New Frontier

Q2 2023 Performance Review

July 27, 2023

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Joy Zheng joined New Frontier in 2018 as a Research Analyst after graduating from Boston University with a M.S. in Mathematical Finance. She is a member of the Investment Committee and her responsibilities include supporting the Investment and Research teams. Her interests include computational finance, quantitative analysis and risk management.

Key Takeaways

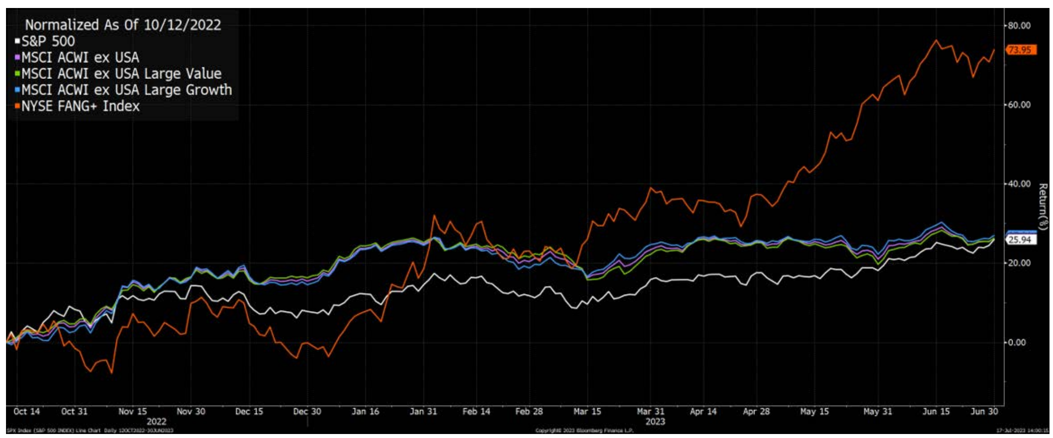
- The second quarter saw substantial global equity growth, marked by the US and international markets entering technical bull territory.
- Large-cap growth stocks excelled, driven by a handful of US mega-cap tech companies, which greatly benefited from the ongoing artificial intelligence boom.
- Markets priced out rate cuts by year-end, leading to an overall upward shift in the Treasury yield curve.
- New Frontier's ETF portfolios achieved positive returns across the board in Q2.

Market Performance

During the second quarter the US market entered a technical bull market, with the S&P 500 rising more than 20% from its October low, as shown in the white line on the chart. Within the quarter itself, the S&P 500 gained 8.7%. The rally was largely driven by a handful of US mega-cap tech companies, which greatly benefited from the ongoing artificial intelligence boom. Notably, the Fang+ index, represented by the orange line on the chart, consisting of ten equal-weighted tech companies, including Apple, NVIDIA, and Google, saw remarkable growth of 74% since October and 25% within this quarter alone.

Beyond the headlines, the bull market extended beyond the US. The ACWI ex-US, ACWI ex-US large value, and ACWI ex-US large growth lines on the chart equally impressive gains of over 20% since October. Unlike the narrow leadership in the US rally, international markets experienced a broader-based rally, with both value and growth stocks participating.

