

## 1Q 2020 Rebalance – ETF Global® Dynamic Model Portfolios

*Tuesday, January 7, 2020*

Another quarter has come to an end and with it, one of the best years for investors! The S&P 500 was up over 30% while the ten-year trailing return rose to nearly 13.5% on annualized basis. The fact that the markets did so as earnings stagnated, the Federal Reserve turned dovish and the dollar began to weaken only exacerbated a trend that has persisted throughout this bull market. Deep and at times almost paralyzing confusion has mounted about the direction and longevity of this bull market. CIOs and strategists have been sending mixed messages from the very beginning but as this cycle continues into its second decade and nears the end of its third presidential term, even the most oblivious investor is wondering if this is the year when it finally breaks.

Global markets might be debating whether this time is truly different but time and tides wait for no man. So while investors wait for more direction, the **ETFG Dynamic Model Portfolios** including all 4 of the base portfolios and the 8 “tilts” were updated on January 6<sup>th</sup> with major changes happening in all three sleeves of the portfolio. Our ETFG Quant model may have ended the year with a firm value orientation, but it begins 2020 with a focus on growth, at least in the international allocation.

First is the domestic allocation where the SPDR S&P 400 Mid Cap Value ETF (MDYV) remains for another quarter to be joined by mid-cap fund, the iShares Russell Mid-Cap ETF (IWR), a frequent portfolio holding that gives the portfolio a more core feel. Joining the strategy is the SPDR S&P 600 Small Cap ETF (SLY) which helps further define the domestic allocation in terms of exposure to smaller and more core names.

Shaking up that mix is another new fund making its first appearance in the portfolio, the SPDR MSCI USA StrategicFactors ETF (QUS), a relatively small fund that differs markedly from the other names in the domestic line-up. While the other holdings are all core or s style funds, QUS is a “broad equity” offering smart beta exposure to a wider swath of stocks than its new siblings in our strategy. What exposure is it providing? First, to larger names along with a slight bent towards value stocks although its weights to the markets different sectors isn’t substantially different than other funds in the large-core space.

Our ETFG Quant model also favored a smaller flavor within our international allocation with the replacement of the iShares Edge MSCI Min Vol Europe ETF (EUMV) and ProShares MSCI Europe Dividend Growers ETF (EUDV) with the iShares Currency Hedged MSCI EAFE Small-Cap ETF (HSCZ) and the iShares Edge MSCI Multifactor Intl Small-Cap ETF (ISCF.) It's not hard to understand why investors might be favoring hedged international funds but the change-up in the international allocation is even more significant. Both funds are focused on smaller and more volatile growth names compared to their value-oriented predecessors leaving us to wonder if investors are doing more than just reappraising the direction of the dollar.

EM investors have been burned over the years which is why the one position change in our EM line-up is so significant as the FlexShares Morningstar® Emerging Markets Factor Tilt Index Fund (TLTE) was replaced by the John Hancock Multifactor Emerging Markets ETF (JHEM) while the First Trust Chindia Fund (FNI) remains for another quarter. The replacement of TLTE by JHEM is a good lesson in which factors investors are hungering thanks to a dovish Fed. TLTE with a clear preference for small value names is being replaced by a fund with a taste for more Large-Cap "core" holdings. But those core holdings typically skew towards more Low Vol and Quality names signaling that not all is quite yet forgiven by EM investors.

You can find an overview and performance information for the ETF Global Dynamic Model Portfolios at <http://www.etfg.com/about-model-portfolios>

To learn more about our ETFG Model Portfolio strategy, please email us at [sales@etfg.com](mailto:sales@etfg.com) or call us at (212) 223-ETFG (3834).

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