# DUE DILIGENCE REPORT

HELIOS QUANTITATIVE RESEARCH

PASSAGE WEALTH™

JANUARY 2021

# MONTHLY DUE DILIGENCE REPORT

## WHAT'S INSIDE



## HOW TO USE THIS REPORT

This report is intended to support your research and due diligence efforts and aid your investment committee.

Included in this report is an overview of capital markets and the news and events that shaped this month as well as update and summary level details on the Helios models.

Included in this report are any changes to the overview listed above, the rationale for those changes, as well as detail on the underlying components of the calculations.

We encourage having this report be a part of your regular investment committee materials. Additionally, you may use the content to help shape your conversations with your clients.

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## ABOUT US

Founded in 2016, Helios Quantitative Research was created to equip financial advisors with new and relevant tools that drastically improve their client's asset management experience, expand their firm's margins, and challenge the old-guard legacy providers as well as the emerging robos of Silicon Valley. We believe that the majority of existing services available to financial advisors lack innovation, are too expensive, and enable commoditization in the wealth management industry.

Therefore, we created our own service category - the *insourced CIO*. Our unique team of skilled and experienced individuals, partners with financial advisors across the globe to create, implement, monitor, and communicate quantitative investment strategies that challenge Modern Portfolio Theory and seek to remove as much emotion as possible from investing. In a short time, we have grown to influence over 800 Financial Advisors who collectively manage over $30 billion.

For more information regarding our firm, please visit our website: www.heliosdriven.com

January 2021

# MARKET OVERVIEW

## 1 THE MONTH AT A GLANCE

| | JAN |
|---|---|
| S&P 500 | -1.02% |
| MSCI EAFE | -1.07% |
| MSCI Emerging Markets | 3.07% |
| Bloomberg Barclays U.S. Aggregate | -0.72% |

All returns are total returns as of the date of the report unless otherwise noted.

Indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is not indicative of future results.

Source: Helios Quantitative Research, Bloomberg

# VOLATILITY RETURNS AS EQUITIES START THE YEAR DOWN JUST OVER 1%

- January began and ended with equity market declines and the S&P 500 ended the month down 1.02%. Losses were fairly widespread on a sector level within the developed large cap space with the MSCI EAFE also down just over 1%, at 1.07%. Emerging markets were one of the few bright spots of the month, gaining over 3%, despite mirroring some of the volatility later in the month.
    - The declines put the 1-year total return for the S&P 500 at up 17.24%, significantly ahead of the MSCI EAFE at up 8.94%. U.S. small cap gained just over 5% in January, putting the 1-year total return at 30.15%
- The broad U.S. fixed income market was also into the red, declining 0.72%, for the month. Corporates were the worst performing major sector, however Treasuries declined as well, with the longer-dated bonds faring the worst.
- Fourth-quarter U.S. GDP growth disappointed estimates with a 4.0% annualized growth rate. Expectations were for a slightly higher 4.2% annualized figure and were weighed down by surging COVID cases through the end of the year. The underwhelming report confirms the fears that the recovery is slowing faster than expected, however, the pace of growth was still above longer-term averages from before COVID.
- Uncertainty surrounded Biden's proposed $1.9T stimulus as opposition stiffened in Congress, with Republicans proposing a $618B plan. If recent history is any guide the large gap will likely take some time to negotiate, unless the Biden administration uses budget reconciliation rules, avoiding the filibuster.

