MANAGER COMMENTARY

DISCIPLINED EQUITY

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

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Jon Quigley, CFA
Chief Investment Officer,
Disciplined Equities

John D. Bright, CFA
Senior Portfolio Manager,
Disciplined Equities

Deepesh Bhatia, MBA, MS
Research Analyst

Dmitri Prokhorov
Research Analyst

Lyn Taylor
Research Analyst

Market Overview

If we dampen the considerable and continuous noise of the news cycle, the persisting signal appears to be an effort by the Federal Reserve Board of Governors to re-normalize monetary conditions. To wit, the Fed Funds rate is now above 1% for the first time in 13 years. Interestingly, this rise has not boosted the greenback; in fact, the Dollar's 5.6% slide during the first half of this year represents the largest 6 month decline since 2011. Part of this slide is evidence of global central banks collectively talking tougher regarding future monetary policy actions.

The rise in the Fed Funds rate has not been matched by an appreciable rise in the 10-year Treasury yield—and therefore we do have the flatter yield curve typically presaging an economic slowdown. Most data do not indicate this slowdown is occurring just yet, with the possible exception of weaker housing start and building permit prints. Otherwise, the data look solid, and we've completed the post-election round trip on a number of fronts. Trump's victory had a direct impact on various confidence and market indicators, but most of this impact has been fully reversed by now—confidence being the apparent exception thus far.

For most of the second quarter, we had a continuation of Q1 themes in the U.S. equity market. Once again, shares of companies with larger market capitalization outperformed, paced by the Russell Top 200 Index's 3.20% gain. Moving down the spectrum, we see returns of 3.06% for the Russell 1000 Index, 2.70% for the MidCap 800 Index, and 2.46% for the small-cap Russell 2000 Index. The exception to this steady slippage was in the 500 smallest mid-cap stocks, which actually underperformed their small-cap peers.

We also saw a continuation of growth stocks outperforming value stocks across the capitalization spectrum. While their advantage was not quite as large as we noted during Q1, it was meaningful nevertheless. The top-performing style index was the Russell Top 200 Growth Index, which advanced a solid 4.83%, topping its Value counterpart by 3.50%. The poorest performer among style indices was the Russell 2500 Value Index, which ground out a scant 0.32% advance, trailing the 2500 Growth Index by 3.81% in the process.

Sector performance within the S&P 500 Index was quite consistent with that of the first quarter. Health Care was the top-performing sector for the quarter, adding a solid 7.10%. Financials rebounded from a relatively modest Q1 to record a strong 4.25% gain. Telecom and Energy offerings continued to struggle, declining 7.05% and 6.36%, respectively.

Relative sector behavior was even more consistent within the Russell 2500 Index. Here, Q1's top-ranked sectors continued to perform well; Health Care stocks gained 9.39%, and Tech stocks climbed another 3.78%. Year-to-date, the Health Care sector has soared 22.08%. By contrast, the Energy sector was pummeled, shedding 17.73% to bring its year-to-date decline to 25.41%.

Market Outlook

All in all, we appear to be in good shape for the shape we're in.... Housing prices and sales of existing homes are strong, overall price indices are muted, equity volatility remains low, and the employment situation is strong. One item to watch is the slightly lower corporate profit margin, which has dipped from 10%+ to 8.2% - still quite strong, but moving in the wrong direction, putting elevated stock levels at greater risk.