Syntax

Stratified LargeCap Q4 and 2024 Review

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Executive Summary

- The Stratified LargeCap Index (SYLC) returned -1.0% in Q4 vs. 2.4.% for the S&P 500. Within SYLC, 15 of 24 sub-sectors had negative returns compared to 14 for the S&P 500.

- The S&P 500 continues to be carried by growth stocks, and in particular the Magnificent Seven. In Q4, the S&P 500 Growth Index returned 6.2%, whereas the S&P 500 Value Index returned -2.7%.

- 2024 mirrored 2023 for SYLC and the S&P 500. SYLC returned 13.7% and 14.1% in 2024 and 2023, respectively, while the S&P 500 returned 25.0% in 2024 and 26.3% in 2023.

- SYLC returned 5.8% and 11.4% annually over the past three and five years, respectively, underperforming the S&P 500 by 320 and 310 basis points. Since the beginning of its backtest in December 1991, SYLC's 13.1% annual return has exceed the S&P 500 by 230 basis points.

- Six of the members of the Magnificent Seven returned greater than 30% in 2024, with Microsoft (+12.9%) being the lone exception. Exceptional returns were generated by Nvidia (+171.2%), Meta Platforms (66.0%), and Tesla (+62.5%).

Domestic Equity Market Performance Summary

Exhibit 1 highlights the performance of the US domestic public equity market. In 2024, large cap stocks (+25.0%) outperformed mid cap (+13.9%) and small cap stocks (+8.7%) as measured by the S&P 500, 400 and 600, respectively. Within large cap stocks, growth (+36.1%) outperformed value (+12.3%) by a wide margin. Within the cap weighted indices, Q4 saw large cap (+2.4%) stocks outperform both mid cap (+0.3%) and small cap (-0.6%). Within large cap, growth (+6.2%) outperformed value (-2.7%). The Magnificent Seven stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) accounted for more than 100% of the entire S&P 500 return in Q4[1]. Overall, it was a volatile quarter as the market tried to find its footing amidst a presidential election, two fed rate cuts, stubborn inflation, and the markets ongoing love affair with AI-related stocks.

Exhibit 1: Domestic Public Equity Returns (%)

Index	2024	2023	4Q24	3Q24	2Q24	1Q24
Syntax Stratified LargeCap	13.7	14.1	-1.0	8.6	-2.3	8.2
S&P 500	25.0	26.3	2.4	5.9	4.3	10.6
50/50 Blend*	19.4	20.2	0.7	7.2	1.0	9.4
S&P 500 Growth	36.1	30.0	6.2	3.7	9.6	12.8
S&P 500 Value	12.3	22.2	-2.7	9.1	-2.1	8.1
S&P MidCap 400	13.9	16.4	0.3	6.9	-3.4	10.0
S&P SmallCap 600	8.7	16.1	-0.6	10.1	-3.1	2.5

* Blend of 50% Stratified LargeCap and S&P 500

As of 12/31/2024. Source: Syntax, S&P Dow Jones

Asset Allocation: Stratified LargeCap vs. S&P 500

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. To reduce sector concentration risk, each of the eight primary Syntax FIS sectors is assigned an equal weight of 12.5% of the index. As you can see in Exhibit 2, the SYLC primary sectors (shaded in grey) have similar weights, with the differences being tied to market movement between the latest quarterly rebalance on 12/20/24 and year-end. This principle of equally weighting sectors is extended to sub-sectors, industry groups, sub-industries, and business activities to enhance diversification not only at the sector level, but at the lower levels as well.

Exhibit 2 compares the sector and sub-sector allocation of Stratified LargeCap to the S&P 500, providing insights into the exposures in each index.

Exhibit 2: Stratified LargeCap (SYLC) Sector and Sub-Sector Allocation vs. S&P 500

