



MAY 2021

PERFORMANCE UPDATE

PERFORMANCE UPDATE AS OF MAY 31, 2021

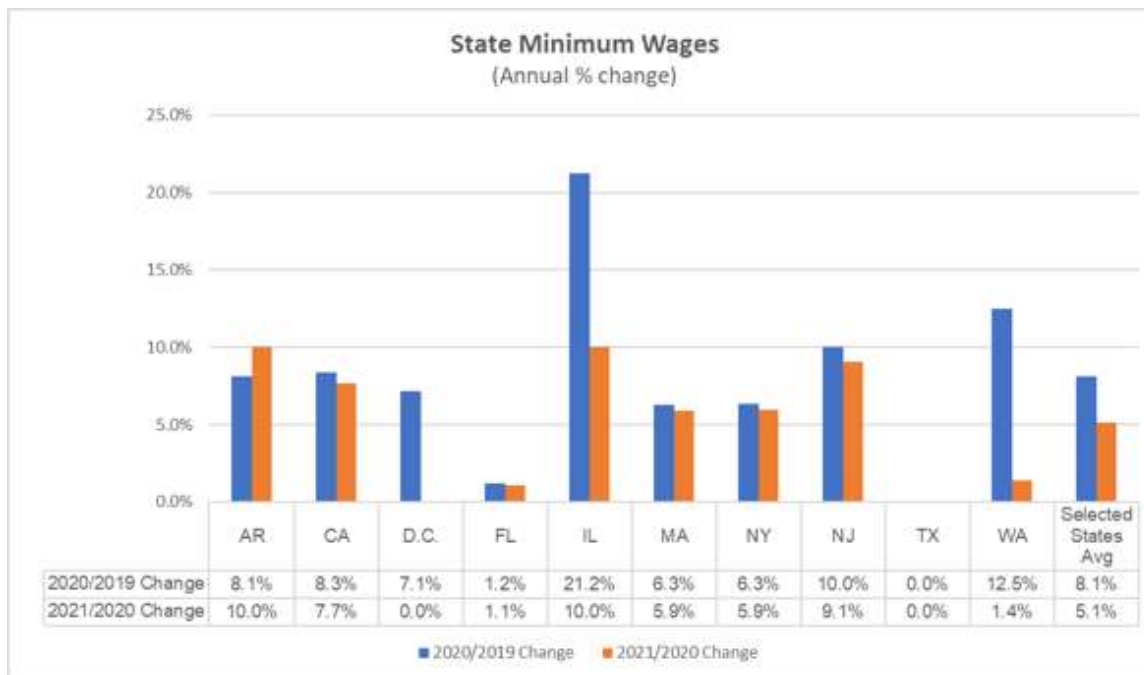
MAY 2021 | THE TRANSITORY EFFECT: FED FACE-TO-FACE WITH INFLATION

“Inflation is not just high prices it’s a reduction in the value of our money.”— Ronald Reagan, 1981

Inflation pressures amid an economic re-opening continued to spook the markets intra-month in the wake of GDP seen expanding at 7% this year and 2022 forecast at 3.3%. As a result, the S&P 500 fluctuated for most of May, ending the month with a gain of 0.70%.



Fed Chair Jerome Powell continues to define the current inflation as “transitory” due to one-time increases in prices head-on with a much ignored widening federal budget deficit. But, as was referenced in Sowell’s Week Ahead, how transitory is the cost of labor if minimum wages have been increasing year-over-year well ahead of CPI while service industry employees continue to sit on the sidelines?



On June 16th, as Fed Chair Powell balances the post-pandemic recovery and liquidity tapering expressed surprise by the pace of the recovery and advised it would be scaling back market liquidity to support financial markets and anticipates two interest-rate increases by the end of 2023. The battle against higher inflation, a common aftermath recovering from recessions and major wars, is often a natural economic consequence and requires vigilance in how it manages interest rates to extend the long-term recovery.

Consistent with our expansionary market expectations, value stocks regained leadership in May, after a pause in April, gaining 2.4%, while growth stocks returned -1.5%, outperforming by 3.9%. Small-cap stocks momentarily lagged large-cap stocks but continue to outpace YTD gaining 15.3%, while the S&P 500 returned 12.6%. With the Fed's stance to keep near-zero interest rates, long-dated Treasuries rallied by 0.45%, outpacing the broader bond market.

Sowell's May honor roll continues to go to Flagship Dividend as the market favors value and dividend-paying stocks. The AMPs and Classics stand firm on an absolute basis assisted by the moderation away from high-growth stocks relative to the S&P 500. At a distance, international markets overtook the U.S. market in May by wide margins modestly pinching our portfolios given our U.S. over-weight, though much less than a year ago. Our strategic positioning in many of the models continues to lean towards quality growth, value, and smaller-cap stocks, and as the expansionary trend continues to take hold, we will remain constructive, defensive, and active towards such asset allocation?

