Sabrient Commentary – May 2021 (as of 4/30/2020)
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This month's commentary can be summarized by the following talking points, which cover market conditions and their impact on the Q1 2020 *Baker's Dozen*, which terminates this month, as well as Sabrient's recent process enhancements for all new portfolios:

1. After **6½ years of strong performance** from 2009 thru mid-2015 in Sabrient's *Baker's Dozen*, the market became narrow and news-driven leading to ***stark divergences** in Value vs. Growth factors and Small vs. Large caps* that were quite harsh on most value and GARP strategies, including ours. Also, narrow leadership meant that a handful of stocks drove cap-weighted indexes to greatly outperform equal-weight indexes. Many of the best growth stocks were bid up to such high valuations that they did not score well in our quantitative rankings, while most cyclical sectors sold off. Strong fundamentals didn't seem to matter.

2. This led Sabrient to develop and implement (in mid-December 2019) **process enhancements** to make our portfolios more "all weather" – primarily by adding a new Growth Quality Rank (GQR) to our quant model that rewards a *history of earnings consistency & reliability* – in addition to attractive forward valuations and earnings quality that the model has long favored. This allows for exposure to ***both the long-term secular growth trends and the shorter-term cyclical growth opportunities***. (Also, we continue to have the forensic accounting team from subsidiary *Gradient Analytics* review every candidate for the portfolios.)

3. Thus, with our enhanced process we believe our portfolios are well-positioned for either continued broadening and rotation into value, cyclicals, and smaller caps or a return to narrow leadership from secular growth. Indeed, our newer portfolios since mid-December 2019 have shown **significantly improved performance relative to the benchmark, with some *substantially outperforming*** during quite a range of evolving and confounding market conditions.

4. The **Q1 2020 *Baker's Dozen* portfolio**, which terminated on 4/20/21 after 15 months, slightly outperformed the S&P 500 benchmark thanks initially to big winners from the Tech sector and later from strong recoveries in the travel & leisure names on reopening speculation. It launched on 1/17/20 with equal position weights and overweight allocations (relative to the benchmark) to small/mid-caps, the value factor, and the Technology sector, in accordance with our enhanced model.

5. In contrast, the **Q2 2020 *Baker's Dozen* portfolio**, which will terminate on 7/20/2021, is solidly positive but significantly trails the benchmark. However, it should be noted that it was constructed during the depths of the pandemic in April 2020 when most companies had little or no forward visibility, which our model depends upon. Fortunately, selection of our subsequent portfolios enjoyed much better earnings visibility across the equity universe, and superior relative performance reflects it.

6. Looking ahead, we expect Value/Growth and Small/Large performance divergences will continue to converge and leadership will broaden such that *active selection, strategic beta, and equal weighting should thrive*. This should be **favorable for Sabrient's growth at a reasonable price (GARP) strategy**. Regardless, our new portfolios – including the ***Q2 2021 Baker's Dozen* that launched on 4/20/21, *Small Cap Growth* that launched on 3/15/21, and *Sabrient Dividend* portfolio that launched on 3/19/21** – all reflect better balance between cyclical and secular growth and across market caps. So, we believe they are positioned for any growth scenario.

Market observations:

Optimism is on the upswing as economic reports reveal a surging global economy, earnings overall are beating expectations at a record pace, and we all eagerly anticipate continued reopenings across the country. The Commerce Department announced its preliminary estimate for first-quarter GDP growth at an annual rate of 6.4%, which would be the largest since 1984. Moreover, the quarter ended with the month of March showing incredible surges in household income (21.1%, the highest reading ever recorded), personal savings (27.6%), and consumer spending (8.1%). And of course, asset valuations (notably equities, commodities, housing, and cryptocurrencies) have surged as well. For stocks, it has been largely driven by a combination of reopening trade speculation and massive (and growing) global liquidity chasing limited assets. Total market cap of the S&P 500 is now around 175% of US GDP.