Sector (Subsector)	SYLC	S&P 500	Difference
Information Tools	12.5%	31.2%	-18.7%
Integrated Circuits	4.2%	11.7%	-7.5%
IT Hardware	4.2%	9.0%	-4.8%
Software	4.1%	10.5%	-6.3%
Information	12.5%	22.1%	-9.6%
Commercial Information Services	4.2%	7.4%	-3.2%
Media and Telecommunications	4.1%	1.9%	2.2%
Internet Services and Websites	4.2%	12.8%	-8.6%
Healthcare	12.6%	10.3%	2.3%
Pharmaceuticals	4.2%	4.7%	-0.5%
Healthcare Industry	4.2%	3.8%	0.4%
Consumer Healthcare	4.2%	1.8%	2.4%
Industrials	12.2%	9.4%	2.8%
Materials	3.0%	1.9%	1.1%
Components	3.1%	2.0%	1.2%
Equipment	3.0%	3.6%	-0.6%
Services	3.1%	1.9%	1.2%
Financials	12.4%	9.9%	2.5%
Banking	4.2%	4.6%	-0.4%
Insurance	4.3%	3.1%	1.2%
Real Estate	4.0%	2.2%	1.8%
Consumer	12.6%	6.5%	6.1%
Household, Personal Care	3.2%	1.2%	1.9%
Apparel and Accessories	3.2%	0.8%	2.4%
Equipment and Services	3.1%	1.5%	1.6%
Transportation	3.2%	3.0%	0.2%
Energy	12.6%	5.5%	7.1%
Oil and Gas	6.2%	3.2%	3.1%
Utilities	6.4%	2.3%	4.0%
Food	12.4%	5.0%	7.4%
Food Production	6.2%	2.3%	3.8%
Food Sales	6.3%	2.7%	3.6%

Weight as of 12/31/2024. Source: Syntax

Comments: SYLC vs. S&P 500

- SYLC's largest underweight is to the Information Tools sector at 18.7 percentage points. At year-end 2023, this underweight was 14.7 percentage points, highlighting the S&P 500's increasing concentration to this technology sector.

- The 9.6 percentage point underweight to the Information sector is driven by the S&P's large positions in Amazon, Alphabet, and Meta Platforms, all of which are in the Internet Services and Websites sub-sector.

- SYLC has modest overweights to the Healthcare (2.3%), Industrials (2.8%), and Financials (2.5%) sectors.

- SYLC has large overweights the Consumer (6.1%), Energy (7.1%), and Food (7.4%) sectors.

- The three largest companies in the S&P 500 are Apple (7.6%), Nvidia (6.6%), and Microsoft (6.3%). These companies individually are roughly equal to or greater than the S&P 500's weight to three entire sectors: Consumer (6.5%), Energy (5.5%), and Food (5.0%) .

- The largest weighted security in SYLC is 80 basis points, while the smallest is 4 basis points.

Q4 Performance by Sector

Exhibit 3 looks at the performance of Stratified LargeCap relative to the S&P 500 by primary sector. Highlights include:

- Both SYLC and the S&P 500 had four primary sectors with positive results and four with negative returns.
- The Information sector was the top performer in SYLC with a return of 4.5% for the quarter. However, it underperformed the S&P 500 Information return of 9.0%, as the S&P benefitted from its large weights to Amazon, Meta Platforms, and Alphabet.
- The Consumer sector was the top performing sector within the S&P, returning 12.2% compared to 2.1% for SYLC. However, the low cap weight in

this sector limited its contribution to the overall S&P 500's return. The S&P benefitted from its market cap position in Tesla, which rose 54% during the quarter and ended the year as the sixth largest stock in the index with a weight of 2.26%.

- The worst performing sector in both SYLC and the S&P 500 was Healthcare, as each index was down about 10% in this sector. All of the sub-sectors within Healthcare suffered from regulatory uncertainty tied to the new administration and rising costs.

Exhibit 3: Stratified LargeCap Q4 Primary Sector Performance vs. S&P 50

Sector	SYLC	S&P 500	Difference
Information	4.5%	9.0%	-4.5%
Financials	3.8%	3.3%	0.5%
Information Tools	2.5%	5.2%	-2.7%
Consumer Products and Services	2.1%	12.2%	-10.1%
Energy	-2.4%	-3.6%	1.2%
Food	-2.5%	-2.4%	-0.1%
Industrials	-6.8%	-5.0%	-1.8%
Healthcare	-9.9%	-10.1%	0.2%

Total Return, 9/30/2024-12/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones Indices.

Q4 Performance by Sub-Sector

Sector level results can sometimes be misleading since they represent a roll-up of the underlying sub-sectors where performance can vary materially. In Exhibit 4, we rank the performance of the 24 sub-sectors from highest to lowest based on their Stratified LargeCap results, which are also compared to the S&P 500.

