



## Portfolio Commentary

## Navigator® All Cap Core U.S. Equity

## Portfolio Manager



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## Top Contributors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Apple Inc.	3.97	0.93
Microsoft Corporation	4.56	0.82
Broadcom Inc.	2.13	0.72

## Top Detractors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Merck & Co., Inc.	1.22	-0.27
PayPal Holdings, Inc.	0.54	-0.27
Comcast Corporation Class A	1.19	-0.23

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.

## Time to Recalibrate

## Market Review

Investors looked past the surge in the highly contagious Omicron variant and focused on the variant's lower virulence, which drove all major equity indices to new highs at some point during the quarter. However, threats of persistent inflation and the Fed's response to it has investors beginning to alter their equity preferences. For the quarter, large-cap growth extended its outperformance over large-cap value, small-caps, and international equities and has stretched its winning streak over large-cap value to four consecutive years.

Since the end of 2017, large-cap growth has outpaced large-cap value, U.S. small-caps and foreign equities by 13.5%/year, 12.7%/year, and 18.2%/year, respectively. Large-cap growth's persistent outperformance can be primarily attributed to a combination of rising sales, earnings, cash flow margins and falling interest rates.

As an increasing portion of inflation appears permanent and the Fed is beginning to remove its ultra-easy monetary policy, we believe investors should recalibrate their 2022 return expectations, especially for longer duration assets like growth stocks, which have unequally benefitted from their bond-like characteristics.

Economic growth, earnings gains and inflation continue to exceed expectations. The Atlanta Fed's GDP Now projects fourth quarter GDP to exceed 6%. The unemployment rate dipped to 3.9% in December and broad measures of inflation like the Consumer Price Index (CPI), Producer Price Index (PPI) and average hourly earnings are all expected to show more than 5% in gains. Looking forward to 2022 and beyond, we believe large-cap growth and broad equity returns should more closely mirror market-cycle earnings gains of 7-10% and not benefit from an expansion in P/E multiples.

## Fourth Quarter Performance Highlights

- For the fourth quarter of 2021, the Navigator® All Cap Core U.S. Equity strategy had a return of 9.20% (8.40% net) vs. a 9.28% gain in the Russell 3000 index.
- For the year ending December 2021, All Cap gained 30.04% gross (26.27% net) vs. 25.66% for the Russell 3000.
- Our positioning in Industrial and Materials helped relative performance while our positioning in Consumer Discretionary and Communication Services acted as a drag.
- Portfolio holdings in Apple Inc. and Microsoft Corporation helped relative performance while holdings in Merck & Co Inc. and PayPal Holdings Inc. hurt performance.
- During the quarter, the strategy was positioned with approximately 65% in large-cap companies with the balance in small-cap/mid-cap companies and cash.

Past performance is not indicative of future results.  
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



## Positioning and Outlook

We continue to focus investment decisions in the portfolios on our commitment to own what we believe are undervalued, high-quality companies with improving business momentum. During 2021, improved mobility, strong economic and cyclical earnings growth pushed our positioning to the more cyclical and higher beta portions of each market segment.

As the advance in equities approaches 22 months and many broad indices have advanced over 100% since the pandemic lows, we recognize that we must be more selective in our security purchases and sales. Valuations appear more normalized, and a change in central bank policy from extreme accommodation and record negative real rates necessitate greater scrutiny. We may no longer have a generally “rising tide which lifts all boats” environment. To this end, recent small increases in 10-year Treasury rates have abruptly stopped the advance in many growth stocks. Last

year, portfolios greatly benefitted from avoiding both highly overpriced and low-quality securities.

Moving into 2022, we expect that the pent-up savings created by pandemic fiscal stimulus and supported by monetary easing still have a way to go before being completely worked off. Although Fed policy is transitioning to contain inflation, we expect interest rate increases to be deliberate in nature as to not threaten labor gains or economic growth.

Given the general transition in Central Bank policies and an expectation for continued economic and earnings growth, albeit at a lower level from the beginning of the post-pandemic period, we are positioning portfolios to maintain a balance between cyclicals/value (high quality, high cash flow yielders) as they have underperformed and represent opportunity in a strong economy and high quality, high cash flow margin growers as they continue to compound returns.

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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.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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.

The Russell 3000 Index measures the performance of the 3000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

The Russell Large Cap Growth Index is a subset of the broader Russell 1000 Index that seeks investment results (before fees and expenses) that correspond to the total return (which includes capital appreciation and income) of the Russell Top 200® Growth Index (“index”).

The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

The 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the “risk free” rate when valuing the markets or an individual security.

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