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STYLE ANALYTICS REPORT:

MAY 2021 Factor Performance Analysis | Global Divergence in Factor Performance

COMPLETE PERFORMANCE DETAILS AS OF MAY 31, 2021

Below is a performance table of returns, net of fees, for Sowell Management's current investment management offerings as well as the benchmark the Sowell IC deems appropriate for each program.

| SOWELL MANAGEMENT PROGRAMS | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Strategic Allocation Models | May 2021 Net | L3M Net | L6M Net | YTD Net | L12M Net |
| AMP Income | 0.40 | 1.06 | 1.18 | 0.02 | 7.84 |
| Benchmark: Custom Blend* | 0.56 | 1.34 | 0.96 | -0.03 | 6.64 |
| AMP Total Return | 0.59 | 2.32 | 4.08 | 2.20 | 14.16 |
| Benchmark: Custom Blend | 0.73 | 2.63 | 3.49 | 1.83 | 12.29 |
| AMP Income and Growth | 0.61 | 2.30 | 5.82 | 3.06 | 19.63 |
| Benchmark: Custom Blend | 0.91 | 3.94 | 6.08 | 3.71 | 18.17 |
| AMP Conservative | 0.73 | 4.00 | 8.52 | 5.35 | 24.81 |
| Benchmark: Custom Blend | 1.03 | 4.82 | 7.83 | 4.99 | 22.22 |
| AMP Balanced | 0.92 | 4.33 | 10.19 | 6.11 | 31.03 |
| Benchmark: Custom Blend | 1.20 | 6.15 | 10.50 | 6.91 | 28.51 |
| AMP Growth | 1.00 | 4.87 | 11.79 | 7.19 | 35.96 |
| Benchmark: Custom Blend | 1.32 | 7.04 | 12.30 | 8.21 | 32.84 |
| AMP Global Growth | 0.95 | 4.89 | 11.76 | 7.18 | 35.44 |
| Benchmark: Custom Blend | 1.32 | 7.04 | 12.30 | 8.21 | 32.84 |
| AMP Aggressive Growth | 1.15 | 5.74 | 14.13 | 8.80 | 42.18 |
| Benchmark: Custom Blend | 1.50 | 8.38 | 15.06 | 10.18 | 39.55 |
| Classic Bond | 0.18 | -0.03 | -0.99 | -1.42 | 1.57 |
| Benchmark: Barclays US Aggregate Bond Index | 0.33 | -0.14 | -2.16 | -2.29 | -0.40 |
| Classic Total Return | 0.34 | 1.72 | 2.33 | 1.55 | |
| Benchmark: Custom Blend | 0.57 | 1.61 | 1.28 | 0.24 | |
| Classic Income and Growth | 0.55 | 2.74 | 4.02 | 2.40 | 11.96 |
| Benchmark: Custom Blend | 0.73 | 2.63 | 3.49 | 1.83 | 12.29 |
| Classic Conservative | 0.71 | 3.73 | 5.76 | 3.74 | 15.55 |
| Benchmark: Custom Blend | 0.85 | 3.51 | 5.21 | 3.08 | 16.18 |
| Classic Balanced | 0.77 | 5.31 | 8.70 | 5.74 | 23.60 |
| Benchmark: Custom Blend | 1.15 | 5.70 | 9.60 | 6.27 | 26.39 |
| Classic Growth | 0.92 | 6.86 | 11.51 | 7.82 | 30.72 |
| Benchmark: Custom Blend | 1.38 | 7.48 | 13.22 | 8.86 | 35.05 |
| Classic Aggressive Growth | 1.08 | 8.07 | 13.86 | 9.52 | 36.41 |
| Benchmark: Custom Blend | 1.56 | 8.83 | 15.99 | 10.84 | 41.85 |
| Global Macro Conservative | 0.99 | 3.17 | 3.93 | 1.17 | 13.64 |
| Benchmark: Custom Blend | 0.86 | 3.55 | 5.35 | 3.13 | 16.32 |
| Global Macro Core | 1.20 | 4.54 | 7.77 | 3.77 | 21.19 |
| Benchmark: Custom Blend | 1.10 | 5.31 | 8.85 | 5.67 | 24.44 |
| Global Macro Growth | 1.52 | 5.61 | 10.78 | 5.83 | 26.75 |
| Benchmark: Custom Blend | 1.33 | 7.07 | 12.40 | 8.24 | 32.94 |

Chart continued on the following page.