The top performing sub-sector in SYLC was Banking, which returned 20.0%, outperforming the S&P 500's return of 14.5%. According to Fitch Ratings, the "U.S. banks' financial performance improved due to a broadening recovery in net interest income (NII), improved fee income conditions, lower expense growth, and stable asset quality."[2] Apparel and Accessories was the second best performing sector in SYLC, returning 12.6% compared to 4.1% for the S&P 500. SYLC benefited from its larger weights to luxury and life style brands like Ralph Lauren, Tapestry (Coach, Kate Spade New York), and Decker Outdoor Corp (Ugg, Hoka).

The best performing sub-sector in the S&P 500 was Consumer Transportation, up 39.0% vs. 10.9% for SYLC based on the performance of Tesla. On a relative basis, the Integrated Circuits sub-sector returned 6.0% for the S&P 500 compared to -9.8% for SYLC, a difference of 15.9 percentage points driven by the S&P 500's 6.6% weight in NVIDIA (compared to just 0.14% weight in SYLC).

Exhibit 4: Stratified LargeCap Q4 Sub-Sector Performance vs. S&P 500

Sub-Sector	Sector	SYLC	S&P 500	Difference
Banking	Financials	20.0%	14.5%	5.5%
Apparel and Accessories	Consumer	12.6%	4.1%	8.5%
Consumer Transportation	Consumer	10.9%	39.0%	-28.1%
Software	Information Tools	9.6%	2.4%	7.2%
Internet Services and Websites	Information	6.8%	12.0%	-5.2%
Media and Telecommunications	Information	5.6%	2.5%	3.1%
IT Hardware	Information Tools	4.9%	7.5%	-2.6%
Food Sales	Food	3.0%	3.7%	-0.7%
Commercial Information Services	Information	0.6%	5.7%	-5.0%
Oil and Gas	Energy	-0.3%	-2.0%	1.7%
Industrial Equipment	Industrial	-0.6%	-1.7%	1.1%
Insurance	Financials	-1.5%	-2.3%	0.8%
Industrial Services	Industrial	-3.7%	-5.4%	1.6%
Utilities	Energy	-4.3%	-5.5%	1.2%
Real Estate	Financials	-7.8%	-8.3%	0.6%
Industrial Components	Industrial	-7.8%	-2.5%	-5.3%
Household and Personal Care	Consumer	-7.9%	-5.0%	-2.9%
Consumer Equipment and Services	Consumer	-7.9%	-6.0%	-2.0%
Food Production	Food	-8.0%	-8.5%	0.5%
Pharmaceuticals	Healthcare	-9.1%	-11.0%	1.9%
Integrated Circuits	Information Tools	-9.8%	6.0%	-15.9%
Consumer Healthcare	Healthcare	-10.2%	-13.0%	2.8%
Healthcare Industry	Healthcare	-10.3%	-8.0%	-2.3%
Industrial Materials	Industrial	-14.1%	-12.5%	-1.6%

Total Return, 9/30/2024 - 12/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax

There was a large dispersion of returns by sub-sector during the quarter, which included three sub-sectors earning more than 10% in SYLC and three declining by 10% or more. Three out of five of the worst performing sub-sectors were in Healthcare.

2024 Performance by Sector

Seven of the eight sectors produced positive returns in 2024 for SYLC, while the S&P 500 produced positive returns in all eight primary sectors. As shown in Exhibit 5, Financials led the way in SYLC with a return of 25.5%, whereas Information Tools

(+37.7%) and Information (+33.7%) were the top primary sectors in the S&P 500. The relative outperformance of the S&P 500 to SYLC was most notable in the the three sectors where the Magnificent Seven are found: Information Tools (Nvidia, Apple, Microsoft), Information (Amazon, Meta Platforms, Alphabet), and Consumer (Tesla).

