Dynamic Portfolio Services

Q1 21 Quarterly Briefing

News and updates for advisors from the Portfolio Services team

Exotic waterfall and lake landscape of Plitvice Lakes National Park, UNESCO natural world heritage and famous travel destination of Croatia—featured in the new Dynamic ESG 60 model portfolio fact sheet.

Looking for Growth in a New Environment

Dynamic ESG Models Available. The models utilize index-based ETFs focused on the environmental component of ESG. They were developed using Dynamic's rules-based approach to model creation, including our capital market assumptions. These models will be introduced later this month during our resource call. They are currently listed in our model spreadsheet with reports to follow soon.

Quarterly Rebalance. The quarterly rebalance is underway and we are seeing a lot more trading activity. The first quarter rebalance tends to see more trades as taxable accounts are not traded in the fourth quarter. With markets near all-time highs, we are continuing to sell U.S. large cap equities and convertibles to purchase fixed income positions such as Anfield.

Capital Market Assumptions. Each year, the Dynamic Portfolio Services team compiles long-term capital market assumptions (LTCMAs) from 15 to 20 large institutions. Institutions use different methods (i.e., CAPM, CAPE, Ibbotson, Grinold, Kroner and Siegel), timeframes (5, 7, 10 and 15 years) and have different perspectives (U.S. vs. ex-U.S.). The compiled data is used to develop assumptions for select Dynamic Portfolios. We use a combination of historical- and forward-looking data as part of the ongoing portfolio management and review process.

2021 Observations of Interest: The expected returns on the traditional 60/40 portfolio continues to decline. This year's average is 4.2%, compared to last year at 5.4% and 2019 at 5.5%. With interest rates as low as they are, expected U.S. inflation was consistent across institutions at 2% and global inflation at 2.2%. U.S. intermediate treasury returns are expected to be 0.9% vs. U.S. High-yield at 4.3%, U.S. Investment Grade at 1.4% and the Bond Aggregate at 1.2%. All U.S. Equities are expected at 5.6%, U.S. Large Cap at 4.4%, S&P 500 at 5%, Eurozone at 6%, U.S. REIT 6.3%, Gold at 2.4% and Commodities at 3.2%.

Resources:

JP Morgan: *https://am.jpmorgan.com/us/en/asset-management/institutional/insights/portfolio-insights/ltcma/*

Blackrock: *https://www.blackrock.com/institutions/en-zz/insights/charts/capital-market-assumptions#assumptions*

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