Nevertheless, early fears about rampant price inflation have moderated and the 10-year Treasury yield has been pulling back over the past several weeks to below 1.6%. I continue to believe that the spike in many input prices was mainly driven by constraints on production capacity as supply chains were disrupted and couldn't come back onstream fast enough to meet a sudden spike in demand. No doubt, we are seeing asset inflation given the currency printing presses at full speed, and investable assets can't grow as fast as the printing press can run. But when it comes to consumer demand, supply can indeed catch up as supply chains and manufacturing are resurrected and expanded. Moreover, there are many disinflationary structural factors at work like aging demographics, slowing global population growth, re-globalization of trade and supply chains, and of course the rapid pace of development of new innovative/disruptive technologies that improve productivity in ways that are hard to fully foresee. On that note, it was just announced that nonfarm productivity rose in Q1 at a 5.4% annual rate.

On the other hand, with equity valuations high (often on speculative optimism), companies must now begin to justify their valuations with actual earnings growth. There will be many companies that don't measure up to their lofty expectations. For example, we saw names like Ballard Power (BLDP) and Avaya Holdings (AVYA) get hit hard this week following their earnings reports (both names are short ideas generated by the forensic accounting team from Sabrient subsidiary **Gradient Analytics** for its clientele of hedge funds and institutional portfolio managers).

Looking ahead, I expect a highly bullish combination of strong earnings growth, modest inflation, and low interest rates to persist. However, investors should be selective with those secular growth favorites that sport high P/E multiples as the market will expect them to justify their valuations with strong earnings growth rather than through further multiple expansion. That means meeting (and preferably exceeding) expectations and guiding estimates higher for the future.

Performance update:

The first annual *Baker's Dozen* launched in January 2009 and each year displayed consistently strong performance for 6½ years until mid-2015 (including as a First Trust UIT starting in January 2013), but then the market became narrow and news-driven, leading to *stark divergences in Value vs. Growth factors and Small vs. Large caps* that were quite harsh on most value and GARP strategies, including Sabrient's. Many of the best growth stocks were bid up to such high valuations that they did not score well in our quant rankings, while most cyclical sectors and value-oriented companies were ignored.

This led Sabrient to develop and implement (in mid-December 2019) process enhancements that reduce volatility relative to the benchmark and allow companies that display *consistent and reliable earnings growth* to score more competitively in our GARP model, even at somewhat higher valuations. The enhanced process allows for exposure to both the *longer-term secular* growth trends and the *shorter-term cyclical* growth opportunities *without sacrificing strong performance potential.* Of course, Sabrient continues to have the forensic accounting team from subsidiary Gradient Analytics review every candidate for each portfolio.

Baker's Dozen & FLV - Gross performance thru: 4/30/2021

Portfolio	Launch Date	Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Portfolio Gross Return Since 10/30/20	SPY Return Since 10/30/20
Q2 2020 BD	4/20/20	24.7%	50.6%	11.5%	28.8%
2020 FLV	7/2/20	31.1%	35.2%	32.7%	28.8%
Q3 2020 BD	7/20/20	42.1%	30.2%	48.5%	28.8%
Q4 2020 BD	10/20/20	35.5%	22.4%	41.8%	28.8%
Q1 2021 BD	1/20/21	7.5%	9.1%	N/A	

Small Cap Growth - Gross performance thru: 4/30/2021

Portfolio	Launch Date	Model Portfolio Gross Return Since Launch	SLYG Return Since Launch	Portfolio Gross Return Since 10/30/20	SLYG Return Since 10/30/20
SCG 26	3/11/20	105.9%	74.7%	62.7%	46.3%
SCG 27	6/9/20	51.7%	47.9%	55.4%	46.3%
SCG 28	9/4/20	55.1%	44.7%	53.6%	46.3%

