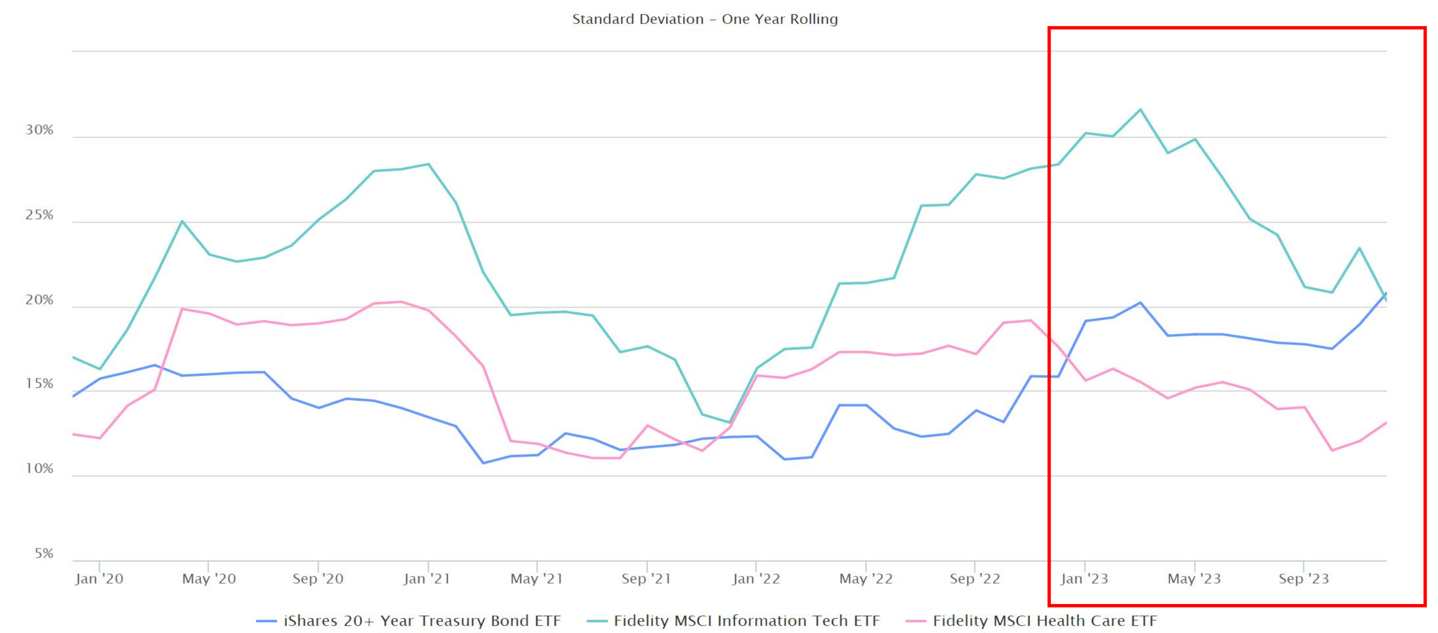
iSectors® Post-MPT Economic Factor Report
February 2024

iSectors® Current Research Updates

For the last few months, the theme of the iSectors® research updates has been stability: stability in the economic data used as inputs for the quantitative algorithm that drives the iSectors® Post-MPT Allocations and stability in the sector allocations of both the Growth and Moderate versions of the model. However, this month is the first time in a while that a notable change in allocation has occurred in at least one of the Post-MPT Allocations.

Unemployment remains low, inflation continues to decrease, and credit spreads are still tight. What has changed the most of all the factor data iSectors utilizes is the asset class returns of the potential investment options available to each model. More specifically, the volatility of returns has changed since the beginning of 2023. The chart below shows rolling 1-year standard deviations over the last five years of three prominent asset classes within the Post-MPT models: long-term treasury bonds (blue), healthcare (pink), and technology (teal). For most of the last five years, bonds were the least volatile of these asset classes, as one might expect. However, you can see in the red box below that by the end of 2023, the relationship between these three asset classes changed materially. Because of the shifting interest rate landscape, long-term treasury bonds have become more volatile than the high-growth technology sector.



ETF data from eVestment and Morningstar

iSectors® Post-MPT Allocations February 2024 Update

While standard deviation of returns is not iSectors' preferred measure of risk (see the [iSectors® Post-MPT Allocations White Paper] for more information), the chart above may provide a clue as to why the iSectors® Post-MPT Growth Allocation felt more comfortable increasing its exposure to bonds this month, while the iSectors® Post-MPT Moderate Allocation continued to hold healthcare as its 3rd highest weighted holding and keep the treasury bond allocation smaller.

The models now consider long-term treasury bonds a riskier asset than they have historically been classified. Post-MPT Growth tends to search for outperformance more so than Post-MPT Moderate, while Moderate is often more concerned about risk reduction and hedging. With interest rates possibly at their peak, long-term treasury bonds may provide more potential for outperformance than will provide risk reduction benefits, at least in the short term. Complete model allocation data below.

Post-MPT Growth Allocation History

	Feb 2024	Jan 2024	Dec 2023	Nov 2023	Oct 2023	Sep 2023
Materials	3.60	9.00	6.70	5.90	3.50	5.30
Bond	21.80	10.20	8.00	6.80	8.00	6.50
Energy	0.00	0.00	0.00	2.30	6.40	0.00
Financials	0.00	0.00	0.00	0.00	0.00	0.00
Gold Bullion	29.50	29.50	28.80	29.00	29.10	29.60
Healthcare	13.60	18.80	24.70	23.30	20.20	27.80
Real Estate	0.00	1.30	1.60	1.40	1.50	0.00
Technology	29.50	29.20	30.00	29.30	29.30	28.80
Utilities	0.00	0.00	0.00	0.00	0.00	0.00
Cash	2.00	2.00	2.00	2.00	2.00	2.00
Total	100.0	100.0	101.8	100.0	100.0	100.0

Post-MPT Moderate Allocation History

	Feb 2024	Jan 2024	Dec 2023	Nov 2023	Oct 2023	Sep 2023
Materials	0.70	1.00	1.00	0.00	0.00	0.00
Bond	2.70	1.30	0.00	0.00	0.00	11.70
Energy	0.00	0.00	1.10	2.50	7.80	0.00
Financials	1.50	1.00	0.00	0.00	0.00	0.00
Gold Bullion	29.40	29.20	28.70	29.10	29.30	29.00
Healthcare	24.00	25.10	26.30	26.70	28.00	28.20
Real Estate	0.00	0.00	0.00	0.00	0.00	0.00
Technology	29.40	29.30	29.40	29.50	29.50	25.70
Utilities	10.30	11.10	11.50	10.20	3.40	3.40
Cash	2.00	2.00	2.00	2.00	2.00	2.00
Total	100.0	100.0	100.0	100.0	100.0	100.0

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