow Jones Indices”). S&P Dow Jones Indices will not be liable for any errors or omissions in calculating the Index. “Calculated by S&P Dow Jones Indices” and the related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Syntax, LLC. S&P® is a registered trademark of Standard & Poor's Financial Services LLC (“SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”). Syntax®, Stratified®, Stratified Indices®, Stratified Weight™, and Locus® are trademarks or registered trademarks of Syntax, LLC or its affiliate.

This report is for informational purposes only and is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy, any security. Additionally, the information herein is not intended to provide, and should not be relied upon for, legal advice or investment recommendations. You should make an independent investigation of the matters described herein, including consulting your own advisors on the matters discussed herein. In addition, certain information contained in this presentation has been obtained from published and non-published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for the purpose used in this presentation, such information has not been independently verified by Syntax and Syntax does not assume any responsibility for the accuracy or completeness of such information. Syntax LLC, its affiliates and their independent providers are not liable for any informational errors, incompleteness, or delays, or for any actions taken in reliance on information contained herein.