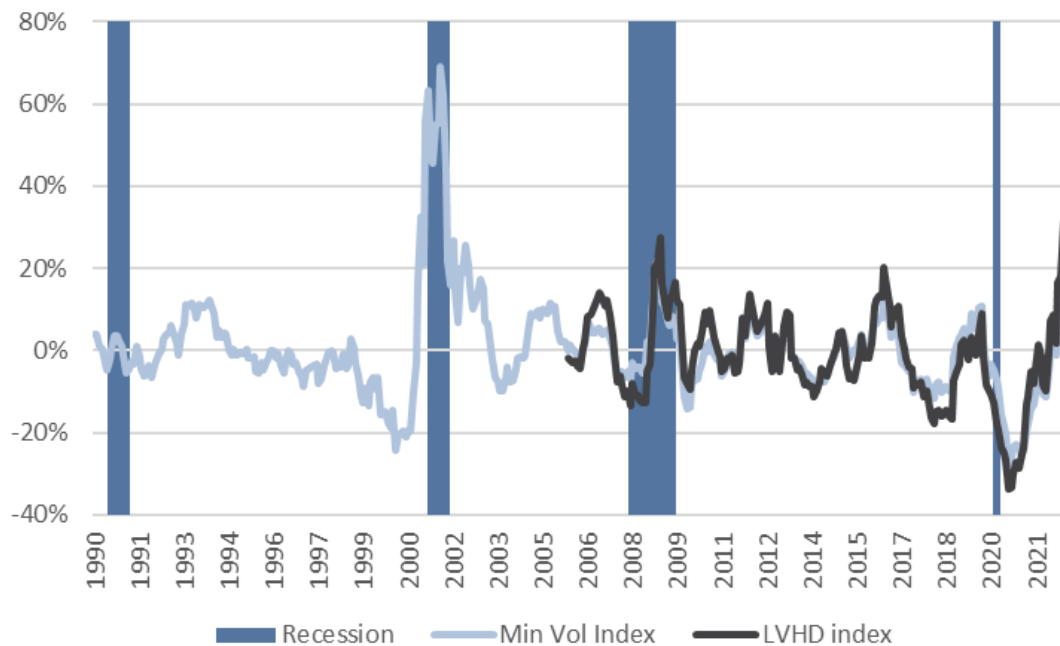


## MARKET COMMENTARY

**Fig. 1: Low volatility stocks tend to outperform leading into and during recessions**  
**One-Year Rolling Return Versus the Russell 1000 Index**



Sources: Bloomberg, Mill Creek. The “Min Vol Index” is the MSCI USA Minimum Volatility Index. The “LVHD Index” is the QS Low Volatility High Dividend Index.

Certain segments of the equity market tend to outperform, on a relative basis, during specific parts of the market cycle. The historical performance follows intuition – economically leveraged segments like small cap and value stocks tend to outperform during periods of growth and recovery, whereas segments less leveraged to the economy, like low volatility and quality, tend to do well during periods of slowdown and recession.

These relationships are not carved into stone and evolve with every market cycle. Valuations can also drive performance during and after periods of relative euphoria (e.g., growth stocks post-COVID). Our ability to incorporate these relationships in tactical positioning is also predicated on correctly forecasting economic conditions.

Notwithstanding these hurdles, last week our Investment Committee approved a reduction in our model allocation to US large cap growth equities and an increase in our allocation to low volatility and high dividend equities. Many investors deviate from our equity models due to tax or other considerations, but we believe such a shift is warranted for investors that can incorporate it into their portfolios.

Lower volatility stocks have historically outperformed their growth counterparts during periods of recession. As the potential for a 2023 recession increases, we believe this tactical allocation shift could further help investors weather this period of heightened volatility.

We've held a position focusing on low volatility / high dividend equities since 2019 in our model ETF portfolio. That position lagged during 2020 and 2021 but has recouped that underperformance – and then some – in 2022. Overall, we remain overweight value equities relative to growth equities but expect the larger low volatility / high dividend position to benefit – on a relative basis – in a recessionary environment.

## QUICK LINKS

- [The Faintest Glow at the End of the Tunnel](#)
- [Q4 2022 Outlook](#)
- [A Lehman Moment in Europe?](#)

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