3Q 2021 Rebalance – ETF Global® Dynamic Model Portfolios

Tuesday, July 6, 2021

Since our last quarterly update, the U.S. economy seems to have hits its stride, aided by effective and widely available vaccines, business reopenings, supportive fiscal and monetary policies, and unleashed, pent-up consumer demand. Yet, the unusual nature of the COVID-19 pandemic has introduced several obstacles to a smooth recovery. As sudden and rapid as the pandemic-induced downturn was, the speed and magnitude of the subsequent economic recovery was perhaps as equally unexpected. Facing a novel virus whose transmissibility, evolution and persistence were unknown, economic activity was abruptly shut down, business planning was muddied and expenditures retrenched. Limited by mandated business closures and capacity constraints and an overall nebulous economic outlook, supply was sharply reduced. In contrast, aggressive fiscal and monetary stimulus, along with a largely successful transition to remote work in non-service industries, helped prop up the economy and consumer savings and demand.

With advanced economies returning to strength and underdeveloped countries lagging, this supply-demand imbalance has begun to rear its ugly head in the form of higher inflation. Divergent vaccination rates and fiscal and monetary support between developed and underdeveloped countries are leading to an uneven global economic recovery. Given the globalized nature of today's supply chains, this unevenness has compounded supply and demand imbalances. Supply is comparatively slower than demand in its ability to expand and contract and the added impediment of a still-spreading virus in developing countries will likely considerably slow the restoration of any balance. Aside from supply issues, inflation is also being driven higher by other factors such as labor shortages. While, base effects contribute to this inflation picture, supply chain disruptions will take time to heal and long-term inflation expectations could edge higher. This will be a key risk factor to monitor as we transition to a post-pandemic environment.

Heading into Q3, here's how our ETF Global Dynamic Model Portfolios changed after our quarterly rebalance –

	Q2 2021 Equity Positions		Q3 2021 Equity Positions
	Equity		**Equity**
	Domestic		**Domestic**
IJK	iShares S&P Mid-Cap 400 Growth ETF	IJK	iShares S&P Mid-Cap 400 Growth ETF
IJJ	iShares S&P Mid-Cap 400 Value ETF	IJJ	iShares S&P Mid-Cap 400 Value ETF
IJS	iShares S&P Small-Cap 600 Value ETF	SLYG	SPDR S&P 600 Small Cap Growth ETF
SPYG	SPDR Portfolio S&P 500 Growth ETF	DON	WisdomTree U.S. MidCap Dividend Fund
	Developed International		**Developed International**
PTEU	Pacer Trendpilot European Index ETF	EWU	iShares MSCI United Kingdom ETF
FNDF	Schwab Fundamental International Large Company Index ETF	EWP	iShares MSCI Spain ETF
EWS	iShares MSCI Singapore ETF	INTF	iShares Edge MSCI Multifactor Intl ETF
EWY	iShares MSCI South Korea ETF	FEUZ	First Trust Eurozone AlphaDEX ETF
	Emerging		**Emerging**
FNDE	Schwab Fundamental Emerging Markets Large Company Index ETF	FNI	First Trust Chindia ETF
FNI	First Trust Chindia ETF	EMIF	iShares Emerging Markets Infrastructure ETF

Starting with our domestic equity sleeve, IJK and IJJ retained the top two spots. The remaining two positions are rounded out by newcomers SYLG and DON. Our model continues to like size and value, two factors that traditionally benefit from the recovery phase of an economic cycle. While the growth-to-value rotation trend has broadly held steady in 2021, our model continues to recognize some attractive opportunities within the growth space. IJK and SLYG received high marks in the P/E, P/B, and P/CF scores in the fundamental component of our Quant reward model. Finally, the combination of its strong value characteristics and divided yield helped DON secure the final domestic equity slot.

Our international allocation underwent a comprehensive change. All of our previous four positions were replaced by EWU, EWP, INTF and FEUZ. These changes are underpinned by two key factors: 1) the economic reopening of developed economies and 2) orientation to the size and value factors. EWU, EWP, and FEUZ all offer exposure to European Union countries that have promising growth potential due to increasing vaccination rates and easing economic restrictions. INTF scored well with our model as a result of its developed-market orientation and robust size and value characteristics. Lastly, high valuation scores drove FNI and EMIF to the top two spots in our Emerging Markets equity allocation.

Thank you for following the ETF Global Dynamic Model Portfolios, you can find an overview and performance information at http://www.etfg.com/about-model-portfolios. To learn more about our ETFG Model Portfolio strategy, please email us at sales@etfg.com or call us at (212) 223-ETFG (3834).

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