

# Equity Markets...Influence due to Covid-19

## Why active management should be a focus

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# Volatility over time – 15 years

## CBOE Volatility Index (VIX-CBO)

08/31/2005 to 08/31/2020 (Daily)

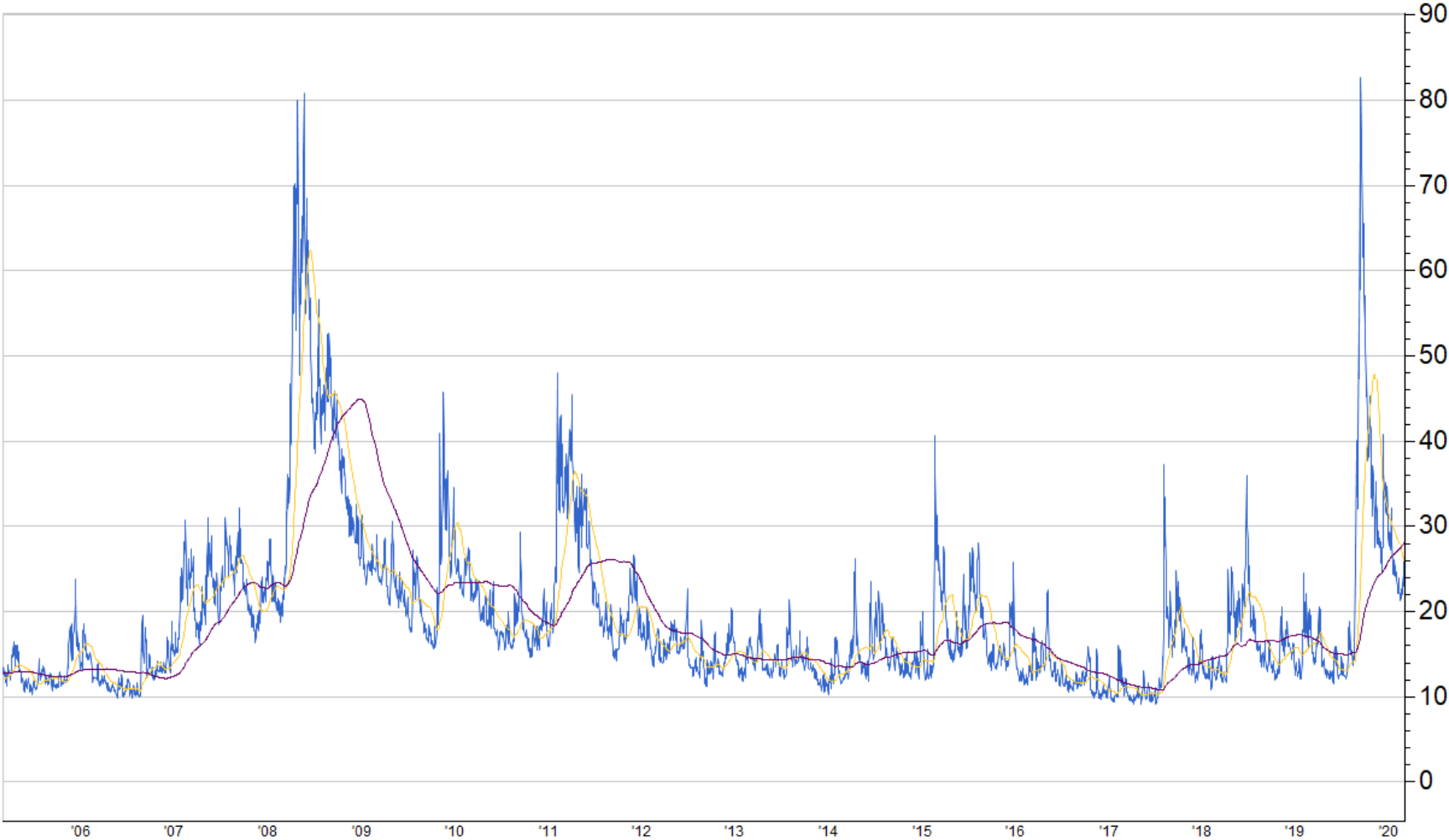
U.S. Dollar

High: 82.69

Low: 9.14

Last: 28.67

— 50 Day Moving Average — 200 Day Moving Average



Source: FactSet

# Volatility over time – 3 years

## CBOE Volatility Index (VIX-CBO)

08/31/2017 to 08/31/2020 (Daily)

