

PH&N U.S. Multi-Style All-Cap Equity Class



Commentary as at December 31, 2021

U.S. stocks performed best among the world's major equity markets in 2021, driven by historically low interest rates, pandemic-linked government income payments and a surge in corporate profits. Equities reached record levels in early September, lifting the index to more than double the lows of March 2020, when the spread of COVID-19 brought the economy to a standstill. Rising bond yields tied to inflation concerns and questions about the sustainability of economic growth tempered investors' enthusiasm toward the end of the year. The S&P 500 Index, the most widely watched U.S. equity benchmark, was led by economically sensitive sectors, such as Energy, Real Estate, Financials and Information Technology.

The Fund's Large Cap Core component underperformed its benchmark, the S&P 500, due primarily to adverse security selection in the Consumer Discretionary and Information Technology sectors. From a sector-allocation standpoint, an overweight position in Financials aided returns, partially offset by the negative impact of an underweight position in the Real Estate sector.

The Mid Cap Value strategy outperformed its benchmark, the Russell Mid Cap Value Index, due primarily to favourable stock selection in the Consumer Discretionary, Information Technology and Communication Services sectors. From a sector-allocation standpoint, an underweight position in Energy weighed on returns.

The Small Cap Core component outperformed its benchmark, the Russell 2000 Index. The sleeve benefited from both stock selection and sector allocation. Favourable stock picks in the Information Technology, Health Care and Energy sectors aided returns, partially offset by adverse selection in Industrials and Materials. From a sector-allocation standpoint, an underweight position in Health Care aided returns.

Momentum in the economic recovery appears to have peaked, as challenges mount and the stimulus that has been in place since the early days of the pandemic starts to fade. Nevertheless, the portfolio manager believes the economy will continue to grow at a sufficient pace to maintain strong corporate-profit growth, which is becoming increasingly critical for equity markets given elevated stock valuations. There are, however, a number of risks that could increase volatility over the next 12 months, including the direction of the Omicron variant, supply-chain bottlenecks, inflation and rising interest rates.

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