SOWELL MANAGEMENT PROGRAMS

| Tactical Allocation Models | May 2021 Net | L3M Net | L6M Net | YTD Net | L12M Net |
|---|--------------|--------------|--------------|--------------|--------------|
| TAP Conservative | -0.19 | 4.20 | 6.79 | 4.55 | 16.26 |
| Benchmark: Custom Blend | 0.54 | 5.37 | 7.53 | 5.27 | 19.62 |
| TAP 1x | -0.38 | 7.91 | 13.01 | 8.57 | 32.55 |
| Benchmark: S&P 500 | 0.70 | 10.72 | 16.95 | 12.62 | 40.32 |
| Morningstar US Fund Tactical Allocation | 1.11 | 6.30 | 12.64 | 8.56 | 27.98 |
| TAP Complete | 0.32 | 7.33 | 16.31 | 10.94 | 35.80 |
| Benchmark: S&P 500 | 0.70 | 10.72 | 16.95 | 12.62 | 40.32 |
| Morningstar US Fund Tactical Allocation | 1.11 | 6.30 | 12.64 | 8.56 | 27.98 |
| TAP 2x | -0.96 | 15.71 | 20.73 | 15.89 | 41.13 |
| Benchmark: S&P 500 | 0.70 | 10.72 | 16.95 | 12.62 | 40.32 |
| Morningstar US Fund Tactical Allocation | 1.11 | 6.30 | 12.64 | 8.56 | 27.98 |
| TAP Global Allocation | 1.31 | 8.22 | 14.93 | 10.05 | 32.38 |
| Benchmark: MSCI ACWI | 1.56 | 8.83 | 15.99 | 10.84 | 41.85 |
| US High Yield (1) | 0.42 | 2.28 | 7.48 | 4.96 | 13.30 |
| Benchmark: Bloomberg Barclays US Corporate High Yield | 0.30 | 1.54 | 4.17 | 2.25 | 14.96 |
| Equity Selection Models | May 2021 Net | L3M Net | L6M Net | YTD Net | L12M Net |
| Flagship Equity | 0.18 | 7.07 | 17.04 | 11.80 | 41.30 |
| Benchmark: S&P 500 | 0.70 | 10.72 | 16.95 | 12.62 | 40.32 |
| Flagship Dividend | 2.99 | 13.46 | 18.33 | 15.68 | 34.15 |
| Benchmark: MSCI USA High Dividend Yield Index | 2.21 | 12.57 | 14.97 | 12.52 | 27.15 |
| Liquid Alternative Models | May 2021 Net | L3M Net | L6M Net | YTD Net | L12M Net |
| Liquid Alt Conservative | 0.22 | 0.93 | 4.77 | 1.71 | 19.69 |
| Benchmark: Wilshire Liquid Alt Index | 0.80 | 3.35 | 6.33 | 4.58 | 12.73 |
| MPD™ Multi-Methodology Models | May 2021 Net | L3M Net | L6M Net | YTD Net | L12M Net |
| MPD™ Total Return | 0.98 | 3.85 | 6.34 | 3.96 | 16.65 |
| Benchmark: Custom Blend | 0.55 | 2.78 | 3.84 | 2.12 | 12.70 |
| MPD™ Conservative | 0.84 | 4.61 | 8.23 | 5.18 | 21.09 |
| Benchmark: Custom Blend | 0.69 | 4.59 | 7.45 | 4.78 | 20.80 |
| MPD™ Balanced | 0.59 | 5.16 | 10.94 | 6.75 | 28.77 |
| Benchmark: Custom Blend | 0.77 | 6.43 | 11.17 | 7.55 | 29.40 |
| MPD™ Growth | 0.38 | 6.32 | 13.02 | 8.36 | 33.54 |
| Benchmark: Custom Blend | 0.78 | 7.84 | 14.06 | 9.71 | 36.22 |
| MPD™ Aggressive Growth | 0.05 | 9.52 | 17.02 | 11.93 | 41.20 |
| Benchmark: Custom Blend | 0.73 | 9.27 | 17.04 | 11.97 | 43.39 |
| MPD™ Stratactical Conservative | 0.63 | 4.46 | 9.63 | 6.01 | 23.63 |
| Benchmark: Custom Blend | 0.69 | 4.59 | 7.45 | 4.78 | 20.80 |
| MPD™ Stratactical Balanced | 0.54 | 7.13 | 11.25 | 7.36 | 28.26 |
| Benchmark: Custom Blend | 0.77 | 6.43 | 11.17 | 7.55 | 29.40 |
| MPD™ Stratactical Growth | 0.30 | 8.16 | 13.95 | 9.28 | 34.21 |
| Benchmark: Custom Blend | 0.78 | 7.84 | 14.06 | 9.71 | 36.22 |

SOWELL BENCHMARK DESCRIPTIONS

AMP Income: 15% MSCI ACWI Index, 85% Bloomberg Barclays US Universal Bond Index

AMP Total Return: 30% MSCI ACWI Index, 70% Bloomberg Barclays US Universal Bond Index

AMP Income and Growth: 45% MSCI ACWI Index, 55% Bloomberg Barclays US Universal Bond Index

AMP Conservative: 55% MSCI ACWI Index, 45% Bloomberg Barclays US Universal Bond Index

AMP Balanced: 70% MSCI ACWI Index, 30% Bloomberg Barclays US Universal Bond Index

AMP Growth: 80% MSCI ACWI Index, 20% Bloomberg Barclays US Universal Bond Index

AMP Global Growth: 80% MSCI ACWI Index, 20% Bloomberg Barclays US Universal Bond Index

AMP Aggressive Growth: 95% MSCI ACWI Index, 5% Bloomberg Barclays US Universal Bond Index

Classic Bond: 100% Bloomberg Barclays US Aggregate Bond Index

Classic Total Return: 20% MSCI ACWI index, 80% Bloomberg Barclays US Aggregate Bond Index

Classic Income & Growth: 30% MSCI ACWI index, 70% Bloomberg Barclays US Aggregate Bond Index

Classic Conservative: 40% MSCI ACWI Index, 60% Bloomberg Barclays US Universal Bond Index

Classic Balanced: 65% MSCI ACWI Index, 35% Bloomberg Barclays US Universal Bond Index

Classic Growth: 85% MSCI ACWI Index, 15% Bloomberg Barclays US Universal Bond Index

Classic Aggressive Growth: 100% MSCI ACWI Index

Global Macro Conservative: 40% MSCI ACWI Index, 60% Bloomberg Barclays US Universal Bond Index

Global Macro Core: 60% MSCI ACWI Index, 40% Bloomberg Barclays US Universal Bond Index

Global Macro Growth: 80% MSCI ACWI Index, 20% Bloomberg Barclays US Universal Bond Index

TAP Conservative: 50% S&P 500 Index, 50% Bloomberg Barclays US Universal Bond Index

TAP 1x: S&P 500 Index

TAP Complete: S&P 500 Index

TAP 2x: S&P 500 Index

TAP Global Allocation: MSCI ACWI Index

US High Yield: Bloomberg Barclays US Corporate High Yield Index

Flagship Equity: S&P 500 Index

Flagship Top Stocks: S&P 500 Index

Flagship Dividend: MSCI USA High Dividend Yield Index

Liquid Alt Conservative: Wilshire Liquid Alt Index

MPD Total Return: 13% MSCI ACWI Index, 17% Russell 3000 Index, 70% Bloomberg Barclays US Universal Bond Index

