

# Dividend Growth Premium Income Commentary

June 30, 2021

## MARKET REVIEW

As 2Q21 drew to a close, the capital markets seemed to be wavering on the global reflation trade that had dominated the better part of the previous two quarters. To be sure, positioning in trades based on a pro-cyclical, economic reopening was a crowded one and perhaps investors wanted to take some profits by scaling back as summer approached.

The Federal Reserve (Fed) might have given investors another reason to fade the reflation trade as it seemingly communicated a potential policy shift at the conclusion of the June 16 FOMC meeting. In August of 2020, the Fed unveiled its Average Inflation Targeting regime whereby it would allow inflation to average 2% over long periods of time. This would enable the Fed to allow inflation to overshoot its 2% target for a period of time, following periods of undershooting the target. In essence, the Fed would allow the economy and inflation to run hot over a period of time. Since August of last year, Fed speakers had consistently communicated their reaction function as being focused on returning the labor market to pre-COVID levels and that any inflation would be seen as transitory. After the June 16 FOMC meeting, Fed Chairman Jerome Powell indicated that the Fed was now much closer to meeting its employment goals and inflation goals. Furthermore, the infamous “Dot Plot” now indicated that 13 of 18 FOMC members thought rate hikes would begin no later than 2023. Additionally, seven out of 18 thought they would begin no later than 2022. So much for the irresponsibly dovish Fed!

At this point, the capital markets are considering just how soon the Fed will remove its ultra-easy monetary policy that has fueled the reflationary trade. Although equities did turn in a respectable 2Q performance with the S&P 500® Index up 8.5%, the small cap Russell 2000® Index lagged large cap performance and was up just 4.3%. Growth stocks also outperformed value stocks during the quarter, perhaps an indication that investors believe the Fed will take away the punch bowl soon and growth will once again become scarce in the U.S. The domestic bond market also rallied during the quarter—providing low, but positive, returns.

## PORTFOLIO REVIEW

The Dividend Growth Premium Income Composite returned 7.54%, gross of fees, for the quarter ending June 30, 2021. The strategy’s benchmark, the S&P 500 Index, returned 8.55% during the same time period.

The beginning of 2Q21 marked continuation of the pro-cyclical environment that started in 4Q20, the trend that showed reversal after the June FOMC meeting, that markets perceived as less dovish. The slight change in the Fed’s tone combined with the expectations of higher inflation, peak economic growth, and peak earnings triggered the unwinding of prior crowded cyclical positions, flattening of the yield curve, which helped growth return +11.6% and value only +5.6%. Consumer discretionary and REITs contributed the most to the strategy’s performance, helped by stock selection. The strategy’s overweight in industrials and underweight in technology were the largest detractors.

## STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	\$1M
Number of Holdings	42
Assets	\$12.5M

## PORTFOLIO MANAGEMENT TEAM



**Julia Batchenko, CFA**

Portfolio Manager

Industry start date: 2011

Joined Red Cedar: 2019



## INVESTMENT PHILOSOPHY

“We seek companies that possess a combination of three essential criteria: growth of dividends, consistency of earnings and enhanced profitability.”

—Julia Batchenko

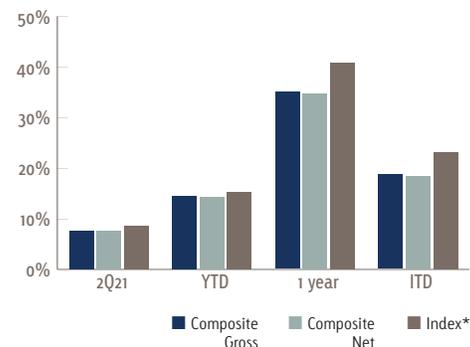
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### STRATEGY POSITION & OUTLOOK

We continue to believe that growth will remain above trend in the near future. However, markets started to focus on rising commodity, employment, and supply chain costs impacting companies' margins and reward companies that can pass those costs to the consumers. We also believe that markets will be awaiting policy clarification from the upcoming Fed meetings and sorting out their impact. Henceforth, we may see higher quality names outperform lower quality, supporting the strategy.

### PERFORMANCE



	Composite Gross	Composite Net	Index*
2Q21	7.54%	7.48%	8.55%
YTD	14.38%	14.26%	15.25%
1 year	34.94%	34.65%	40.79%
ITD	18.64%	18.40%	23.05%

Source: Clearwater Analytics

Inception Date 1/1/20

\*S&P 500® Index

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### DISCLOSURES

\*All end-of-year index data noted is as of 6/30/21.

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**Index Definitions:** Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the U.S. Russell 2000 Index: Measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which is made up of nearly all U.S. stocks. Russell 3000 Value Index: A market-capitalization weighted equity index based on the Russell 3000 Index which measures how U.S. stocks in the equity value segment perform by including only value stocks. Russell 3000 Growth Index: A market-capitalization weighted equity index based on the Russell 3000 Index which includes companies that display signs of above-average growth. Used to provide a gauge of the performance of growth stocks in the United States. S&P 500 Index: A market-capitalization weighted index of the 500 largest publicly-traded companies in the U.S.

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