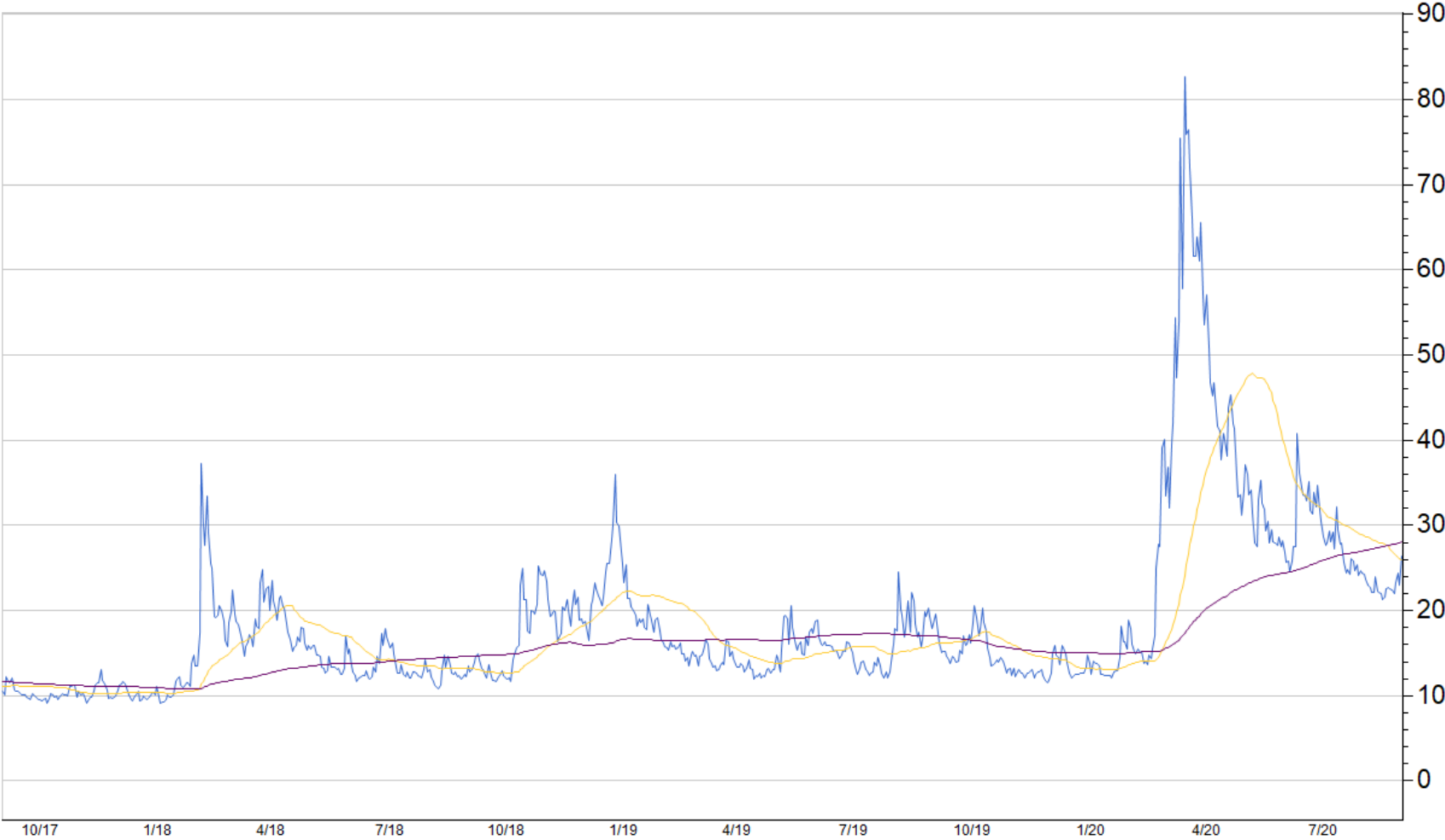
U.S. Dollar

High: 82.69

Low: 9.14

Last: 29.09

— 50 Day Moving Average — 200 Day Moving Average



Source: FactSet

# Asset correlations

- Rolling 52-week correlations of the constituents of the S&P 500 have spiked higher given the sell-off in Q1 indicating that stocks are moving in unison rather than based on company fundamentals