# MARKET OVERVIEW

| Equity Markets | MTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|---|---|
| **S&P 500** | -1.02% | -1.02% | 17.24% | 11.68% | 16.13% | 13.48% |
| Russell Midcap | -0.26% | -0.26% | 17.73% | 10.12% | 14.85% | 12.13% |
| Russell 2000 | 5.03% | 5.03% | 30.15% | 11.07% | 16.46% | 11.76% |
| **MSCI ACWI** | -0.45% | -0.45% | 17.02% | 7.89% | 13.54% | 8.90% |
| MSCI EAFE | -1.07% | -1.07% | 8.94% | 2.23% | 8.83% | 5.15% |
| MSCI Emerging Markets | 3.07% | 3.07% | 27.90% | 4.42% | 15.01% | 4.22% |
| **Fixed Income Markets** | | | | | | |
| **Bloomberg Barclays U.S. Aggregate** | -0.72% | -0.72% | 4.72% | 5.49% | 4.00% | 3.75% |
| Bloomberg Barclays U.S. Treasury | -0.96% | -0.96% | 4.42% | 5.33% | 3.13% | 3.24% |
| Bloomberg Barclays U.S. Corporate | -1.28% | -1.28% | 5.99% | 6.93% | 6.38% | 5.47% |
| Bloomberg Barclays U.S. MBS | 0.08% | 0.08% | 3.23% | 4.15% | 2.80% | 3.01% |
| Bloomberg Barclays Municipal | 0.64% | 0.64% | 4.01% | 5.28% | 3.79% | 4.77% |
| Bloomberg Barclays U.S. Corporate High Yield | 0.33% | 0.33% | 7.44% | 6.14% | 9.00% | 6.60% |
| Bloomberg Barclays Global Aggregate | -0.88% | -0.88% | 6.87% | 4.12% | 4.42% | 2.71% |
| **Alternative Markets** | | | | | | |
| Morningstar Diversified Alternatives | 1.29% | 1.29% | -0.93% | 0.51% | 1.89% | 1.66% |
| Dow Jones U.S. Real Estate | -0.28% | -0.28% | -7.01% | 6.32% | 7.52% | 8.28% |
| Bloomberg Commodity Index | 2.62% | 2.62% | 7.03% | -3.74% | 0.73% | -6.91% |

Total returns as of the report date unless otherwise noted. Returns over 1 year are annualized. Indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses and don't reflect any particular investment. Past performance is not indicative of future results.
Source: Helios Quantitative Research, Bloomberg

## MARKET HIGHLIGHTS

- The year began with developed equity markets taking a step down, while the U.S. small cap and emerging markets advanced sharply.
  - The MSCI EAFE was the worst performer, down 1.07%, closely followed by the S&P 500's 1.02% decline.
  - In the U.S., small caps led the way, outperforming the S&P 500 by over 6%.
- For U.S. large cap sectors, Energy led the way, up 3.79%, followed by Health Care, up 1.42% for the month.
- Within Fixed Income both Treasuries and Corporates declined in January, pushing the U.S. Aggregate down 0.72% in January. The long end of the curve also was hit, with the 10+ Year Aggregate Index down 2.97%.

## 2 EQUITY SECTOR PERFORMANCE

Ranked S&P 500 Sector Total Returns

| SECTOR | JAN |
|---|---|
| Energy | 3.79% |
| Health Care | 1.42% |
| Real Estate | 0.53% |
| Consumer Discretionary | 0.41% |
| Utilities | -0.91% |
| Information Technology | -0.92% |
| S&P 500 | -1.02% |
| Communication Services | -1.30% |
| Financials | -1.75% |
| Materials | -2.38% |
| Industrials | -4.30% |
| Consumer Staples | -5.17% |

Sector total returns are based on the S&P 500 GICS Level 1 indices.

## 3 EQUITY STYLE & SIZE PERFORMANCE

Ranked Style, Size, and Geography Total Returns

| ASSET CLASS | JAN |
|---|---|
| Small Cap Value | 5.26% |
| Small Cap Blend | 5.03% |
| Small Cap Growth | 4.82% |
| Emerging Markets | 3.07% |
| Mid Cap Value | -0.23% |
| Mid Cap Blend | -0.26% |
| Mid Cap Growth | -0.33% |
| Large Cap Growth | -0.74% |
| Large Cap Blend | -0.83% |
| Large Cap Value | -0.93% |
| S&P 500 | -1.02% |
| Developed International | -1.07% |

Asset class total returns are based on the Russell 1000, Russell 1000 Growth, Russell 1000 Value, Russell Midcap, Russell Midcap Growth, Russell Midcap Value, Russell 2000, Russell 2000 Growth, Russell 2000 Value, MSCI EAFE, and MSCI Emerging Markets indices.

