Quarterly Commentary

EAGLE Asset Management

Large Cap Core

Third Quarter | 2024

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Market Overview[1]

Global equities continued to deliver solid returns for the fourth quarter in a row, with the MSCI ACWI Index rising 6.61% in the third quarter, resulting in a total return of 18.66% on the year so far. However, similar to the proverbial duck swimming quietly on a lake, there was a tremendous amount of activity going on beneath the surface during the quarter.

In the United States, a dovish Consumer Price Index in early July (the first monthly decline in almost two years), along with weak jobs data in early August, marked a salient turning point for the market. This led to the beginning of the U.S. Federal Reserve's easing cycle in mid-September, which was front-loaded with a 50-basis point (bp) cut.

Heading into the Federal Open Market Committee meeting, investors worried that a 50-bp cut would imply that the Fed was unusually concerned about the economy. However, the Fed diplomatically defended the 50-bp cut as a risk-management precaution that it could afford to take given the progress it had already made on fighting inflation.

Furthermore, some skepticism began to emerge regarding the staying power of the generative artificial intelligence (AI) theme, given the challenges of realizing a favorable nearer-term return on capital on the huge level of investment in this area. This led to some profit taking in AI-related stocks.

These turning points resulted in a considerable shift in market leadership in the United States, and more specifically a broadening out of returns from the Magnificent Seven to many other large-cap constituents in the S&P 500 Index. For instance, the Magnificent Seven returned 1.69% in the third quarter, while the "S&P 493," the S&P 500 excluding the Magnificent Seven, posted an 8.02% gain.

Moreover, this broadening also favored stocks further down the market cap range, as manifested by the relative outperformance of the Russell 2000® Index, which rose by 9.27%, besting the Russell 1000® Index's return of 6.08% and the S&P 500's return of 5.89%. This can be thought of in part as a natural consequence of the falling-rate environment helping small-cap stocks, which are generally regarded as being more interest rate-sensitive as a group than large caps.

The change in market leadership also led to the Russell 1000® Value Index outperforming the Russell 1000® Growth Index, yielding returns of 9.43% and 3.19%, respectively. This was driven in part by the sector rotation which occurred, with the interest rate-sensitive utilities and real estate sectors leading the pack in the Russell 1000. Similarly, the Russell 2000® Value index returned 10.15%, whereas the Russell 2000® Growth index returned 8.41%. Utilities were further buoyed by optimism that the growth expected in AI could lead to increased electricity consumption in the future.

The Eagle Large Cap Core strategy does not invest in securities traded in markets outside the United States, but given the interconnectedness of global

10 Largest Holdings

Microsoft
NVIDIA
Apple
Meta Platforms
Amazon.com
Bank of America
GE Aerospace
Alphabet Class A
Alphabet Class C
Broadcom

As of Sept. 30, 2024. The information provided herein should not be construed as a recommendation to buy, sell, or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the composite. They are provided for informational purposes only. Eagle, its affiliates, or their respective employees may have a position in the securities listed.

markets, we monitor macroeconomic and market developments abroad for potential impacts to the U.S. large-cap companies that are our focus. During the quarter, the Bank of Japan (BOJ) began fighting goods inflation (particularly the goods inflation caused by a weak yen, which makes imports more expensive) in earnest, intervening in the currency market several times, and raising rates a second time at the end of July, and even providing some hawkish language along the way. However, the BOJ's actions, when coinciding with growth fears from the weaker U.S. labor market and AI skepticism, proved to be a toxic mix, leading to a spike in the yen and a carry trade unwind. The consequence was a crash in the Nikkei 225 Index of more than 12%, the largest drawdown in a day since 1987. Fortunately, the market quickly recovered in the following days as the BOJ communicated that it would not pursue raising rates until the market was more stable.

