



1Q 2021 Rebalance – ETF Global® Dynamic Model Portfolios Tuesday, January 12, 2021

Although the first days of 2021 seemed like a continuation of the calamitous events of 2020, the equity markets powered higher as investors eyed policy stimulus and a post-vaccine recovery. The first quarter of the New Year started strong, with major indexes hitting fresh record highs last week. Democrats were able to flip the U.S. Senate following a pair of tight runoff victories in Georgia, potentially paving the way for more fiscal stimulus and infrastructure expansion later in the year.

While politics might steal most of the headlines as of late, the start of another quarter signals the updates to our [ETF Global Dynamic Model Portfolios](#), including all 4 of the “base” portfolios and the 8 “tilts.” It seems many investors may expect Washington to soon try to send bigger cash payments to most Americans, spend more on infrastructure and provide other support for the struggling economy. This seemed obvious in our [ETFG Quant Model](#) for the quarterly selection.

ETF GLOBAL MODEL PORTFOLIO STRATEGIES			
4Q 2020 EQUITY POSITIONS		1Q 2021 EQUITY POSITIONS	
DOMESTIC	TICKER	DOMESTIC	TICKER
iShares S&P SmallCap 600 ETF	IJR	iShares S&P Small-Cap 600 Value ETF	IJS
iShares Russell 2000 Value ETF	IWN	iShares Dow Jones U.S. ETF	IYY
Invesco S&P MidCap 400 Pure Value ETF	RFV	iShares MSCI KLD 400 Social ETF	DSI
First Trust Small Cap Value AlphaDEX Fund	FYT	Invesco S&P MidCap 400 Pure Value ETF	RFV
DEVELOPED INTERNATIONAL	TICKER	DEVELOPED INTERNATIONAL	TICKER
Invesco RAFI Strategic Developed ex-US ETF	ISDX	WisdomTree International Multifactor Fund	DWMF
Invesco S&P International Developed Low Volatility ETF	IDLV	First Trust Developed Markets ex-US AlphaDEX Fund	FDT
iShares MSCI Singapore ETF	EWS	iShares MSCI Singapore ETF	EWS
iShares MSCI South Korea ETF	EWY	iShares MSCI South Korea ETF	EWY
EMERGING MARKET	TICKER	EMERGING MARKET	TICKER
Invesco RAFI Strategic Emerging Markets ETF	ISEM	First Trust Emerging Markets AlphaDEX Fund	FEM
WisdomTree Emerging Markets SmallCap Dividend Fund	DGS	WisdomTree Emerging Markets Multifactor Fund	EMMF

The ETFG Dynamic Model Portfolio program began 2020 by overweighting mid and small-cap funds with a tilt towards value. This was driven once again by their higher fundamental scores relative to larger cap peers. While a continuously rising tide of investor sentiment seemed to essentially lift most indices back to their pre-COVID highs, our ETFG Quant model continues to favor funds with a “smaller focus” for the first quarter of 2021.

This trend can clearly be seen in our domestic allocation, where the top-rated fund, iShares S&P Small-Cap 600 ETF ([IJR](#)), was replaced by iShares S&P Small-Cap Value ETF ([IJS](#)). Both funds were strong performers, especially IJS, which slightly outperformed the Russell 1000 Value Index over the past three months. So why has the model shifted its favor to smaller-cap funds?

As we discussed last quarter, the trend toward small-cap funds began some time ago, partly driven by some of their substantially higher fundamental scores relative to their larger peers. The SPDR S&P 500 ETF ([SPY](#)) now trades with a weighted average P/E ratio of 28.26, while the iShares S&P Small-Cap Value 600 ETF ([IJS](#)) has a weighted average P/E of 18.27, closer to the bottom of its own range.

Value, which may continue to outperform core and growth funds, continues to build in favor as the ETFG Quant model shifted away from “core” productions into Value with the inclusion of Invesco S&P MidCap 400 Pure Value ETF ([RFV](#)). Meanwhile, our ETFG Quant Behavioral scores have also risen for blue chip and even ESG themes, thanks to an increase in momentum along with higher values for our contrarian sentiment indicators. This can be seen with the addition of iShares Dow Jones U.S. ETF and iShares MSCI KLD 400 Social ETF ([DSI](#)).

There were also some interesting changes within the International sleeve of our portfolios as the ETFG Quant model shifts in strategy while holding constant our country exposures. The fourth quarter allocation was split between factor and single country exposure ETFs. The model has since shifted away from Low Vol products and towards more blended Factor products with the addition of the WisdomTree International Multifactor fund ([DWMF](#)) and The First Trust Developed Markets ex-US AlphaDEX Fund ([FDT](#)). Allocations to the Pacific Rim are boosted by the return of two country-specific funds offering enhanced exposure to stocks in Singapore and South Korea with iShares MSCI Singapore ETF ([EWS](#)) and iShares MSCI South Korea ETF ([EWY](#)).

That shift towards “multi-factor” stocks in Asia also impacted our emerging market allocation with the additions of the First Trust Emerging Markets AlphaDEX Fund ([FEM](#)) and WisdomTree Emerging Markets Multifactor fund ([EMMF](#)). Each fund uses a blend of factors with a focus on capital appreciation. This explains why each fund has a large allocation to Chinese stocks, compared to 40% for the MSCI Emerging Market Index.

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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