Sabrient Dividend - Gross performance thru: 4/30/2021

Portfolio	Launch Date	Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Portfolio Gross Return Since 10/30/20	SPY Return Since 10/30/20
Div 28	7/12/19	21.0%	43.2%	55.6%	28.8%
Div 29	10/7/19	32.8%	46.2%	45.8%	28.8%
Div 30	1/3/20	16.1%	32.3%	45.5%	28.8%
Div 31	4/1/20	88.1%	72.2%	46.5%	28.8%
Div 32	6/30/20	38.5%	36.9%	39.3%	28.8%
Div 33	9/28/20	41.7%	25.8%	37.9%	28.8%
Div 34	12/21/20	21.7%	13.8%	N/A	

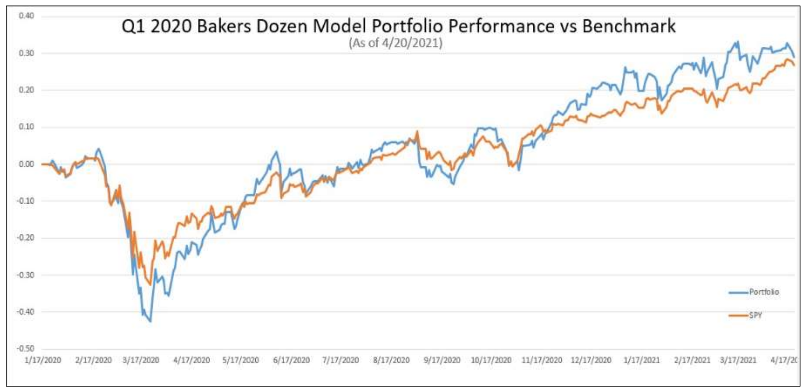
Thus, we believe our portfolios are well-positioned for either continued broadening and rotation into value, cyclicals, and smaller caps or a return to narrow leadership from secular growth. Indeed, our live portfolios have shown improved performance relative to the benchmark, with most substantially outperforming. To illustrate, the **table** to the left shows the performance of the live *Baker's Dozen, Forward Looking Value, Small Cap Growth* and *Dividend* model portfolios, both from their launch dates and since the year-end market rotation into value commenced on 11/1/20, relative to the benchmark S&P 500 ETF (SPY) and S&P SmallCap 600 Growth ETF (SLYG), through 4/30/21. Most are outperforming on a gross total return basis. The most notable underperformer is Q2 2020 *Baker's Dozen*, but it should be noted it was constructed in April 2020 during the depths of the pandemic when most companies had little or no forward visibility, which our model depends upon.

Going forward, Sabrient portfolios should continue to provide *diversified exposure to* both *the secular growers and the value, cyclicals, and smaller caps* that typically thrive during an expansionary economic phase. As an example, the latest **Q2 2021 *Baker's Dozen*** holds 3 large, 6 mid, and 4 small caps; 6 growth versus 7 value stocks; and 5 secular-growth Tech and Healthcare names to balance the 8 cyclical-growth stocks from Consumer, Industrial, Materials, Energy, and Financial sectors.

Update on the terminating Q1 and Q2 2020 *Baker's Dozen* portfolios:

The **<u>Q1 2020 *Baker's Dozen*</u>** portfolio terminated on 4/20/2021 after 15 months of life. It was selected based on Sabrient's *forward-looking* GARP selection approach that relies upon the consensus EPS growth estimates of the sell-side analyst community. Although the broad market indexes continued to hit new highs last summer during the post-selloff recovery, many of the attractively valued cyclical sectors and smaller caps languished due to the "K-shaped" nature of the recovery, with some market segments doing quite well and others falling into depression. But later, many of those lagging sectors (e.g., Travel & Leisure) came back strong based on recovery speculation ("reopening trade").

You can see in the **chart** that it showed only modest volatility relative to the benchmark. Upon launch on 1/17/20, the portfolio mostly favored the value factor and small/mid-caps due to their more attractive valuations. And even though narrow market leadership and an investor penchant for the more highly valued market segments created challenges at times, the portfolio was boosted by some top performers from the Technology and Consumer sectors, *due to the balance between secular and cyclical growth that our enhanced model allows for*. Of course, in a concentrated 13-stock portfolio, one or two breakout winners can help offset several laggards.