A Global Rally: A Tale of Two Rallies

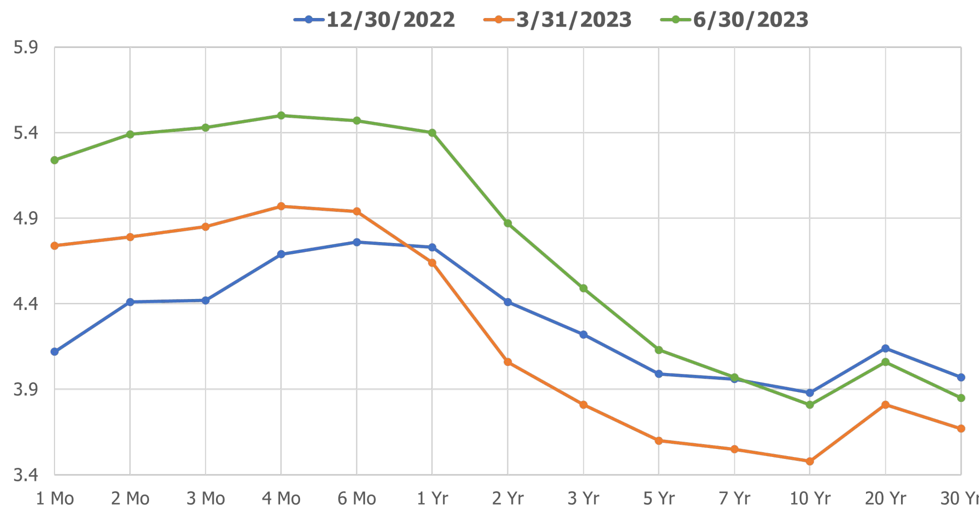


Source: Bloomberg

Beyond the stock market rally, U.S. labor market remained resilient, and the Fed signaled more rate hikes this year after maintaining steady rates in the June meeting. As a result, market expectations shifted from anticipating rate cuts by year-end to pricing in one to two more hikes later in the year.

Consequently, the whole U.S. Treasury yield curve shifted upwards, compared to Q1. The 2-year Treasury yield experienced the largest increase of 80 basis points, reaching almost 4.9%. However, relative to the yield curve from the end of last year (represented by the blue line on the chart below), only the very short end of the yield curve saw a significant rise reflecting the short-term interest rate increases. The long end of the curve remained relatively stable, suggesting no meaningful changes in long-term inflation expectation and economic growth prospects since last year.

U.S. Treasury Yield Curve Shifted Upwards



Source: U.S. Department of the Treasury

Asset Class Performance

Fixed Income:

Bonds had a relatively flat or negative quarter following a strong recovery earlier in the year. The US Agg bonds lost 0.94% but remained positive year-to-date. Long Treasury bonds, which were the best performing bonds in the first quarter, had the biggest decline of 2.4% this quarter, though still up 4.7% year-to-date.

Duration underperformed during this period, but credit helped offset losses. Notably, the top-performing assets included the ultra-short Treasury Floating Rate Bond ETF, up 1.3%, and short-term high yield ETF and Emerging Market bond ETF, both up 1.5%. We added a convertible bond ETF to our Multi-Asset Income portfolios late last year to diversify risk and counterbalance the natural bias towards dividend and value in the portfolios. With 40% of the ETF's underlying equities in the technology sector, convertible bonds have benefited from tech stock appreciation, resulting in a gain of 5.5% this quarter and 10.5% this year.

	Return(%)	
	Q2 2023	YTD 2023
U.S. Aggregate Bonds	-0.94	2.26
Treasury Floating Rate Bonds	1.36	2.45
Short Treasuries	-0.63	0.97
Intermediate Treasuries	-1.88	1.97
Long Treasuries	-2.47	4.73
U.S. TIPS	-1.48	2.05
Mortgage-Backed	-0.73	1.92
Inv-Grade Corporates	-0.37	4.26
Long Corporates	-0.47	5.52
Short High Yield	1.52	4.86
High Yield	0.98	5.26
Municipal Bonds	-0.29	2.25
Intl. Treasuries	-2.05	1.24
Emerging Markets Bonds	1.56	4.41
Convertible Bonds	5.46	10.55

Source: Bloomberg. All ETFs are total return in U.S. dollars. Past Performance is not a guarantee of future results. Data as of 30 June 2023.

Equities:

Global equities had a positive quarter, with a 6.3% gain, contributing to an impressive 14% growth year-to-date. Growth stocks outperformed value stocks, and large-cap stocks performed better than small-cap ones. High dividends underperformed the broader markets, and the US market outperformed international markets.

Notably, large-cap growth stocks delivered the best performance for both the quarter and the year, offering a remarkable return of around 30% year-to-date, offsetting the losses incurred in 2022. The sharp rotation between value and growth highlights the importance of diversified exposure in portfolios.

In contrast to US markets, International markets rose more broadly, though to a lesser degree. Europe posted a modest gain of 2.8% among Eurozone's recession and the European Central Bank's eighth consecutive interest rate hike in June to bring down sticky inflation. Asia-Pacific equities returned 2.9%, largely helped by Japanese shares, while Emerging Market equities, pulled back by China’s weaker-than-expected recovery, were up 2%.

Alternative exposures to Gold and international REITs detracted from the overall portfolio performance during the quarter.

