Portfolio Commentary

Navigator® All Cap Core U.S. Equity

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The News Diet

With everything going on in today's world, the 24-hour news cycle can feel relentless and overwhelming—especially as we move closer to the upcoming election. I recently watched the Netflix documentary "The Social Dilemma," which highlights a lot of these same feelings.

After talking about this with my partner Maira Thompson, we agreed that maybe taking a break from the noise wouldn't be such a bad idea. For this quarter's commentary, I am doubling down on my efforts to focus exclusively on the data, and not the noise.

Fortunately, our investment approach, which is a disciplined application of a quantitative investment process, helps keep our focus on the proper investing criteria and not get distracted by the noise. Right on cue, the U.S. Economy has followed the same V-shaped recovery as the stock market – just two months behind. The stock market began its advance during the extraordinary two-month lockdown recession from March to April, which saw payrolls decline by 22 million and the unemployment rate soar from 3.5% to 15.1%.

Through September, nearly half of jobs lost have been recovered and the unemployment rate has fallen to 7.8%. Clearly, the economy is not yet back to pre-pandemic levels and human and economic hardship, especially among the most vulnerable, is high. The economy's improvement in backward looking data like the Atlanta Fed's GDPNow tracking model shows Q3 real GDP up over 30%. More anticipatory or coincident data like mobility, airlines miles traveled, OpenTable reservations and the ISM Non-Manufacturing Index (NMI), which rose in September to 57.8, shows expansion for the fourth month in a row. All of these statistics corroborate the V-shape advance.

The Path Forward

As noted above, near-term earnings and economic growth for many parts of the economy appear on firm footing. S&P 500 Q3 earnings exceeded estimates at a record pace and service industries in which workers can stay-at-home or manufacturers who can undertake health protocol adjustments are doing quite well. Conversely, air travel, hotels, restaurants, in-person education and socially dense leisure and entertainment activities continue to suffer as the persistence of the 7-day average of new COVID cases and the lack of a COVID vaccine limits re-opening.

Some portion of the improvement in economic activity can be attributed to the CARES Act's federal stimulus payments, expanded unemployment benefits and the Fed's use of emergency lending tools to support credit markets. In lieu of a generally available vaccine, we believe that a continued successful path forward will require additional government support as the expiration of PPP loans may push temporary layoffs to permanent ones and cause consumer demand to sputter as supplemental unemployment insurance benefits expire. Unfortunately, political wrangling has delayed the passing of an COVID support package.

Navigate Your Future. Enjoy the Journey.

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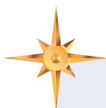
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



To Lend, but Not Spend

The biggest recent cheerleader for additional fiscal stimulus has been Fed Chairman Jerome Powell. Committed to using his emergency lending powers to support credit markets until maximum employment is reestablished, it appears as though monetary policy will remain accommodative, keeping short-term interest rates near zero till 2023. Powell has repeatedly emphasized that the Fed has the limited power to lend, but not the power to spend. This authority to spend rests with Congress. Essentially, the Fed is eager to buy (lend) what the Treasury sells (to fund government stimulus), but it cannot make direct expenditures.

Prior to the pandemic, the Fed followed its dual mandate of full employment and target inflation of 2% by providing an upward bound. Breaking the upper bound was introduced by prior Fed Chair Janet Yellen, as she discussed the concept of hysteresis or letting the economy "run hot". Last month, Chairman Powell added flexibility to this objective by "seeking to achieve inflation that averages 2% over time, and therefore judges that, following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time." Taken in sum, clear Fed guidance, depressed inventories, low long-term interest rates, strong ISM Export Activity and residential housing construction on the verge of exploding, should keep a fragile, bifurcated economy moving higher into Q4 and the beginning of 2021.

All Cap Focused on Re-Opening Trends

The Navigator® All Cap strategy remains positioned in approximately 67.5% in large-cap stocks and the remainder in mid/small-cap cap stocks and cash. The portfolio continues to balance portfolio holdings and adjustments between those companies which will benefit from work-from-home trends and the those which will benefit from economic re-opening. In the latter case, we are diligent with respect to a company's measured antifragility measures and credit exposure as the weakest parts of the economy continue to struggle. During the quarter, the portfolio added Norfolk Southern, Oracle, Fidelity National Financial, and Emergent Biosciences and exited State Street and Gentex.

Our current weighting in the big five (Microsoft, Apple, Google, Amazon and Facebook) has fallen to approximately 16.2% due in part to a reduction in our Apple position and the general pullback in large-cap tech growth stocks. Technology remains the largest sector weight in the strategy at 23.2%. Consumer Discretionary, Financials and Healthcare are our next biggest sector exposures, each with weightings between 12.2% and 17.1%. All Cap's quality characteristics, as measured by earnings variability and gross and net margins, have now tilted towards a barbell of the what we believe are highest quality, high margin and high yielding companies. We believe that the strong antifragility characteristics score of its holdings will help keep portfolio volatility low.

For the third quarter of 2020, the Navigator® All Cap strategy had a return of 6.73% (5.95% net) vs. a 9.21% gain in the Russell 3000 index. For the five years ending September 30, All Cap gained 7.32% gross on annualized basis (4.16% net) vs. 13.69% for the Russell 3000.

Our positioning in Energy and Real Estate helped relative performance while our positioning in Information Technology and Industrials acted as a drag in the third quarter of 2020. Portfolio holdings in PulteGroup and Charles River Labs helped relative performance while holdings in Regeneron and Hill-Rom hurt performance.

Ticker	Quarter Ending September 30, 2020	Average Weight (%)	Contribution to Return (%)
Top 5 Contributors			
AAPL	Apple Inc.	4.45	1.10
PHM	PulteGroup, Inc.	2.11	0.68
CRL	Charles River Laboratories International, Inc.	2.06	0.53
AMZN	Amazon.com, Inc.	3.24	0.43
EXP	Eagle Materials Inc.	1.81	0.37
Top 5 Detractors			
HRC	Hill-Rom Holdings, Inc.	0.90	-0.26
REGN	Regeneron Pharmaceuticals, Inc.	2.32	-0.24
PSX	Phillips 66	0.77	-0.21
FOXA	Fox Corporation Class A	0.75	-0.16
CI	Cigna Corporation	1.25	-0.14

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.
Returns are presented gross and net of investment advisory fees and include the reinvestment of all income.

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The ISM Non-Manufacturing Index (NMI) is an economic index based on surveys of more than 400 non-manufacturing (or services) firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM).

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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