The portfolio launched with a slight *underweight* allocation (23% vs. 29% in the benchmark) to attractively valued "deep cyclical" sectors – Industrial (15.4% vs. 9.1%), Energy (7.7% vs. 4.3%), Materials (0.0% vs. 2.7%), and Financial (0.0% vs. 13.0%). Also, it had a significant allocation (23%) to Travel & Leisure companies that saw severe impact from the pandemic shutdown, although these names have come roaring back recently on reopening speculation. Unlike many prior portfolios, it was slight *overweight* (31% vs. 23%) the Information Technology sector, which was quite helpful as these names were among the best performers. Moreover, it had a 46% underweight allocation (6 positions) to large caps (vs. the S&P 500 benchmark being solely a large cap index). In addition, our GARP portfolios typically have a value tilt (primarily based on price/book), and indeed the portfolio carried a large 77% allocation (10 positions) to the value factor (vs. the benchmark's roughly 40%).

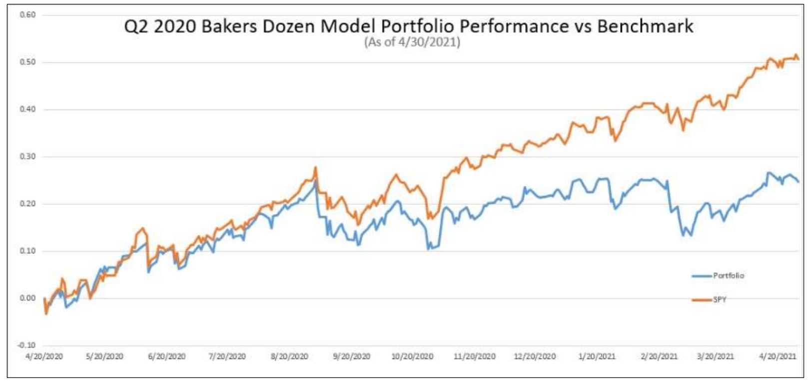
Despite myriad challenges from the pandemic Black Swan, several holdings have lived up to earnings expectations, with 7 of the 13 having beat or come close to EPS estimates, and it has shown significant outperformance since the 3/23/20 selloff low (through 4/20/21 end date) with a return of **+125% versus +88%** for the S&P 500. Over the full life of the portfolio (1/17/20-4/20/21), it managed to slightly outperform its benchmark despite confounding market conditions and an inability to rotate capital into "hot" market segments (due to the fixed nature of the portfolio).

The table below shows each holding in the Model Portfolio. The gross average return of the 13 equal-weight holdings (as of 4/20/21) is **+29.0% versus the S&P 500 cap-weight performance of +26.9%.** The top performer by far has been **SolarEdge Technologies (SEDG)**, a provider of solar power solutions. Other winners include software design and services firm **Autodesk (ADSK)**, software & cloud solutions provider **Adobe (ADBE)**, recreational vehicle maker **Winnebago (WGO)**, which has prospered from the pandemic-driven popularity of "vacations in isolation," resort & timeshare operator **Marriott Vacations Worldwide (VAC)**, which made a late comeback, and cable operator **Charter Communications (CHTR)**, and homebuilder **KB Home (KBH).**

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
SEDG	SolarEdge Technologies, Inc.	132.8%	20.7	41.4	4.3%	-12.8%
ADSK	Autodesk, Inc.	48.1%	48.5	56.6	69.6%	44.6%
ADBE	Adobe Inc.	47.0%	35.2	40.8	24.5%	30.0%
WGO	Winnebago Industries, Inc.	37.6%	12.8	11.5	29.3%	44.7%
VAC	Marriott Vacations Worldwide Corpo	35.0%	14.3	39.5	30.1%	-133.4%
CHTR	Charter Communications, Inc.	29.8%	38.8	31.2	54.3%	113.2%
KBH	KB Home	29.5%	9.8	8.2	27.2%	8.7%
CIEN	Ciena Corporation	28.3%	16.5	19.0	23.9%	28.4%
ANTM	Anthem, Inc.	27.2%	13.4	14.9	14.4%	15.5%
BMY	Bristol-Myers Squibb Company	3.0%	10.9	8.3	16.1%	22.1%
ALK	Alaska Air Group, Inc.	1.0%	9.5	NE	28.7%	-335.8%
VLO	Valero Energy Corporation	-18.6%	9.4	25.6	79.5%	-195.2%
HII	Huntington Ingalls Industries, Inc.	-23.1%	15.1	17.4	25.6%	22.2%
	Average	**29.0%**	**19.6**	**26.2**	**32.9%**	**-26.8%**
SPY	SPDR S&P 500 ETF Trust	26.9%				