- The current correlation level is significantly higher than its long-term average and is even slightly higher than what we saw in 2008 and 2011.

S&P 500 Average 52-Week Asset Correlation

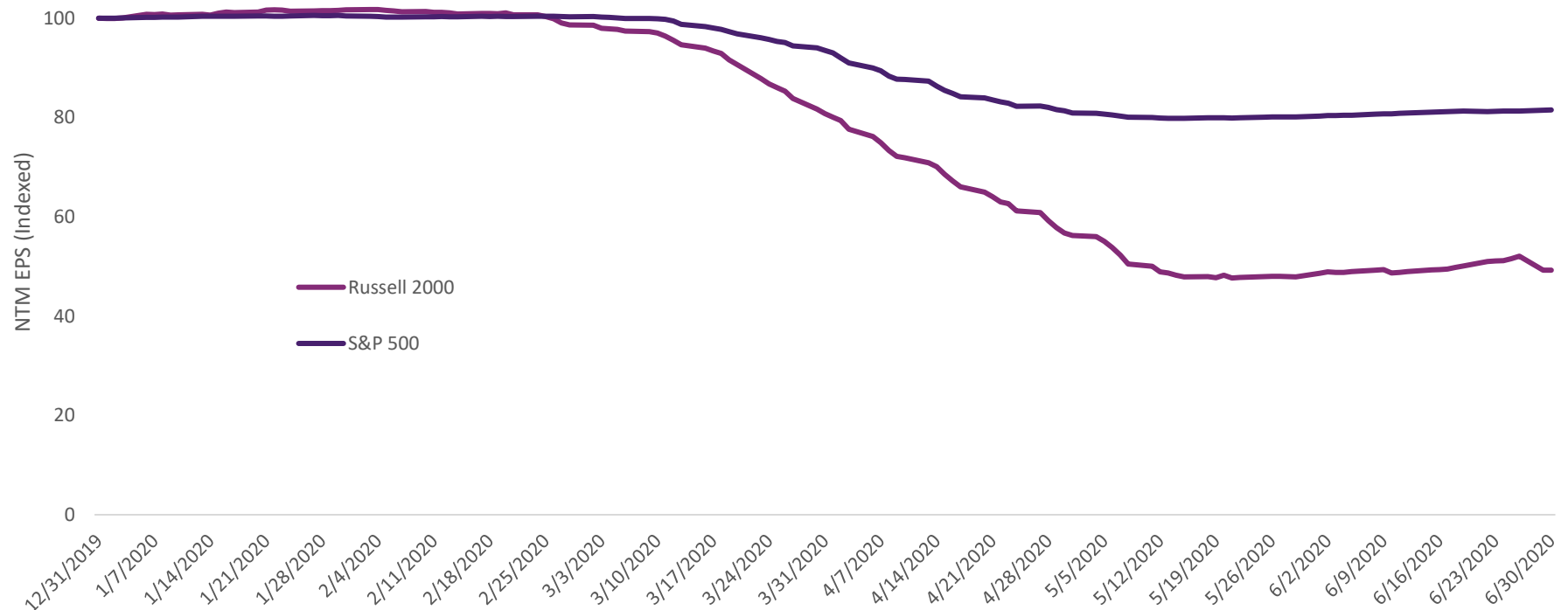


Source: FactSet and WFAM Investment Analytics as of 6/30/20.

