DIVERSIFIED STRATEGIST PORTFOLIOS
QUALITY LOW VOLATILITY
(TAX SENSITIVE)
QUARTERLY COMMENTARY

SECOND QUARTER 2022

MAXIMUM GROWTH

Headwinds for global financial markets continued in the second quarter with negative returns in most major asset classes outside of cash. Elevated inflationary pressures led to increased investor expectations for monetary policy tightening throughout the quarter, which in turn heightened investor concerns on the economic growth outlook. More persistent than expected inflation brought about the Federal Reserve pivoting to larger tightening moves including a 50-basis-point rate hike in May and a 75-basis-point hike in June. This challenging macroeconomic backdrop combined with continued uncertainty from the Russia-Ukraine war contributed to double-digit losses across each major global equity region, while commodity-related areas of the market lost momentum following the less-optimistic growth outlook. In fixed income markets, returns were broadly negative across both investment grade and high yield fixed income given the combination of rising interest rates and considerable widening in credit spreads.

We made one change in asset allocation in the quarter. In June, we shifted to modestly overweight global listed infrastructure, funded by a reduction in our U.S. equities overweight. The tactical change was mainly designed to increase interest rate exposure and to some degree inflation protection, while also somewhat reducing our tilt to U.S. equities over non-U.S. equities. Currently, the portfolio has overweights to municipal high yield fixed income, U.S. equities, natural resources and global listed infrastructure, funded by underweights to global real estate, developed ex-U.S. equities and emerging market equities. The portfolio ended the quarter with a moderately lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

Considerable benefits from fund implementation in addition to more modest support from both tactical positioning and strategic positioning led to overall outperformance in the quarter. Strategic positioning helped performance with municipal high yield fixed income and global listed infrastructure outpacing global equities. Tactical positioning benefited performance due to the overweight to municipal high yield fixed income and the underweight to global real estate, partially offset by some drag from the overweight to U.S. equities. Our quality low volatility U.S. equity strategy (QLV), our quality low volatility developed markets ex-U.S. equity strategy (QLVD) and our quality low volatility emerging markets equity strategy (QLVE) were the main contributors in terms of fund implementation, while our municipal high yield fixed income strategy (NHYMX) and our global listed infrastructure strategy (NFRA) were the main detractors.

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