The main laggards include military shipbuilder **Huntington Ingalls Industries (HII)**, oil & gas refiner **Valero Energy (VLO)**, regional airliner **Alaska Air Group (ALK)**, and drug maker **Bristol-Myers Squibb (BMY)**. However, it is notable that HII, VLO, and ALK all have recovered substantially over the past five months during the rotation to value.

The **<u>Q2 2020 *Baker's Dozen*</u>** portfolio, which will terminate on 7/20/2021, *was constructed during the depths of the pandemic when most companies had little or no forward visibility*. This negatively impacted the predictiveness of our relative-ranking model and relative performance versus the benchmark. In particular, small caps (which have surged greatly over the past year on economic recovery speculation) generally did not score well during this awkward time, and so the portfolio had none. And you can see in the **chart** that it negatively diverged from the benchmark when the risk-on rotation into value and smaller caps kicked into high gear in November 2020.



Upon launch on 4/20/20, the portfolio was about evenly split between value and growth and between large and mid caps (no small caps). And even though the best performers were large-cap secular-growth leaders from the Technology sector (plus pseudo-Tech juggernaut Amazon.com), they could not overcome several disappointing laggards, including a few secular-growth names from the Healthcare sector. Of course, in a concentrated 13-stock portfolio, one or two breakout winners can help offset several laggards, but the big 100%+ performance from NVIDIA wasn't quite enough.

Unlike most of our prior portfolios, it launched with a heavily *underweight* allocation (15% vs. 29% in the benchmark) to attractively valued "deep cyclical" sectors – Industrial (15.4% vs. 9.1%), Energy (0.0% vs. 4.3%), Materials (0.0% vs. 2.7%), and Financial (0.0% vs. 13.0%). Many from these sectors had poor visibility when the portfolio was selected, but later turned into winners based on the recovery speculation (not sound fundamentals). Also, it matched (23% vs. 23%) the benchmark weighting in the Information Technology sector. Moreover, it had a 54% *underweight* allocation (7 positions) to large caps (vs. the S&P 500 benchmark being solely a large cap index). And as for value vs. growth exposure, the portfolio launched with an *overweight* 54% allocation (7 positions) to the value factor (vs. the benchmark's roughly 40%), which is typical of a GARP portfolio.

Despite challenges from the pandemic, several holdings have lived up to earnings expectations, with 8 of the 13 having beat or come close to EPS estimates. Over the full life of the portfolio so far (1/17/20-4/30/21), performance is strongly positive but still well behind a benchmark that had the ability to rotate capital into "hot" market segments during evolving conditions.

The **table** below shows each holding in the Model Portfolio. You can see that the gross average return of the 13 equal-weight holdings (as of 4/30/21) is **+24.7% versus the S&P 500 cap-weight performance of +50.6%.** The top performer by far has been **NVIDIA Corp (NVDA)**, a provider of graphics processors for applications like gaming, networking, robotics, and crypto mining. Other winners include software design and services firm **Autodesk (ADSK)**, e-commerce dominator **Amazon.com (AMZN)**, and semiconductor maker **Advanced Micro Devices (AMD)**.