Exhibit 5: Stratified LargeCap 2023 Primary Sector Performance vs. S&P 500

Sector	SYLC	S&P 500	Difference
Financials	25.5%	26.7%	-1.2%
Information Tools	21.5%	37.7%	-16.2%
Energy	18.2%	12.3%	5.9%
Information	16.3%	33.7%	-17.4%
Consumer Products and Services	11.6%	21.8%	-10.2%
Food	11.2%	16.4%	-5.2%
Industrials	10.3%	12.4%	-2.1%
Healthcare	-6.1%	3.0%	-9.1%

Total Return, 12/31/2023 - 12/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax

2024 Performance by Sub-Sector

Exhibit 6 ranks 2024 performance by sub-sector for SYLC from highest to lowest. Overall market breadth was good in 2024, as 20 of the 24 sub-sectors in SYLC achieved positive results, while just two were negative for the S&P 500. There was also considerable dispersion in returns, particularly in the S&P 500. Performance highlights include:

- Banking was the top performing sub-sector in SYLC (+39.9%), as the prospect of lower rates and improving fundamentals provided support. Banking results were similar within the S&P 500 (+38.4%).
- The interest-rate-sensitive Utilities sub-sector performed well, up +26.8% in SYLC and 22.6% in the S&P 500.
- SYLC displayed strong relative performance to the S&P 500 in the Apparel and Accessories sub-sector (+27.5%), outperforming the S&P 500 by 22.9 percentage points.
- Interestingly, SYLC outperformed the S&P 500 modestly in two tech sub-sectors: the IT Hardware return of +30.3% exceeded the S&P 500 by 150 basis

points, whereas the +26.1% Software return exceeded the S&P 500 by 820 basis points.

- SYLC's underperformance to the S&P 500 can be tied primarily to three sub-sectors and their corresponding Magnificent Seven members: Nvidia in Integrated Circuits, where the sub-sector returned 74.4% vs. 4.2% in SYLC,; Tesla in Consumer Transportation (47.4% sub-sector return vs. 16.2% for SYLC),; and Amazon, Alphabet, and Meta in Internet Services and Websites (43.4% sub-sector return vs. 22.8% for SYLC).

Exhibit 6: Stratified LargeCap 2024 Sub-Sector Performance vs. S&P 500

Sub-Sector	Sector	SYLC	S&P 500	Difference
Banking	Financials	39.9%	38.4%	1.4%
IT Hardware	Information Tools	30.3%	28.8%	1.5%
Apparel and Accessories	Consumer	27.5%	4.6%	22.9%
Utilities	Energy	26.8%	22.6%	4.2%
Software	Information Tools	26.1%	17.9%	8.2%
Food Sales	Food	24.2%	31.4%	-7.2%
Insurance	Financials	23.8%	27.5%	-3.7%
Internet Services and Websites	Information	22.8%	43.4%	-20.6%
Industrial Equipment	Industrial	18.8%	17.5%	1.2%
Consumer Transportation	Consumer	16.2%	47.4%	-31.2%
Industrial Components	Industrial	14.8%	29.3%	-14.5%
Commercial Information Services	Information	13.7%	23.4%	-9.7%
Industrial Services	Industrial	12.9%	4.5%	8.4%
Media and Telecommunications	Information	11.5%	12.7%	-1.2%
Real Estate	Financials	10.3%	5.6%	4.8%
Oil and Gas	Energy	8.8%	5.4%	3.3%
Integrated Circuits	Information Tools	4.2%	74.4%	-70.3%
Pharmaceuticals	Healthcare	2.0%	6.0%	-4.0%
Household and Personal Care	Consumer	1.2%	10.9%	-9.8%
Consumer Equipment and Services	Consumer	0.8%	5.6%	-4.8%
Food Production	Food	-1.2%	3.2%	-4.4%
Industrial Materials	Industrial	-4.1%	-0.7%	-3.4%
Healthcare Industry	Healthcare	-6.4%	2.0%	-8.4%
Consumer Healthcare	Healthcare	-15.9%	-1.4%	-14.5%

Total Return, 12/31/2023 - 12/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax

Trailing and Calendar Year Performance

Exhibit 7 highlights calendar year and trailing performance of SYLC relative to the S&P

500. Calendar year performance for 2024 strongly resembled 2023:

- The S&P 500 returned 25.0% in 2024 and 26.3% in 2023.
- SYLC returned 13.7% in 2024 and 14.1% in 2023, underperforming the S&P 500 by 11.3 percentage points in 2024, and 12.2 percentage points in 2023.
- The 2022 results show SYLC outperformed the S&P 500 by 930 basis points during the market correction that was led by poor performing technology stocks.