	Return(%)	
	Q2 2023	YTD 2023
Global Equity	6.32	14.19
Global ex-U.S. Equity	2.59	9.96
U.S. Large Cap Value	4.08	5.05
U.S. Large Cap Growth	12.80	28.92
U.S. Small Cap Value	3.21	2.53
U.S. Small Cap Growth	7.14	13.52
U.S. Low Vol	2.58	3.97
U.S. High Dividends	-2.62	-4.52
U.S. Real Estate	1.75	3.44
Gold	-2.70	5.09
Europe	2.78	13.34
Asia-Pacific	2.91	8.47
EAFE Min Vol	1.74	8.24
Emerging Markets	2.02	6.59
Intl. Small Cap	2.04	8.43
ex-U.S. Real Estate	-1.56	-2.78

Source: Bloomberg. All ETFs are total return in U.S. dollars. Past Performance is not a guarantee of future results. Data as of 30 June 2023.

Portfolio Performance

All New Frontier's ETF portfolios delivered positive returns in Q2. The table below shows net-of-fees performance for Global Core, Tax-Sensitive and Multi-Asset Income ETF portfolios over multiple time periods.

For Global Core and Tax-Sensitive portfolios, the positive performance was largely driven by the equity exposure, particularly by large-cap growth stocks.

In our portfolio approach, we view value/growth not merely as factors seeking premiums, but as risk exposure that segments the US equity market into large value/growth and small value/growth categories. These segments exhibit different risk-return characteristics. For instance, large-cap value is less risky than large-cap growth, small-cap value, and small-cap growth, as indicated by long-term historical standard deviation. Consequently, when optimizing the portfolios along the efficient frontier, aggressive portfolios may have proportionately more growth.

While our global aggressive portfolios do not outweigh large-cap growth, they emphasize overall growth, combining both large and small. On the other hand, conservative portfolios can allocate more to large value stocks. The balanced 60/40 portfolios maintain a more even exposure to value and growth. This strategic approach allows portfolios to perform in line with their target risk, preserve investment value across various market environments, and mitigate fluctuations during reversals.

Despite dividend-focused equities lagging in the broad equity markets and turning negative, our Multi-Asset Income portfolios still performed positively. Our portfolios benefited from diversified exposure to a wide range of high-dividend funds across various markets. Currently, the yields provided by our portfolios are approximately 5%.

Global Core	Stock/Bond	QTD	YTD	1Y	3Y	5Y	10Y	Inception Date
Global Income	20/80	0.78	3.76	2.94	0.12	2.23	2.79	10/31/2004
Global Balanced Income	40/60	1.77	5.68	5.38	1.97	3.70	4.63	10/31/2004
Global Balanced	60/40	2.83	7.47	7.91	4.37	4.91	6.06	10/31/2004
Global Balanced Growth	75/25	3.64	8.76	9.84	6.43	5.70	6.92	10/31/2004
Global Growth	90/10	4.48	10.10	11.77	8.57	6.35	7.69	10/31/2004
Global Equity	100/0	4.92	10.99	12.53	9.41	6.57	7.98	10/31/2004
Global Tax-Sensitive	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Global Income (TS)	20/80	0.29	2.82	2.65	0.16	2.09	2.95	10/31/2004
Global Balanced Income (TS)	40/60	1.51	4.94	5.27	2.54	3.54	4.77	10/31/2004
Global Balanced (TS)	60/40	2.77	7.08	7.91	4.95	4.76	6.15	10/31/2004
Global Balanced Growth (TS)	75/25	3.74	8.71	10.00	6.84	5.62	7.00	10/31/2004
Global Growth (TS)	90/10	4.69	10.34	12.16	8.71	6.38	7.79	10/31/2004
Global Equity (TS)	100/0	5.15	11.43	13.29	9.59	6.72	8.10	10/31/2004
Multi-Asset Income	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Multi Asset Income Conservative	40/60	0.39	2.47	2.69	3.02	3.02	4.37	6/30/2012
Multi Asset Income Balanced	60/40	0.46	2.48	3.53	5.59	3.69	5.17	6/30/2012
Multi Asset Income Growth	75/25	0.46	2.19	3.89	7.49	4.05	5.56	6/30/2012

Conclusion

Forward-looking expected returns for both stocks and bonds are positive for investors. In fixed income positive real yields at all maturities, particularly very short duration, are good for investors. The higher current yields both imply higher forward looking returns, as well as an income cushion for price volatility. For stocks, AI enthusiasm poses a potential risk for a handful of highly valued stocks, but also a potential for further growth, as its productivity enhancements spread throughout the global economy. However, uncertainty around inflation, recession, and the Federal Reserve policy means that volatility is likely to persist. While risks are unavoidable and frequently unforecastable, using a disciplined investment process to maintain optimally risk-controlled diversified portfolios provides a more reliable way for investors to navigate the market.