# Success in active strategies – small cap

- Bias toward higher quality characteristics (lower leverage/earnings durability) provided a significant advantage for active small cap managers
- Russell 2000 leverage ratios elevated coming into market downturn (leverage was the second worst performing style factor, while profitability was the second best performer)

Forward EPS estimates lagging for Russell 2000 Index; active managers focused on earnings durability delivering alpha

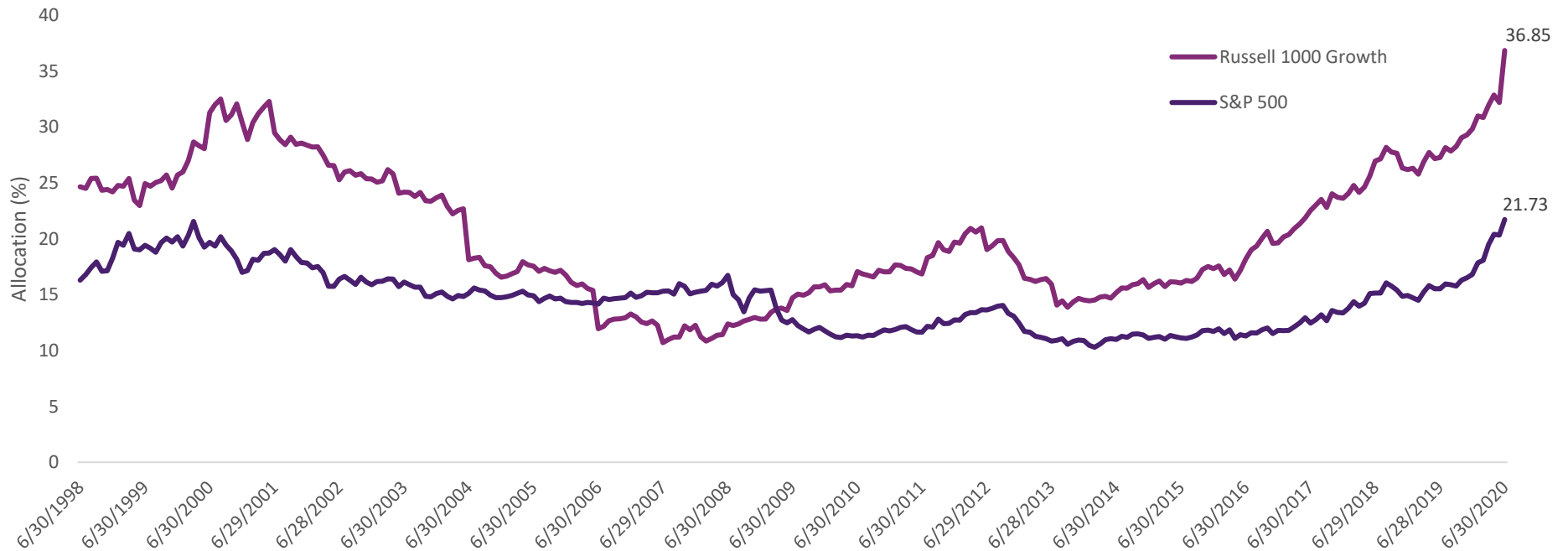


Source: FactSet and WFAM Investment Analytics as of 6/30/20.

# Opportunity for active managers – large cap

- The top 3 positions in both the S&P 500 and Russell 1000 Growth Index (Amazon, Apple, and Microsoft) have exceeded prior peaks in index concentration
- Recent concentration trends present risks to passive investors and opportunities for active managers

Large cap blend/growth indexes becoming increasingly concentrated (top 5 positions); opportunity for active managers



Source: FactSet and WFAM Investment Analytics as of 6/30/20.