DISCIPLINED EQUITY

SMIDCAP

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

MANAGER COMMENTARY
FIRST QUARTER 2018

Market Review

U.S. equities charged sharply higher across the board during January, boosted by record consumer and business confidence numbers. By late January, however, volatility had resurfaced and the S&P 500 Index suffered its first correction since early 2016. Tariff and trade war jawboning have led to continued volatility and pressure on the market as we closed the first quarter with modest losses on most headline U.S. equity indexes.

Size/Style

- Within the R2500, small-caps rallied modestly in March, pulling them to a slight performance advantage over mid-caps for all of Q1.
- From a style perspective, growth topped value in both mid-caps and small-caps - but this direction also turned during March, with value outpacing growth increasingly as the month progressed.

Russell 2500 Sectors

Relative sector performance among smid-caps was topsy-turvy when compared to Q4 2017:

- Energy and Materials,the two best-performing sectors during Q4 2017,were the two worst-performing sectors during Q1.
- Utilities continued their poor Q4 performance in the face of rising interest rates.
- By contrast, the Health Care and Tech sectors rebounded from a fairly weak Q4 performance to rank first and second during Q1, respectively.

Market Outlook

Recent market volatility brought us our first correction in a couple of years, and has curbed some of the excess valuation (and optimism) from U.S. equity markets. The economy remains quite solid; confidence is very high, small businesses are bullish due in large part to the regulation tide moving out, and excess inflation is largely absent. The Fed is of course now practicing QT (Quantitative Tightening) as well as now having bumped the Federal Funds Rate six times. We're in late innings, but the economy itself is not flashing any red lights.

The SMidCap portfolio currently favors mid-cap growth over small-cap value, and has an emphasis on strong share price momentum and high earnings yield (low P/E), while tilting against companies with high volatility, high leverage, and highly variable earnings. Technology (Computer Software) and Industrial (Industrial Parts) sectors are in favor, while Health Care (Biotech) and Energy (Energy Reserves) sectors are most out of favor.

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