Exhibit 7: Stratified LargeCap Calendar and Trailing Performance Relative to S&P 500

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Stratified LargeCap	13.7	14.1	-8.8	29.2	12.4	29.3	-6.4	20.1	13.7	-0.7
S&P 500	25.0	26.3	-18.1	28.7	18.4	31.5	-4.4	21.8	12.0	1.4
Difference	-11.3	-12.2	9.3	0.5	-6.0	-2.2	-2.0	-1.7	1.7	-2.0

	1Y	2Y	3Y	5Y	7Y	10Y	Since 12.20.91
Stratified LargeCap	13.7	13.9	5.8	11.4	11.0	10.9	13.1
S&P 500	25.0	25.7	8.9	14.5	13.8	13.1	10.8
Difference	-11.3	-11.8	-3.2	-3.1	-2.8	-2.2	2.3

Total Return, as of 12/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Please see important disclaimers regarding back-tested data prior to inception. Source: Syntax

When viewing the trailing period returns, the strong outperformance of SYLC in 2022 helps offset the recent underperformance in 2023 and 2024. For the trailing period returns between three and ten years, SYLC has underperformed by between 2.2 to 3.2 percentage points annually. Since the start of its backtest in December 1991, SYLC's 13.1% return has outperformed the S&P 500 by 230 basis points annually.

Conclusion

The performance of the S&P 500 over the past ten years has been remarkable. $1,000 invested 10 years ago would be worth $3,425 today, before fees and expenses, highlighting the benefits of compounding an annualized return of 13.1%. It has been well documented that the recent rise in the S&P 500 has been fueled by the Magnificent Seven. Last year, we published a paper titled Measuring the Impact of the Magnificent Seven on Market Returns with Syntax Direct. The paper, which was based on performance through August 31, 2024, noted the following:

- The Magnificent Seven as a group returned 30.3% per year over the past five years, increasing their collective float-adjusted market cap from $4 to $14 trillion.

- Over this five year period, the Magnificent Seven's annualized return of 30.3% was almost twice the Syntax 500 return of 15.9%.

This strong performance trend has continued through year-end 2024, as Exhibit 8 highlights.

Exhibit 8: Magnificent Seven 2024 Performance

Company	Ticker	Total Return (%)
Nvidia	NVDA	171.2
Meta Platforms	META	66.0
Tesla	TSLA	62.5
Amazon	AMZN	44.4
Alphabet	GOOGL	35.9
Apple	AAPL	30.6
Microsoft	MSFT	12.9

Source: Bloomberg

The Magnificent Seven have clearly benefitted from their positions as market leaders and their roles in exciting emerging technologies including AI, cloud computing, and electric vehicles. They are also exceptional brands with strong connections to consumers through iconic products like the iPhone, Microsoft Office, Google, and Facebook. They have benefitted from the growth in passive investing, where these companies get a large share of new money being invested in the S&P 500. Their collective performance has been so good for so long, should investors consider taking some chips off the table? We cannot predict the future, but we do know that many investors, in hindsight, wished that they had captured some of their unrealized gains from the soaring S&P 500 in the late 90's. When the tech bubble collapsed in March of 2000, the S&P 500 over the next decade earned an annualized return of slightly less than 0% per year. For that following decade, an investor in the S&P 500 earned nothing. The S&P 500 today is more concentrated than at the peak of the tech bubble.

SYLC owns the same securities as the S&P 500 but constructs the index to provide exposure to a balanced set of business risks that removes both the individual and sector concentration risk embedded in the cap weighted S&P 500. Investors with material allocations to the S&P 500 should feel fortunate for their portfolio positioning, and perhaps recognize the returns they have realized have far exceeded expectations. We suggest investors evaluate realizing some of those gains driven by Magnificent Seven and consider allocating a portion to SYLC to balance the sector and individual security exposure embedded in their S&P 500 holdings.

To learn more about SYLC, please visit syntaxdata.com.

1. https://facet.com/q4-2024-performance-report-how-markets-fared-in-during-an-tumultuous-quarter/

2. https://www.fitchratings.com/research/banks/us-banks-4q24-results-reflect-positive-trends-24-01-2025

Please see page 8 for additional important information.

Important Disclaimers

Past performance is no guarantee of future results. All performance presented prior to the inception date is backtested performance. Backtested performance is not actual performance but is hypothetical. The inception date of the Syntax Stratified LargeCap Index was December 27, 2016. The backtest calculations are based on the same methodology that was in effect when the index was officially launched. Back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index. Charts and graphs are provided for illustrative purposes only.

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