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
NVDA	NVIDIA Corporation	109.4%	38.4	43.6	31.4%	72.5%
ADSK	Autodesk, Inc.	64.1%	43.1	57.6	50.0%	44.6%
AMZN	Amazon.com, Inc.	44.9%	84.1	57.4	22.7%	151.1%
AMD	Advanced Micro Devices, Inc.	43.3%	51.5	37.0	71.7%	114.5%
CHTR	Charter Communications, Inc.	35.0%	37.2	31.3	76.0%	113.2%
CAG	Conagra Brands, Inc.	13.4%	13.9	15.1	28.2%	50.8%
HII	Huntington Ingalls Industries, Inc.	13.2%	9.9	16.8	28.8%	7.7%
RNR	RenaissanceRe Holdings Ltd.	10.9%	10.7	10.7	60.4%	-101.3%
CACI	CACI International Inc	6.8%	18.4	14.3	27.4%	49.8%
BMY	Bristol-Myers Squibb Company	4.4%	9.9	8.3	30.7%	22.1%
VST	Vistra Corp.	2.9%	7.6	8.6	108.2%	-220.2%
NBIX	Neurocrine Biosciences, Inc.	-7.0%	23.2	26.5	87.9%	67.0%
VRTX	Vertex Pharmaceuticals Incorporated	-20.1%	35.4	20.9	43.5%	59.1%
	Average	**24.7%**	**29.5**	**26.8**	**51.3%**	**33.1%**
SPY	SPDR S&P 500 ETF Trust	50.6%				

The main laggards include biotech firms **Vertex Pharmaceuticals (VRTX)** and **Neurocrine Biosciences (NBIX)**, both of which failed to achieve the traction expected of them despite solid earnings reports, as well as drug maker **Bristol-Myers Squibb (BMY)** and regional power utility **Vistra Energy (VST)**.

Final thoughts:

The economic tailwinds continue to strengthen, including a rapid emergence from the economic impacts of both the pandemic and the China trade war; a surge in corporate capex and manufacturing activity; unlimited global liquidity and massive pro-cyclical fiscal and monetary stimulus here at home; low (and controlled) interest rates; low tax rates; rising (but still modest) inflation; strong corporate earnings growth; and a strong consumer. And then, of course, we enjoy the innovation, disruption, and productivity gains of many amazing and rapidly advancing technologies, which include 5G, IoT, Big Data, AI/ML, Web 3.0, cloud computing, digitization, ecommerce, video conferencing, augmented/virtual reality (AR/VR), computer vision (CV), gaming, networks, sensors, 3-D printing, robotics, sustainability, horizontal drilling & fracking, clean fuels, green/renewable energy, nuclear fusion, electric/hydrogen transportation, autonomous vehicles, automated manufacturing, space exploration, cybersecurity, blockchain, cryptocurrency, DeFi, fintech, nanotech, biotech, telehealth, precision medicine, computational biology, genomics, genetic sequencing, biologics – and the rapid development of diagnostics, therapeutics, and vaccines that may render future pandemics obsolete. It's enough to make your head spin.

Thus, I continue to encourage investors to be *positioned for both the major secular growth trends and the cyclical growth opportunities over the next few years of* an expansionary economic phase. And with our enhanced selection process, we believe our portfolios – including the **Q2 2021 *Baker's Dozen* that launched on 4/20/21, Small Cap Growth that launched on 3/15/21, and Sabrient Dividend portfolio that launched on 3/19/21** – are positioned for any growth scenario.

I am particularly excited about these new portfolios because, whereas last year we were *hopeful* based on our testing that our enhanced portfolio selection process would provide better "all weather" performance, this year we have seen solid evidence (over quite a range of evolving and often confounding market conditions) that a better balance between secular and cyclical growth companies and across market caps indeed has provided significantly improved performance relative to the benchmark *without sacrificing the potential for strong outperformance.*

As a reminder, we post on our public website my commentaries and presentation slide deck on the Marketing Materials tab at **https://bakersdozen.sabrient.com** which also includes performance information on all current and historical *Baker's Dozen* portfolios. In addition, I go into greater detail on market conditions and outlook in my monthly **Sector Detector newsletter** and blog post, which you can find (and subscribe to for free) on the **Sabrient.com** homepage.

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