Getting back to the broadening theme, the MSCI EAFE® (Net) Index outperformed the S&P 500 for the first time since the first quarter of 2023, delivering a return of 7.26%. This, however, was mostly driven by a weaker dollar versus other major currencies, which can be partially attributed to the beginning of the rate-cutting cycle in the U.S. As an extreme example, the MSCI Japan Index returned -5.99% for the quarter in local terms but rose 5.72% in U.S. dollar terms based on the strength of the yen versus the dollar.

In Europe, cooling inflation and a sluggish economic recovery (particularly in Germany, which relies in part on demand from China) led to the European Central Bank cutting rates a second time in this cycle by 25 bps to 3.5%, and to the Bank of England starting its own easing cycle, cutting rates 25 bps to 5%. European equity returns were muted, with the MSCI United Kingdom and the MSCI Europe ex UK indices returning 1.73% and 1.97% in local terms, respectively.

Canadian securities were a bright spot for the global equity markets, with the S&P/TSX Composite Index returning 10.54% in local terms, led by the real estate sector. The Bank of Canada cut rates by 25 bps twice over the quarter, ending at a policy rate of 4.25%, citing weaker growth and inflation closer to target.

Lastly, Chinese equities had a lousy quarter until they didn't. A veritable bazooka of coordinated stimulus measures was announced by the government over the last week of the quarter and led to the largest weekly rally in 15 years. This package included a rate cut, a lowering of banks' reserve requirements, and a program to help existing mortgage holders reduce their payments. Moreover, Chinese officials introduced a program to help companies buy back their own shares to support the stock market. They even introduced a direct monthly handout for families with children, a type of fiscal stimulus they had avoided previously. The signaling that the government was willing to take such a step was arguably more important than the potential effect of the measure itself.

Portfolio Review[1,2]

During the third quarter of 2024, the Eagle Large Cap Core portfolio underperformed its S&P 500 Index benchmark on a gross and net basis. Sector allocation detracted

Large Cap Core

Performance[2] as of Sept. 30, 2024

		Third Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan. 1, 1976)
Eagle Large Cap Core	Gross	4.62%	27.79%	41.99%	14.25%	17.60%	13.66%	13.78%
Eagle Large Cap Core	Net	3.85%	25.02%	37.95%	10.93%	14.18%	10.34%	10.49%
S&P 500® Index		5.89%	22.08%	36.35%	11.91%	15.98%	13.38%	11.93%

Source: Eagle Research. The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial professional or visit eagleasset.com.

Past performance is not a guarantee of future results. The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). The net returns reflect the application of the highest wrap fee of 3% annum.

Performance Disclosures [2]

The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). Performance figures include all internal, retail Large Cap Core accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. Eagle Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Eagle Asset Management, Inc. has received a firm-wide verification for the periods January 1, 1982 through December 31, 2023. Performance data for the current year may be revised, and Eagle will publish any revised performance data. The compound impact on performance of the deduction of fees is determined by the account size, the amount of the fee, the time period and the gross investment performance. This compounding effect is generally reflected in the Annualized Performance chart. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated in the charts.

Securities shown should not be considered recommendations or solicitations and may not have been, or in the future be, profitable. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results.

the most while stock selection was also negative. An overweight to financials and an underweight to energy contributed to performance while an underweight to real estate and an overweight to communication services detracted. Stock selection was weakest within information technology and financials, but strong within industrials and consumer discretionary.

At the start of the quarter, as compared to the S&P 500 Index, the Large Cap Core portfolio was most overweight the financials and communication services sectors and most underweight consumer staples and real estate. By the end of the quarter, the portfolio remained most overweight financials and communication services and was most underweight consumer staples and energy. Within the universe of the S&P 500, utilities and real estate performed the best while energy lagged.

Top-performing securities

Apple designs, manufactures, and markets mobile communication devices, personal computers, and media devices. Earnings beat expectations and analysts believe the introduction of AI technology to the Apple ecosystem will bring monetization opportunities to both the company's services as well as to its iPhone and other hardware.

Meta Platforms, the social media company, beat revenue estimates as the company gained traction in integrating its own AI models across platforms to grow its core businesses through improving ad recommendations, driving engagement, and in turn boosting revenue.