MPD Conservative: 24% MSCI ACWI Index, 26% Russell 3000 Index, 50% Bloomberg Barclays US Universal Bond Index

MPD Balanced: 30% MSCI ACWI Index, 40% Russell 3000 Index, 30% Bloomberg Barclays US Universal Bond Index

MPD Growth: 30% MSCI ACWI Index, 55% Russell 3000 Index, 15% Bloomberg Barclays US Universal Bond Index

MPD Aggressive Growth: 25% MSCI ACWI Index, 75% Russell 3000 Index

MPD Stratactical Conservative: 24% MSCI ACWI Index, 26% Russell 3000 Index, 50% Bloomberg Barclays US Universal Bond Index

MPD Stratactical Balanced: 30% MSCI ACWI Index, 30% Russell 3000 Index, 40% Bloomberg Barclays US Universal Bond Index

MPD Stratactical Growth: 30% MSCI ACWI Index, 55% Russell 3000 Index, 15% Bloomberg Barclays US Universal Bond Index

CHART DISCLOSURES

Returns for Sowell Management Models are preliminary composite results, net of actual fees paid monthly in advance. Returns are net of brokerage commissions, fund charges (where applicable), and the reinvestment of dividends and other earnings of fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee paying accounts are not included in this composite. Sowell Management maintains a complete list and description of composites, which is available upon request. Returns for the periods shown are created by geometrically linking monthly returns for each period. The returns illustrated are for the periods specified in the report. Returns are preliminary results and are not audited. Total return and principal value will vary. Performance expressed in U. S. Dollars. Actual results may vary depending on market conditions, investment decisions and reactions, economic events, and changes in investment objectives. It should not be assumed that any management style, model, security, or recommendations made in the future will be profitable, without loss, or will equal the performance of the investments as shown. Performance results do not reflect the impact of taxes. Select programs may engage in a significant amount of trading. Gains or losses will generally be short-term in nature; consequently, such programs may not be suitable for clients seeking tax efficiency. Sowell Management does not provide tax or legal advice.

(1) Performance results derived from control client account average net of management fees paid monthly in arrears, brokerage commissions, fund charges, and the reinvestment of dividends and other earnings of fully discretionary accounts under management. Control clients are not composites.

(2) The Sowell team conducted a periodic review and audit of all the model composites in the month of November and identified changes to the representative clients that make up the composites throughout 2020 and have resulted in restating the monthly returns for the following composite models: AMP Income, AMP Total Return, AMP Balanced, AMP Growth, AMP Global Growth, AMP Aggressive

Growth, Global Macro Conservative, TAP Conservative, TAP 1X, TAP US Complete, TAP 2X, Flagship Equity, Flagship Dividend, MPD Balanced, MPD Global Growth, MPD Total Return, MPD Aggressive Growth, MPD Stratactical Conservative, MPD Stratactical Conservative, MPD Stratactical Balanced, Classic Aggressive Growth, Classic Balanced, Classic Conservative and Classic Growth. Returns for Sowell Management Models are preliminary composite results, net of actual fees paid monthly in advance. Returns are net of brokerage commissions, fund charges (where applicable), and the reinvestment of dividends and other earnings of fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee paying accounts are not included in this composite. Sowell Management maintains a complete list and description of composites, which is available upon request. Returns for the periods shown are created by geometrically linking monthly returns for each period. The returns illustrated are for the periods specified in the report. Returns are preliminary results and are not audited. Total return and principal value will vary. Performance expressed in U. S. Dollars.

Actual results may vary depending on market conditions, investment decisions and reactions, economic events, and changes in investment objectives. It should not be assumed that any management style, model, security, or recommendations made in the future will be profitable, without loss, or will equal the performance of the investments as shown. Performance results do not reflect the impact of taxes. Select programs may engage in a significant amount of trading. Gains or losses will generally be short-term in nature; consequently, such programs may not be suitable for clients seeking tax efficiency. Sowell Management does not provide tax or legal advice.

(3) As of December 31st, 2020, Sowell Management will be making the following changes to the benchmark return methodology and calculation for the respective benchmark composites since its inception date:

| Composite | Previous Model Benchmark | New Model Benchmark | Inception Date |
|----------------------------------|--|---|----------------|
| Sowell AMP Aggressive Growth | 75% MSCI ACWI Index, 20% Russell 2000 Index, 5% Bloomberg Barclays US Universal Bond Index | 95% MSCI ACWI Index, 5% Bloomberg Barclays US Universal Bond Index | 12/31/2000 |
| Sowell AMP Balanced | 55% MSCI ACWI Index, 15% Russell 2000 Index, 30% Bloomberg Barclays US Universal Bond Index | 70% MSCI ACWI Index, 30% Bloomberg Barclays US Universal Bond Index | 12/31/2000 |
| Sowell AMP Conservative | 43% MSCI ACWI Index, 12% Russell 2000 Index, 45% Bloomberg Barclays US Universal Bond Index | 55% MSCI ACWI Index, 45% Bloomberg Barclays US Universal Bond Index | 4/30/2009 |
| Sowell AMP Global Growth | 44% MSCI ACWI Index, 16% Russell 2000 Index, 20% MSCI ACWI Ex US Index, 20% Bloomberg Barclays US Universal Bond Index | 80% MSCI ACWI Index, 20% Bloomberg Barclays US Universal Bond Index | 7/31/2001 |
| Sowell AMP Growth | 63% MSCI ACWI Index, 17% Russell 2000 Index, 20% Bloomberg Barclays US Universal Bond Index | 80% MSCI ACWI Index, 20% Bloomberg Barclays US Universal Bond Index | 12/31/2000 |
| Sowell AMP Income | 11% MSCI ACWI Index, 4% Russell 2000 Index, 85% Bloomberg Barclays US Universal Bond Index | 15% MSCI ACWI Index, 85% Bloomberg Barclays US Universal Bond Index | 4/30/2009 |
| Sowell AMP Income and Growth | 35% MSCI ACWI Index, 10% Russell 2000 Index, 55% Bloomberg Barclays US Universal Bond Index | 45% MSCI ACWI Index, 55% Bloomberg Barclays US Universal Bond Index | 7/31/2001 |
| Sowell AMP Total Return | 23% MSCI ACWI Index, 7% Russell 2000 Index, 70% Bloomberg Barclays US Universal Bond Index | 30% MSCI ACWI Index, 70% Bloomberg Barclays US Universal Bond Index | 12/31/2011 |
| Sowell Classic Aggressive Growth | 67% MSCI ACWI Index, 33% Russell 2000 Index | 100% MSCI ACWI Index | 1/31/2017 |
| Sowell Classic Balanced | 50% MSCI ACWI Index, 15% Russell 2000 Index, 35% Bloomberg Barclays US Universal Bond Index | 65% MSCI ACWI Index, 35% Bloomberg Barclays US Universal Bond Index | 6/30/2016 |
| Sowell Classic Conservative | 30% MSCI ACWI Index, 10% Russell 2000 Index, 60% Bloomberg Barclays US Universal Bond Index | 40% MSCI ACWI Index, 60% Bloomberg Barclays US Universal Bond Index | 4/30/2017 |
| Sowell Classic Growth | 63% MSCI ACWI Index, 22% Russell 2000 Index, 15% Bloomberg Barclays US Universal Bond Index | 85% MSCI ACWI Index, 15% Bloomberg Barclays US Universal Bond Index | 1/31/2017 |

For comparison purposes, returns are measured against various indexes. Indexes are portfolios of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain investments. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index consisting of 500 common stocks and is provided as a representation of the U.S. stocks market for informational purposes. Economic factors, market conditions,

and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

The Bloomberg Barclays Aggregate Bond Index a broad bond index covering most U.S. traded bonds and some foreign bonds traded in the U.S. It is a representation of the overall bond market for informational purposes.

The Bloomberg Barclays Capital U.S. Corporate High Yield Bond Index is an index composed of fixed-rate, publicly issued, non-investment grade debt.

The MSCI ACWI index is an unmanaged index consisting of stocks from both developed and emerging markets, and is provided as a representation of the US stock market for informational purposes.

The MSCI USA High Dividend Yield Index is based on the MSCI USA Index, and includes large and mid cap stocks. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

"The Bloomberg Barclays US Universal Bond Index measures the performance of U.S. dollar-denominated taxable bonds that are rated either investment-grade or high yield. The index includes U.S. Treasury bonds, investment-grade and high yield U.S. corporate bonds, mortgage-backed securities, and Eurodollar bonds."

"The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. It is comprised of small and mid-cap domestic stocks."

"The Russell 3000 Index is a market-capitalization-weighted equity index that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities."

The Wilshire Liquid Alternative Index measures the collective performance of the five Wilshire Liquid Alternative Strategies that make up the Wilshire Liquid Alternative Universe. It is a representation for how liquid alternative investment category performed as a whole.

Effective May 1, 2018 and again on January 1, 2019, the Firm has elected to retroactively change its blended benchmarks to better reflect the firm's investment management philosophy and a broader recognition of the indexes being compared. For additional details about this change, please email portfolios@sowellmanagement.com.

As of September 2018, the Liquid Alternative Growth strategy no longer had any composite or control accounts to report performance. We will continue to offer this portfolio strategy as part of our lineup.

As of January 1, 2019 the Liquid Alternative Income was renamed to Liquid Alt Conservative to better reflect a lower allocation to equity-based alternative funds which do not always reflect an income characteristic.

As of May 1, 2019, the MPD Income and Growth strategy no longer has any composite accounts to report performance. We will continue to offer this model as part of our lineup.

As of May 1, 2019, the MPD Global Growth strategy no longer had any composite or control accounts to report performance. We will continue to offer this model as part of our lineup.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE

Advisory Services Offered Through Sowell Management, a Registered Investment Advisor

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STYLE ANALYTICS REPORT:

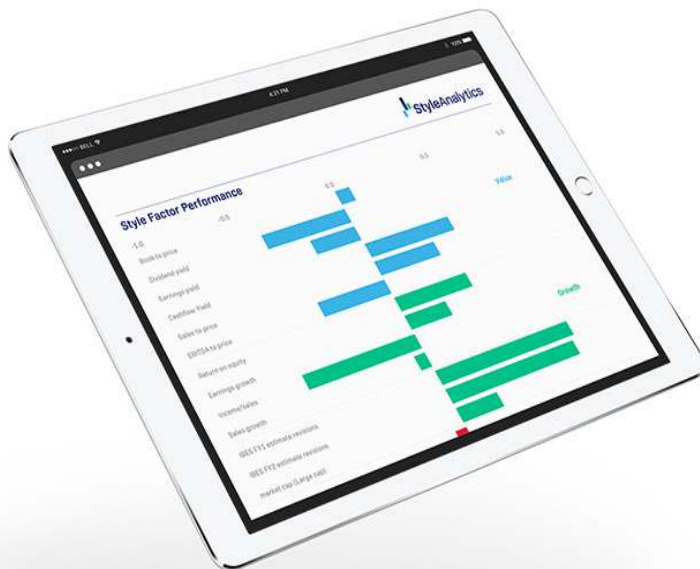
MAY 2021 Factor Performance Analysis | Global Divergence in Factor Performance



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May 2021 Factor Performance Analysis

Global Divergence in Factor Performance



8 June 2021

Prepared by:
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Head of Research & Applied Analytics

May 2021 Factor Performance Summary

Earlier this year global markets saw almost identical factor winners and losers, with Value stocks outperforming. Just two months later each region is marching to its own drum, with a clear divergence in factor performance.