## 4 CREDIT SECTOR PERFORMANCE

Ranked Fixed Income Sectors Total Returns

| SECTOR | JAN |
|---|---|
| Municipal | 0.64% |
| TIPS | 0.33% |
| U.S. Corporate High Yield | 0.33% |
| U.S. Aggregate 1-3 Year | 0.04% |
| U.S. Agency | -0.16% |
| Global High Yield | -0.16% |
| U.S. Aggregate | -0.72% |
| EM Bonds (USD) | -0.85% |
| Global Aggregate | -0.88% |
| U.S Treasury | -0.96% |
| U.S. Corporate | -1.28% |
| U.S. Aggregate 10+ Year | -2.97% |

Sector total returns are based on the Bloomberg Barclays U.S. Aggregate, U.S. Treasury, U.S. Treasury Inflation Notes, U.S. Agency, Municipal, U.S. Corporate, U.S. Corporate High Yield, Global Aggregate, Global High Yield, and EM USD Aggregate indices.

Total returns as of the report date unless otherwise noted. Indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses and don't reflect any particular investment. Past performance is not indicative of future results.
Source: Helios Quantitative Research, Bloomberg

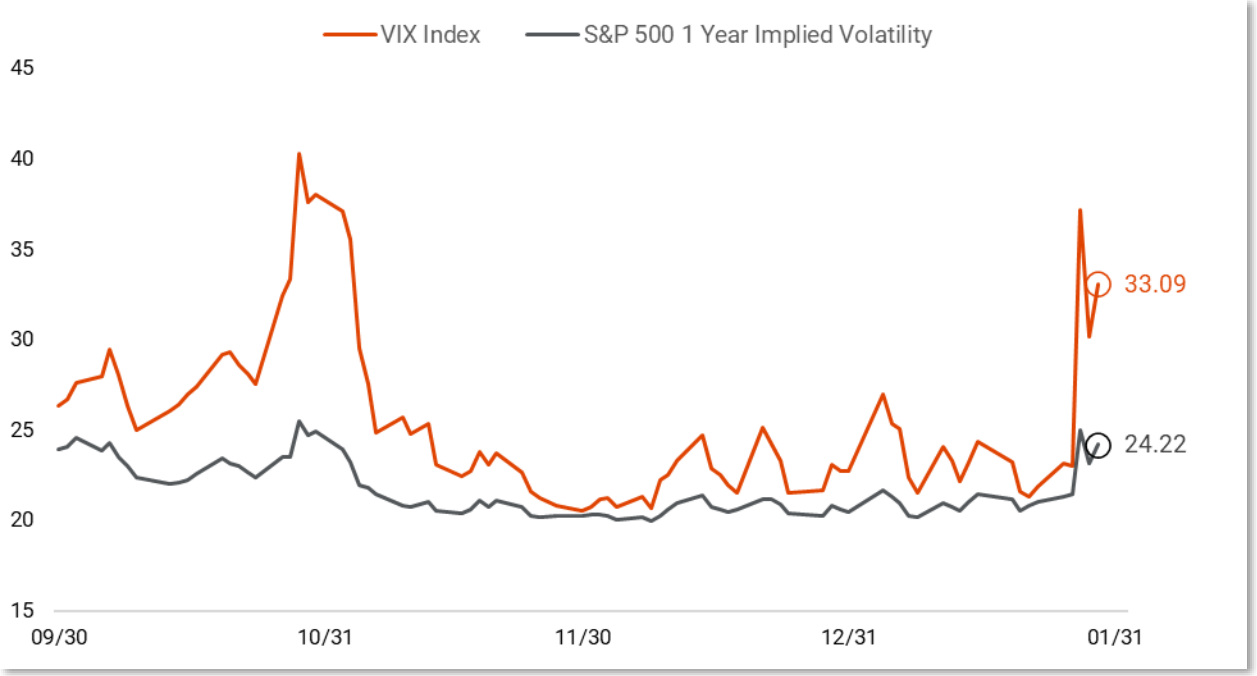
# SHORT-TERM AND LONG-TERM VOLATILITY EXPECTATIONS POP

## WHAT DOES IT MEAN?

- The market declines in the final week of January led to both short-term and longer-term volatility expectations to increase. Short-term volatility expectations, measured by the VIX Index, typically moves in more dramatic, and choppy, fashion than longer-term expectations, which is what we saw over the last week.
- Fears surrounded lackluster vaccine distribution, an underwhelming Q4 GDP report, as well as political uncertainty around any future Federal stimulus.