General Electric provides commercial and military aircraft engines and systems. The company reported significant revenue growth across industrial segments, driven by strong demand in aviation and renewable energy.

Toll Brothers designs, builds, markets, and arranges financing for detached and attached homes in residential communities. Quarterly earnings beat estimates driven by strong margins from greater operational efficiencies, and the homebuilder's stock jumped as economic data bolstered speculation that the Federal Reserve would cut interest rates.

UnitedHealth Group provides healthcare insurance to individuals and employers and through Medicare. The company reported robust earnings growth driven by increased membership in its health plans, underscoring its resilience in the evolving healthcare landscape.

Bottom-performing securities

Alphabet, the parent company of Google, provides online advertising services worldwide. Despite quarterly results beating expectations on some key metrics, investors were disappointed with weakness in YouTube and higher capital expenditure spending in AI with no visibility on when benefits will start to materialize. The U.S. Justice Department's antitrust investigation on the company's search engine business created an overhang on the stock.

McKesson Corporation distributes pharmaceuticals, medical-surgical supplies, and health and beauty care products. The company announced the sale of its Rexall and Well.ca businesses and its profit forecast fell short of expectations.

Microsoft develops and markets software and hardware services. The company reported better than expected earnings, but cloud revenue growth missed expectations due to AI capacity constraints.

Cadence Design Systems designs and develops integrated circuits and electronic devices. Quarterly guidance missed analysts' expectations and sentiment was negatively affected by a larger information technology company's guidance cut, despite analysts being largely positive with most anticipating a hardware refresh cycle.

Qualcomm manufactures digital wireless communications equipment. The company reported an earnings beat but reiterated a disappointing outlook. Additionally, the company may face a revenue headwind as the U.S. government's ban on the sale and import of telecommunications equipment from a Chinese manufacturer will weigh on handset revenues.

Outlook[1]

Volatility is likely to be elevated during the fourth quarter in the United States due to the upcoming presidential election and the implications of its results; uncertainty around the path of interest rates; and the strength of the domestic economy. While the economy seems to be slowing only modestly thus far, signs of a deeper slowdown would likely lead to somewhat more pronounced volatility. The possibility of rapid escalation of conflicts in the Middle East also has the potential to roil markets.

China's 2009-style melt-up as a reaction to the coordinated stimulus measures was a reminder to investors not to anchor too strongly to the past and to do their best to imagine different potential versions of the future – like this one, where significant Chinese stimulus is unleashed, particularly if China is a part of their benchmark. Furthermore, it was also a reminder of the importance of both using quantitative tools and fundamental judgment for risk control, given the latent risk of such stimulus, as this type of risk is by nature chunky and difficult to model quantitatively.

Initially, some of the markets from other countries in the region suffered on a relative basis as investors presumably rotated out of those markets to fund their purchase of Chinese equities. But over the coming months, a recovery of the Chinese economy could generate more enthusiasm for stocks of companies from these other markets, particularly those with extensive revenue exposure to China. More generally, a recovering China could be very positive for growth globally, and quite supportive of equities going forward.

As always, we will seek to remain vigilant of the top-down risks as we seek to capture bottom-up underappreciated growth opportunities for our clients.

1. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principal.

This information is not intended to serve as investment, tax, legal, or accounting advice. It should not be considered a recommendation to engage in or refrain from taking a particular course of action and is not an endorsement, recommendation, or sponsorship of any securities, services, or other investment property. It has been prepared for informational purposes only, and you should consult your own investment, tax, legal, and/or accounting professionals before engaging in any transaction. Any discussion of tax matters contained herein is not intended or written to be used, and cannot be used, for the purpose of avoiding any penalties that may be imposed under federal tax laws. The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or any of its or their respective affiliates. Views expressed are as of the date indicated and may change based on market and other conditions. The accuracy of the content and its relevance to your particular circumstances is not guaranteed.