In this report we examine four 'regions', the US, Europe, Emerging Markets and Australia, to understand how factors performed in May 2021.

In May:

Global markets were generally up. The MSCI Europe was up 3.7%, MSCI Emerging Markets index up 2.2% and Sydney's All Ordinaries up 0.83%. However, in the US, the S&P 500 gained only 0.55% while the Russell 2000 dropped 0.36%.

- The US resumed its rotation from Growth to Value and Momentum started making a comeback.
- In Europe, every sub-factor across every factor outperformed the market, apart from Low Gearing (low leverage).
- Emerging Markets saw mixed performance across Value, Growth and Quality, while only High Volatility outperformed.
- In Australia, Growth and Quality continued to dominate, while High Volatility and Momentum stocks suffered.

US Equities

Value is back in the US. Its outperformance across sub-factors ranged from +80 bps (Book-to-Price) to 130 bps (Cash Flow Yield) over the market's anemic 30 bps performance. Stocks with High Yield posted the next best results. All other factors were within about 50 bps of the market.

Growth and Quality sub-factors, after a strong April, had mixed results. Dividend Growth and Earnings Growth had modest outperformance while Sales Growth and Forecast Growth both underperformed. This is a clear reversal from 2020 when Forecast Growth shined. Forecast Growth was the best performing Growth sub-factor for the past two decades.

Quality sub-factors were also mixed, with Return on Equity (ROE) and Low Gearing (low leverage) suffering while the rest modestly outperformed.

Neither Small Cap nor High Volatility stocks resumed their previous outperformance and all sub-factors posted market-like returns.

Momentum is making a comeback in the US. Momentum had been a source of alpha for years with the dominance of Growth, but from late 2020 it lost favor as the rotation to Value scrambled the list of outperformers. Now that Value has been regularly outperforming, Momentum has begun capturing its outperformance.