## LONG-TERM IMPLIED VOLATILITY INCREASES

September 30, 2020 through January 31, 2021




Source: Helios Quantitative Research, Bloomberg

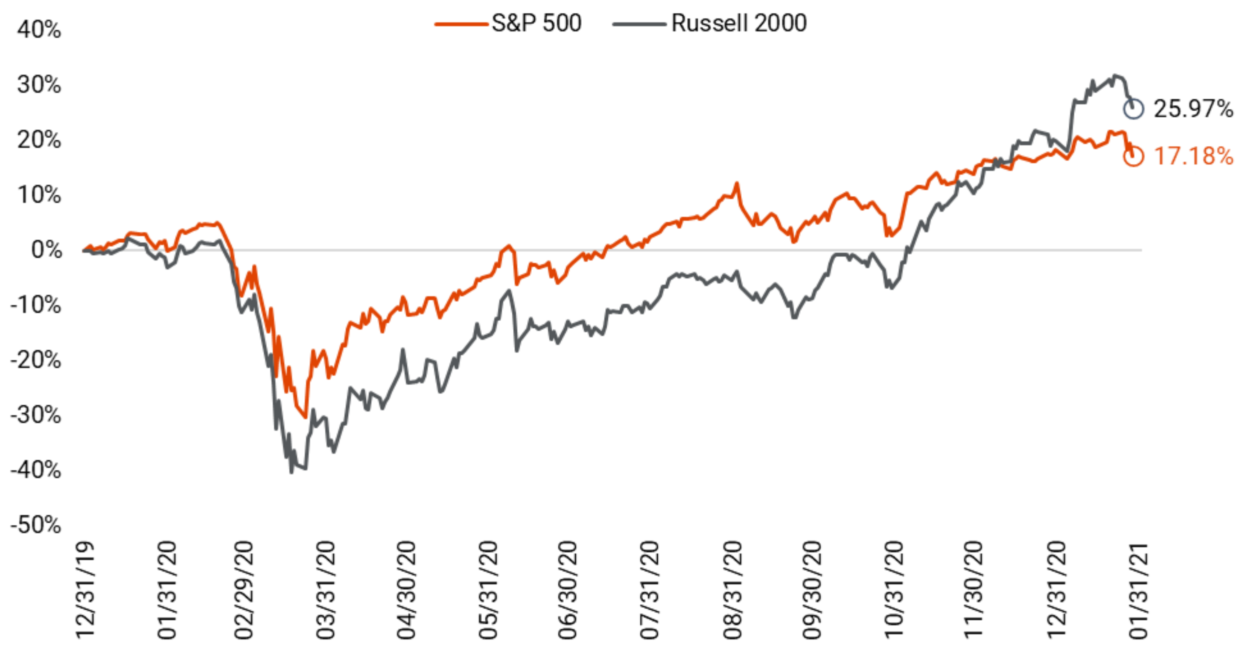
# SMALL CAP GAINS VS. LARGE CAP PULLBACK

## WHAT DOES IT MEAN?

- Despite the pullback the medium-term gains of the S&P 500 are still robust with gains of over 17% since the start of last year.
- U.S. small cap's relative performance has accelerated since mid-last year and has outperformed the S&P 500 by over 8% over the period.
- The sector returns are fairly dispersed in the large cap space with Energy down 31.17% over the period vs, Consumer Discretionary up 33.84% as the impacts of COVID-19 have created a tale of two recoveries.

## SMALL CAP EXTENDS RELATIVE PERFORMANCE AMID PULLBACK

Cumulative Total Return, December 31, 2019 through January 31, 2021




Source: Helios Quantitative Research, Bloomberg

# GAMESTOP STOLE THE SPOTLIGHT

## WHAT DOES IT MEAN?

- In late January, GameStop (GME) dominated news and the market's attention as a Reddit group helped catapult the stock to extraordinary highs, as well as pushing the volatility of the stock to stratospheric levels.
- The volatility forced some brokers, most famously RobinHood, to limit investors' ability to enter into highly volatile names due to exploding clearing collateral requirements.
- The high percentage of short interest in the stock pitted a "battle" of retail vs. institutional that flowed over into other names with high short interest.

## GME'S VOLATILE ROAD TO $325

January 19, 2021 to January 29, 2021


Despite massive gains, the market impact was small

| | GME'S JAN CONTRIBUTION |
|---|---|
| Vanguard Total Stock Market ETF | 0.04% |
| iShares Russell 2000 ETF | 0.68% |

Source: Helios Quantitative Research, Bloomberg

# GAMESTOP MANIA OVERFLOWS TO OTHER STOCKS

## WHAT DOES IT MEAN?

- With the popularity of the GME story, investors also turned to other stocks with a high short interest, helping pump their January gains. The surge in volatility of these names also led some brokers to limit purchases of the stocks, either via outright restrictions, share limits, or high margin requirements.
- At one point in the last week of January the mania surrounding high short interest stocks and Reddit's WallStreetBets forum crashed the website HighShortInterest.com as investors searched for the "next GameStop."