2. Source: Bloomberg.

The risks associated with Large Cap Core investing are based on the expectation of positive price performance due to continued earnings growth or anticipated changes in the market or within the company itself. However, if a company fails to meet that expectation or anticipated changes do not occur, its stock price may decline. Moreover, as with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. Investing in growth-oriented stocks involves potentially higher volatility and risk than investing in income-generating stocks. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

Definitions

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

A beat is when a company's reported earnings or other business results exceed the expectations of analysts and others who follow the company's stock.

A carry trade involves borrowing money in countries where interest rates are low and using the funds to make investments in countries with high interest rates. An unwinding in a carry trade refers to the rush that takes place when many investors leave trade all at once.

The Consumer Price Index (CPI) measures the change in prices paid by consumers for goods and services. The U.S. Bureau of Labor Statistics bases the index on prices of food, clothing, shelter, fuels, transportation, doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 75 urban areas across the country from about 6,000 households and 22,000 retailers.

Dovish and hawkish describe two different monetary policy preferences. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check.

The Federal Open Market Committee (FOMC) consists of 12 members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC reviews economic and financial conditions, sets monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

Front-loaded monetary policy describes a change in a central bank's interest rate policy that is less gradual and more focused on reversing a previous policy course with a change that is more than minimal in scope and effect.

Generative artificial intelligence (GenAI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Guidance refers statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses and why.

A hardware refresh cycle is the process of systematically upgrading an organization's computer hardware and software in order to keep up with its evolving needs.

Headwind is a term used to describe events or market forces that hinder the prospects for performance in an individual investment or group of investments.

Magnificent Seven refers to the seven largest stocks by market capitalization in the S&P 500 index, as of Dec. 29, 2023. They are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock. It is calculated by multiplying a company's current stock price by its total number of outstanding shares.

Melt up refers to a sudden and sustained rise in the price or investment performance of a security or larger group of securities. Melt ups can take place as investors rush not to miss out on a suddenly popular investment strategy.

Overhang occurs when investors wait for an expected event or set of circumstances to play out before they are willing to buy a stock.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

A policy rate is an interest rate set by a central bank or other monetary authority to influence the evolution of an economy's monetary variables such as consumer prices, exchange rates, or credit expansion.

Return on capital (ROC) reflects a company's profit as a percentage of the combined value of all ownership interests in the company plus the value of all of the company's debts.

Rotation describes the movement of investments in securities from one industry, sector, factor, or asset class to another as market participants react to or try to anticipate the next stage of the economic cycle.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.

Visibility reflects the degree to which a company's management or the analysts who follow it can reliably estimate future near- or long-term performance.

Indices

The S&P 500 Index, the strategy's benchmark index, measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The Russell 1000® Growth Index measures a growth-oriented subset of the Russell 1000® Index, which tracks approximately 1,000 of the large-sized capitalization companies in the United States equities market.

The Russell 1000® Value Index measures a value-oriented subset of the Russell 1000® Index, which tracks approximately 1,000 of the large-sized capitalization companies in the U.S. equities market. Russell 2000

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 93% of the total market capitalization of the Russell 3000® Index.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 7% of the total market capitalization of the Russell 3000® Index.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI ACWI® (All Country World Index) measures the performance of large and mid-cap stocks across 23 developed markets (DM) and 24 emerging markets (EM) countries. Developed market countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. Emerging market countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The MSCI EAFE® (Net) Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries* around the world, excluding the United States and Canada. With 732 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 198 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 77 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

The MSCI Europe ex U.K. Index captures large and mid-cap representation across 14 Developed Markets (DM) countries in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland. With 346 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the U.K.

The Nikkei 225 Index is a price-weighted equity index that consists of 225 stocks in the first section of the Tokyo Stock Exchange, excluding exchange-traded funds, real estate investment trusts, and preferred equity contribution securities.

The S&P/TSX Composite Index is a market-weighted index that reflects the broad market performance of the Canadian equity market. It includes more than 220 Canadian companies listed on the Toronto Stock Exchange.

Indices are unmanaged, and one cannot invest directly in an index.

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