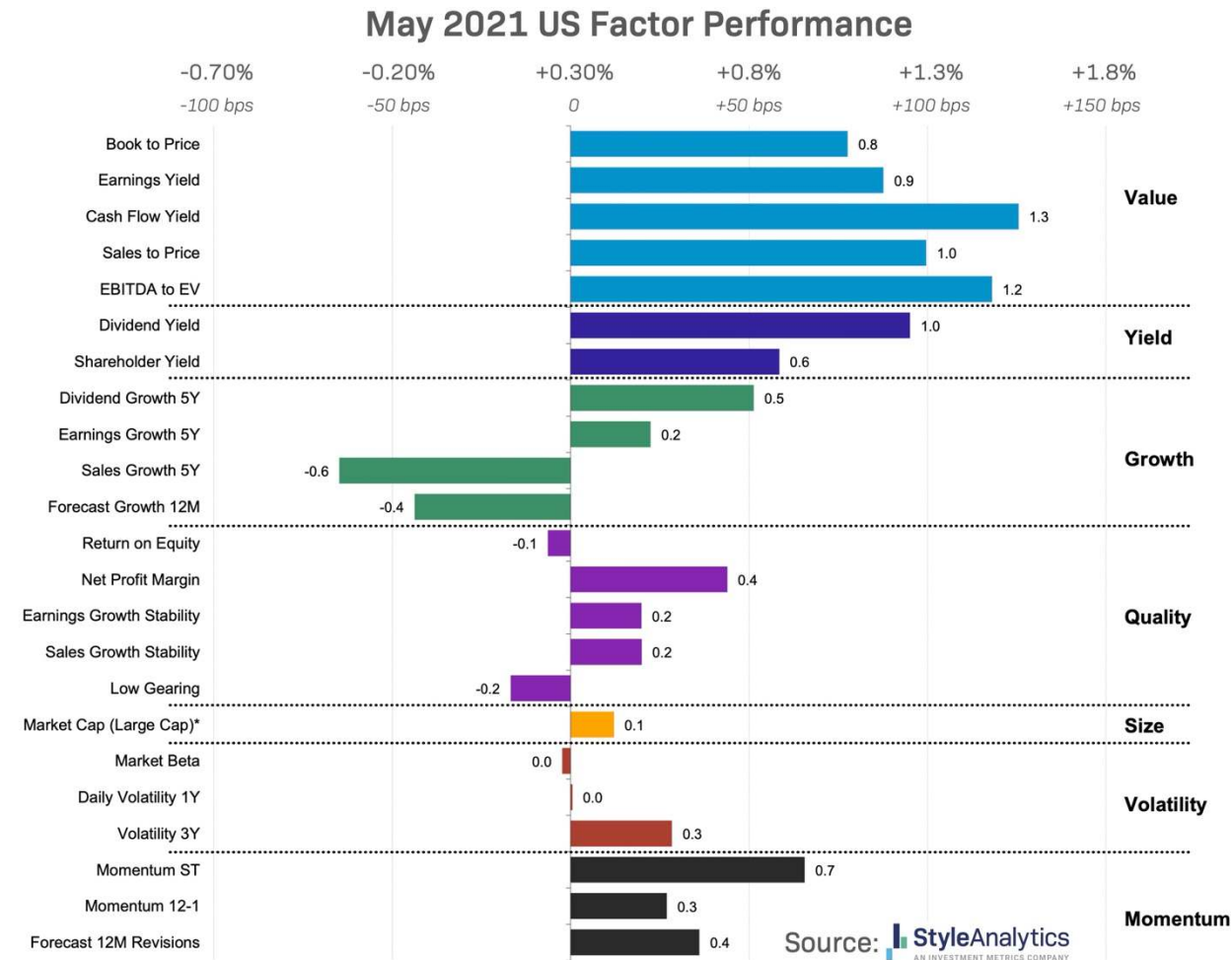


Figure 1: May 2021 US Factor Performance on a sector adjusted basis. Source: Style Analytics.

European Equities

Breaking step with Q1 factor trends, the month saw European stocks perform very differently to US markets, with outperformance by virtually every sub-factor across every factor. The only exception was Quality's Low Gearing, which only underperformed by 10 bps.

But how can every factor and almost every sub-factor outperform the market, and how can both Value and Growth do well at the same time?

First, it is worth noting that factors are specifically identified for their tendency, over the long run, to outperform. So, sometimes they all do well simultaneously. Second, factors are not meant to explain all market movements - they're designed to explain outperformance (not underperformance!). Finally, it's a myth that Value and Growth are 'opposites' although they rarely overlap in their list of stocks. In the past they have both performed similarly to one another and the European markets in May gave us another dose of their ability to simultaneously outperform.

May 2021 European Factor Performance

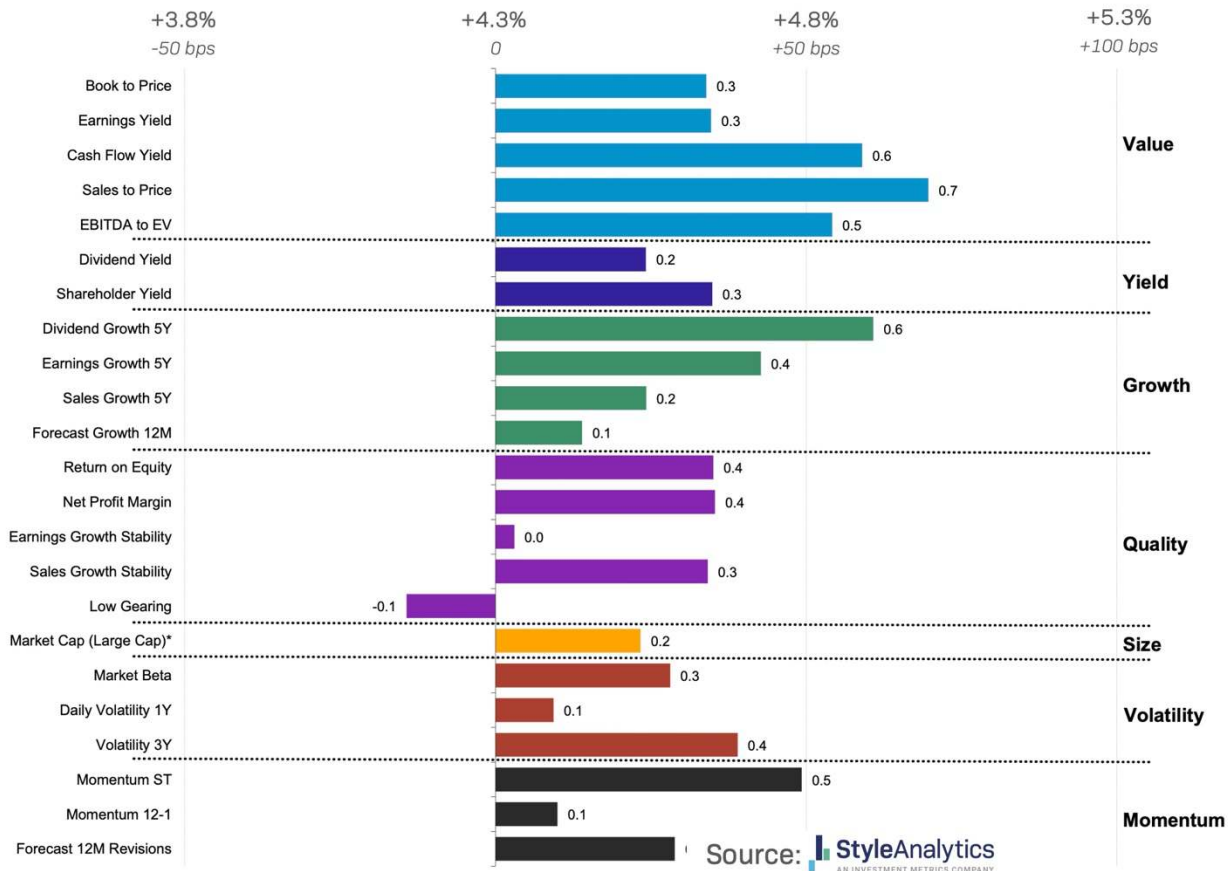


Figure 2: May 2021 European Factor Performance on a country and sector adjusted basis. Source: Style Analytics.

