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## TorraysResolute Equity Income

### Market Overview

Equity markets demonstrated extraordinary resilience in 2020 with the S&P 500 gaining 18.4% for the year despite a devastating global health care crisis, one of the sharpest economic downturns on record and a U.S. presidential election that leaves the country divided. Two words help explain the market’s response to these events: innovation and liquidity. The medical community’s development of effective vaccines for Covid-19 in less than one year is nothing short of miraculous. This innovation, accompanied by enormous fiscal and monetary stimulus provided the foundation for markets to stabilize and recover. While the shape and durability of the recovery remain unclear, markets and investors remain optimistic.

The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines.

### Portfolio Commentary

For the fourth quarter of 2020 the Equity Income composite gained 13.22% (13.06% net of fees) which trailed the Russell 1000 Value Index gain of 16.25% but outperformed the S&P 500 which added 12.15%. For the full year 2020 the Equity Income composite outperformed the Russell 1000 Value gaining 3.47% (2.90% net of fees) vs. the Index which added 2.80%. The composite underperformed the S&P 500 which was up 18.40% for the year. There were no purchases and sales during the quarter.

Dividend changes during the quarter were as follows:

Company	Ticker	Dividend Δ
Amgen	AMGN	Increased
CoreSite	COR	Increased
Blackstone	BX	Increased
AbbVie	ABBV	Increased
Enbridge	ENB	Increased
Merck	MRK	Increased
Crown Castle	CCI	Increased

The Chairman of the Federal Reserve noted recently that the fed won't raise rates until there is “troubling inflation” and imbalances, nor will it tighten policy to ward off theoretical inflation threats. Stating such an aggressive policy stance supports curve steepening and global growth. We believe the potential for much higher 10yr yields is increasing, particularly if there is a consumer boom in 2H21. The pace of equity market returns will likely slow as 10yr yields increase, but we view an outright decline as unlikely as the new economic cycle is still young and earnings expectations are improving. This portfolio will continue to emphasize businesses we believe have both the capacity and management commitment to increasing the annual payout to shareholders.

## Outlook

It is natural to begin a new year with a sense of optimism. Considering the events of the past twelve months, this year is certainly no exception. It's clear markets are forward-looking. While the economy, employment and corporate profits remain below pre-pandemic levels, we believe real progress is being made. GDP grew 2.3% in 2019, plummeted 31.4% in the second quarter of 2020, snapped back 33.4% in the third quarter, and is expected to decline 3-4% for the full year. Current consensus for 2021 is an increase of 4.2%, modestly above the long-term range of 2-3%. Unemployment began the year at 3.5%, spiked to 14.7% in April, and partially recovered to 6.7% by December. Current consensus for 2021 is 5.9%, at the high end of the long-term range of 4-6%, but remaining on a positive track. S&P 500 earnings per share were a record \$160 in 2019, are expected to decline 15% to \$136 in 2020, but regain new highs of \$167 in 2021.

With respect to portfolio positioning, we continue to maintain what we consider to be a balance between pandemic and recovery plays. In the short term, we expect overwhelming fiscal and monetary stimulus will continue to support the recovery. The most immediate challenge to a sustainable recovery remains the timely distribution of vaccines. In the intermediate and long term, our focus is on the uncertainty associated with the policies of the incoming administration and effects of stimulus on interest rates and inflation.

As ever, we appreciate your interest and trust.



Jeffrey Lent

January 20, 2021

### Q4 2020 Top Contributors & Detractors

Security	Sector	% Avg. Weight	% Contribution
SLM Corp Pfd B	Financials	4.1	+2.1
JPMorgan Chase	Financials	4.4	+1.4
Qualcomm	Info Tech	4.5	+1.4
Phillips 66	Energy	3.7	+1.2
LyondellBasell Industries	Materials	4.3	+1.2
Amgen	Health Care	3.6	-0.4
Gilead Sciences	Health Care	3.5	-0.3
Lockheed Martin	Industrials	3.4	-0.3
Home Depot	Cons Disc	4.5	-0.2
Crown Castle	Comm Srvcs	3.8	-0.1

### Q4 2020 Top 10 Holdings

Security	% of Holdings
JPMorgan Chase	4.8
Broadcom Pfd A	4.7
SLM Corp Pfd B	4.7
LyondellBasell Industries	4.6
Prudential Financial	4.4
Blackstone Group Cl A	4.3
AbbVie	4.2
Comcast Cl A	4.2
Home Depot	4.1
Amgen	4.0
<b>Percentage of total portfolio</b>	<b>43.9</b>

Holdings are subject to change and are not recommendations to buy or sell a security. To obtain information about the calculation methodology used to select the largest contributors to and detractors from performance or to obtain a list showing every holding's contribution to performance during the measurement period, contact [bscalise@torray.com](mailto:bscalise@torray.com).

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The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500 measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.

Dividend changes represent past activity and there is no guarantee dividends will continue to be paid. Total returns include the reinvestment of dividends and other earnings.

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Source: FactSet and Torray LLC.