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Disclosures

The performance of New Frontier indices is calculated by S&P Dow Jones Indices. Since these are not investable securities, the performance does not include trading costs or advisor fees.
The benchmark for the global indices blends the MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).

The benchmark for the U.S. indices is comprised of stock/bond ratio blend of S&P 500 NR USD (stocks) and FTSE Treasury Bill 3 Month USD (bonds). Index calculation is based on New Frontier's full transaction history beginning October 29, 2004 for the global indices and June 6, 2019 for the U.S. indices. †Yield information is provided by Morningstar for individual underlying assets. New Frontier Advisors, LLC ("New Frontier") is retained as a portfolio strategist ("Strategist") to provide model portfolios. Model portfolios are provided either (1) to registered investment advisors or broker-dealers ("Financial Advisors") through third-party asset management platforms ("Sponsors"), or (2) to individual clients where New Frontier acts as subadvisor to the client's Financial Advisor and accesses the client's account through a qualified custodian ("Custodian") to execute the model portfolio's transactions. New Frontier does not provide investment advisory services tailored to the individual needs and objectives of any investor. New Frontier acts solely as subadvisor, strategist, model provider, and/or model manager, and its relationship with any investor is limited to a subadvisory role working with the investor's Financial Advisor. Investors should consult with their Financial Advisor if they have any questions concerning the information provided here.

The performance shown here is the performance of New Frontier's model portfolios on Sponsors. Returns from inception of the taxed profiles on October 29, 2004 until July 1, 2009 (except for 20/80 which switched on October 1, 2010 and 40/60 which switched on January 1, 2010) and the inception of the MAI profiles on July 1, 2012 until October 1, 2012 for the 40/60 and 60/40 profiles or April 1, 2013 for the 75/25 profile do not reflect the actual investment results of any individual investor, as investor-level data is not available for those periods. Therefore, these returns represent the performance of a hypothetical investor's account whose assets were managed in line with the model portfolios during that period, assuming the model portfolio's signals were promptly implemented. Actual investors' performance results for those periods would have varied based upon the timing of contributions and withdrawals from individual accounts. Since the switching date when investor-level account data became available, performance results are a weighted average of actual investor returns in accounts following each model portfolio offered by New Frontier. Returns in excess of one year are annualized. New Frontier acquires gross of fees monthly composite performance data of the accounts invested in each model portfolio at each Sponsor and weights the returns according to each Sponsor's assets under management for that model. Some Sponsors provide insufficient performance information for New Frontier to include them in the weighted average. On the account level, each Sponsor sets the criteria for account exclusion and rules for return calculation. We consider our partner Sponsors to be reliable sources of information, but we are unable to warrant that the data will be complete or error-free as we do not have direct access to individual account data at any of our Sponsors. We also track our model portfolios using publicly available ETF prices as an outside check on Sponsor data.

The performance shown is net of underlying ETF fees and trading fees, and we deduct estimated Strategist and Sponsor fees from the historical data provided by our Sponsors at the highest fee rate reflected by an account in the composite for that Sponsor. Fees are subtracted on a quarterly basis, so performance for a period of less than one quarter may not show the full impact of fees. This includes reinvestment of income and deductions for transaction costs. It does not include advisory fees that may be charged by individual Financial Advisors, which may range as high as 2% per year, or custody fees. On one small platform, the custody fees are deducted since they are not separated from the Sponsor fee. Thus the reported performance does not reflect the compounding effect of any such fees.

The performance displayed here does not guarantee future results. As market conditions fluctuate, the investment return and principal value of any investment will change. Diversification may not protect against market risk. There are risks involved with investing, including possible loss of principal. Volatility represents the expected risk of the portfolio relative to major asset classes. Before investing in any investment portfolio, the investor and Financial Advisor should carefully consider the investor's investment objectives, time horizon, risk tolerance, and fees. The Financial Advisor assumes full responsibility for determining the suitability and fitness of each portfolio for their clients.

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