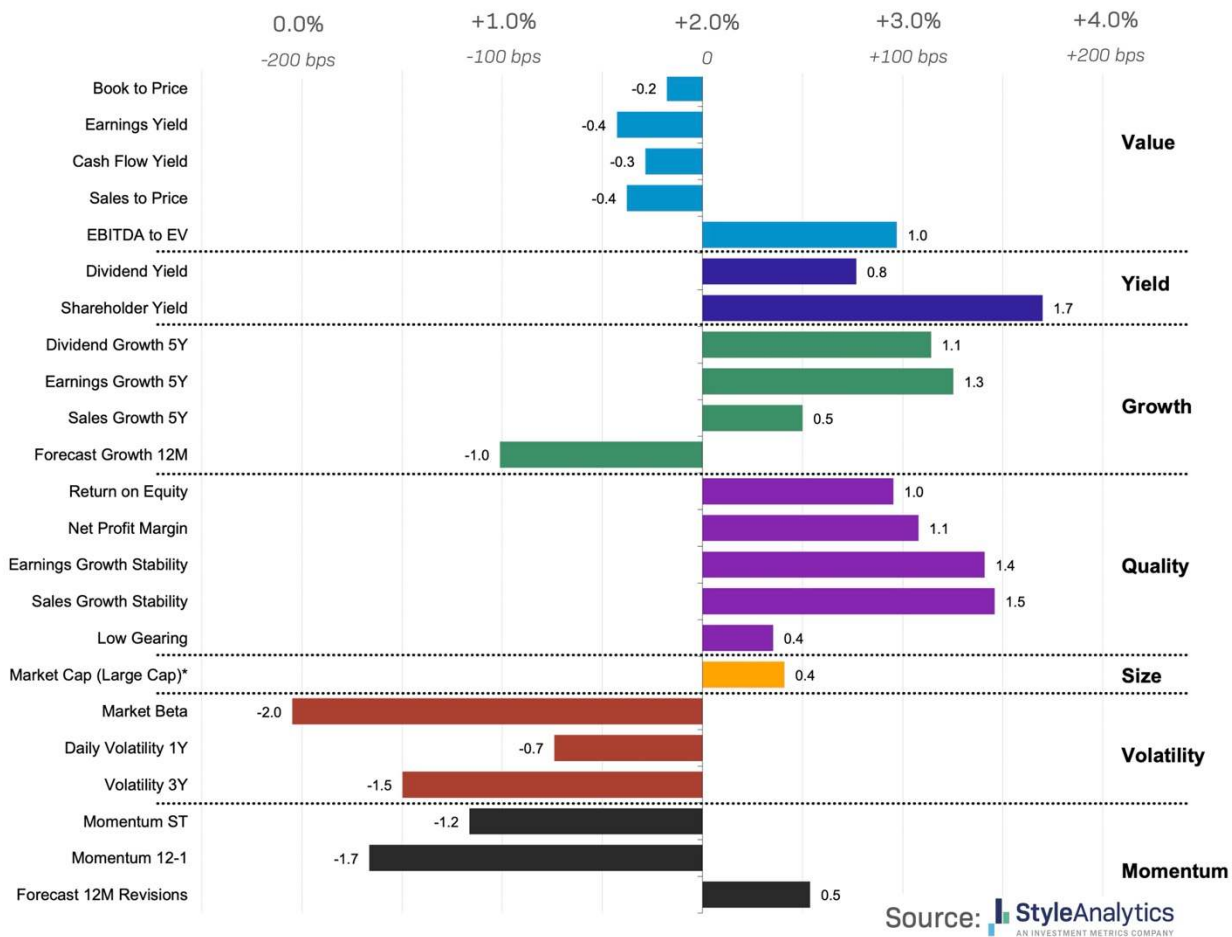
Australia

Australia’s factor performance also looked nothing like the other regions we examined. Here, Growth and Quality outperformed across every sub-factor except Forecast Growth, which had outperformed all others during 2020.

Australia’s Value stocks modestly underperformed by all measures except EBITDA to Enterprise Value (EV). High Yield stocks did as well as, if not better than, Growth stocks.

Neither High Volatility nor Momentum stocks did well in Australia, except when measured by Forecast Revisions.

May 2021 Australian Market Factor Performance



Source: **StyleAnalytics**
AN INVESTMENT METRICS COMPANY

Figure 4: April 2021 Australian Market Factor performance, country and sector adjusted. Source: Style Analytics.

Summary

Four markets with four very different factor performance profiles:

United States:

- Clear rotation back to Value stocks, with mixed signals from Growth and Quality.
- Momentum stocks are overlapping now with Value stocks, giving Momentum a boost.

Europe:

- Almost every sub-factor outperformed the market.

Emerging Markets:

- Mixed performance across Value, Growth and Quality sub-factors.
- High Volatility stocks were the only ones to outperform by any sub-factor measure.

Australia:

- Growth and Quality dominated.
- High Volatility and Momentum stocks suffered.

May's factor performance was very region-specific with no similarity between the four regions we examined. The behavior of factors in 2021 has given investors a lot to think about, and May is no exception.

Appendix: How to read the charts

Each factor's performance is based on the relative performance of the top 50% (by market cap) of that specific factor compared to the overall market (the sole exception is the size factor which uses the top 70%). For example, for the first factor, book-to-price, we determine the period's performance of the basket of stocks with the highest book-to-price values relative to the total market.

Each factor is analyzed independently, and market and fundamental data are adjusted so that sector-average (within each country) relative data is used and the performance measurement isolates the factor's contribution to return. In Figure 1, US stocks with a high book-to-price (i.e. high value stocks as measured by book-to-price) outperformed the broad US market by 80 bps on a country and sector adjusted basis.

Disclaimer

The material presented in this document is an assessment of the market environment as of the date indicated; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or any issuer or security or similar.

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