## RETAIL INVESTORS ATTEMPT TO SQUEEZE SHORTS

Top 10 Shorted Stocks as of January 29 vs. January Total Return

| TICKER | COMPANY | SHORT INTEREST | JANUARY TOTAL RETURN |
|---|---|---|---|
| GME | GameStop Corp. | 121.07% | 1,625.05% |
| AMC | AMC Entertainment Holdings Inc | 78.97% | 525.47% |
| SPCE | Virgin Galactic Holdings Inc | 71.95% | 86.64% |
| FUBO | Fubotv Inc | 71.91% | 50.89% |
| BBBY | Bed Bath & Beyond Inc. | 65.48% | 98.93% |
| LGND | Ligand Pharmaceuticals Inc. | 64.88% | 86.38% |
| FIZZ | National Beverage Corp. | 62.62% | 78.49% |
| SPWR | SunPower Corporation | 57.49% | 110.65% |
| SKT | Tanger Factory Outlet Centers | 52.41% | 56.62% |
| GSX | GSX Techedu Inc | 50.32% | 103.07% |

Source: Helios Quantitative Research, Bloomberg, HighShortInterest.com

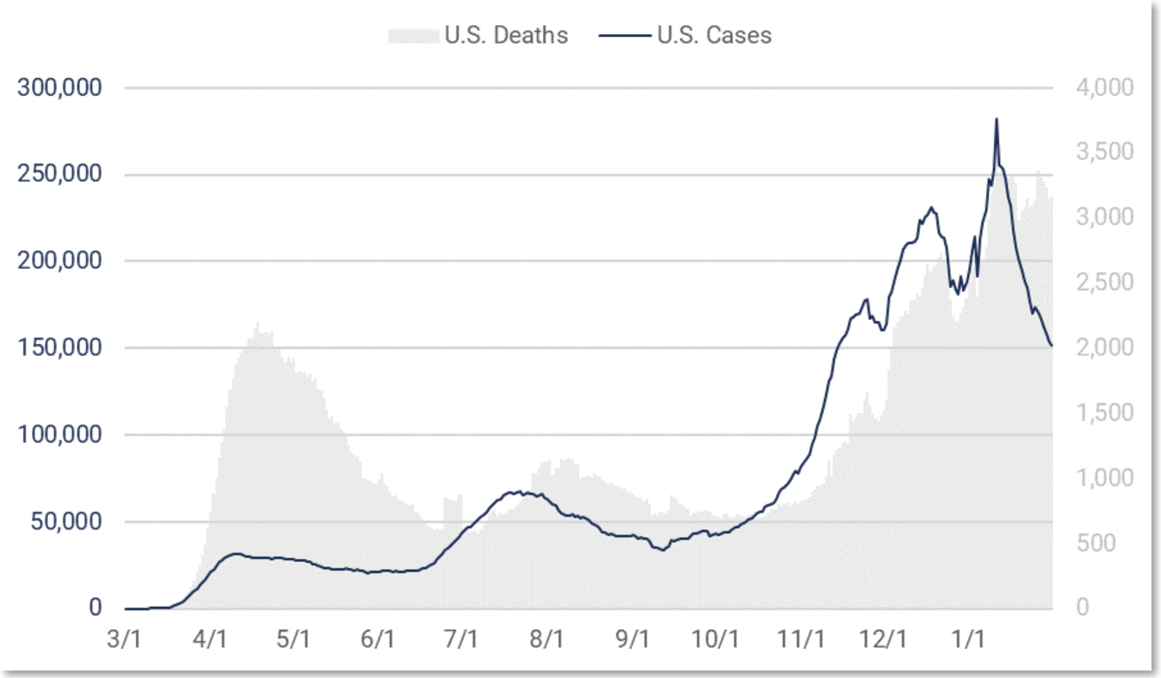
# COVID UPDATE

## WHAT DOES IT MEAN?

- The end of year surge quickly dropped off in January with the 7-day average peaking on January 11th at 282K and ending the month at 151K.
- Vaccine distribution continues to increase across the nation and U.S., although more slowly than many had hoped. As of January 30, 7.2% of the U.S. population had received at least the first dose of one of the vaccines.
- Two new vaccines are on the horizon for the U.S., from AstraZeneca as well as Johnson & Johnson, that could help accelerate distribution. The AstraZeneca vaccine has already been approved for use in the E.U.

## 7-DAY AVERAGE OF NEW CONFIRMED CASES AND DEATHS

March 2020 through January 2021

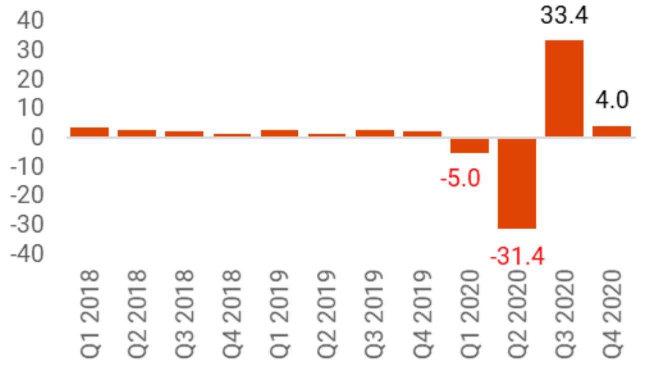



Source: Helios Quantitative Research, Bloomberg, NPR, CDC

# CHARTS OF THE MONTH

## U.S. ANNUALIZED GDP GROWTH

Q1 2018 to Q4 2020 (%)

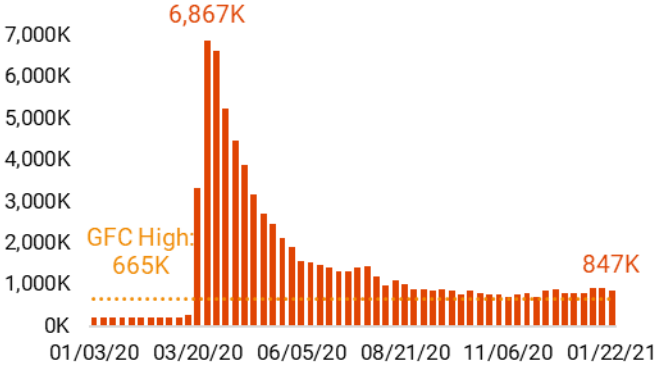



## BITCOIN RALLIES

December 31, 2019 to January 31, 2021

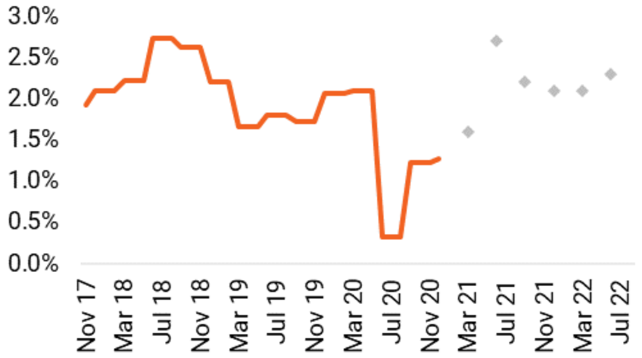

## U.S. INITIAL JOBLESS CLAIMS

January 3, 2020 to January 22, 2021




## INFLATION EXPECTATIONS

U.S. CPI (YOY) vs. Economist Expectations




## WHAT'S IMPORTANT

- U.S. fourth quarter GDP increased by 4.0% annualized, which was above pre-pandemic rates but short of the robust growth rate need to repair the damage done in the first half of 2020.
- Bitcoin was another major story of the year with a significant rally to start the year, with the price exceeding $40,000 briefly early in the month.
- Jobless claims refused to materially decline to "normal" historical levels and will continue to put pressure on the rate of recovery, as well as inflation expectations.
- Inflation readings, as well as economist expectations of inflation through the first half of next year remain relatively low, with expectations of slightly above 2% inflation for most of this year. Slightly above the 2% target set by the Fed, but likely not enough to cause significant policy changes.

Source: Helios Quantitative Research, Bloomberg

# DISCLOSURES

# IMPORTANT DISCLOSURES

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