Eagle Quarterly Commentary

EAGLE Asset Management

Large Cap Core

Fourth Quarter | 2022

Frank Feng, Ph.D.
Portfolio Co-Manager

David Pavan, CFA
Portfolio Co-Manager

Ed Wagner, CFA
Portfolio Co-Manager

Todd Wolter, CFA
Portfolio Co-Manager

Market Overview[1]

There's no shortage of negative takeaways from 2022 as many equity indices ended the year with the worst annual performance since the financial crisis in 2008, and at the same time bonds had their worst year on record.

Unfortunately, the changing of the calendar doesn't automatically reset the fundamental challenges that investors will continue to face well into 2023. At risk of oversimplifying: Inflation remains elevated while the economy appears to be slowing.

The U.S. Federal Reserve (Fed) has battled inflation by raising its benchmark interest rate to the highest level in 15 years. The Fed raised rates seven times in 2022, up to a targeted range between 4.25% and 4.50%. Along with the increases came an indication that officials expect to keep rates higher through 2023, with no reductions until 2024.

"Despite the slowdown in growth, the labor market remains extremely tight, with the unemployment rate near a 50-year low, job vacancies still very high, and wage growth elevated," Fed Chairman Jerome Powell said in December, noting that the United States had added an average of 272,000 jobs per month over the last three months. "Although job vacancies have moved below their highs and the pace of job gains has slowed from earlier in the year, the labor market continues to be out of balance."

Multiple compression was another theme during 2022. In the U.S. large-cap space, the Russell 1000® Index started the year trading at 24 times trailing earnings, while as of Dec. 31, 2022 that number sat at 18. The same pattern occurred in U.S. small caps as the Russell 2000® Index's trailing price to earnings (P/E) ratio fell from 16 to 11 during the year. Similarly, outside the United States, as measured by the MSCI EAFE® (Net) Index, P/E ratios declined from 17x to 12x. (The strategy does not invest in securities traded in markets outside the United States, but, given the interconnectedness of global markets, we monitor macroeconomic developments abroad for potential impacts to the U.S. large-cap companies that are our focus.)

Another significant driver of markets in 2022 was dispersion across sectors. For example, in the S&P 500 Index the energy sector was up more than 60% for the 12 months ending Dec. 31, 2022, while over the same period communication services was down 40%: a 100 percentage point spread! While not as extreme, dispersion across countries was also notable over the same 12 months. For example, as measured by the MSCI EAFE Index, in developed markets the U.K. was down 5%, while much of Europe was down 20%. Similarly, in emerging markets Brazil was up 14% while China was down 20%. While we don't like dispersion just for the sake of volatility, we believe sometimes large market moves can create opportunity.

Deteriorating U.S. and China relations highlighted unfolding global shifts. Chinese President Xi Jinping appears to have solidified power; however, a survey in December found that China's business confidence had fallen to its lowest since January 2013. A mishandling of the restrictive "zero-COVID" policy and then a lack of preparation for re-opening raised serious questions for leadership. China's stumbles coupled with global supply chain issues create questions around economic integration going forward. In our opinion, the unwinding of the long-term trends toward globalization could be a key driver of success and failure across multiple sectors and countries.

According to the Wall Street Journal, "Almost everyone on Wall Street and Washington got 2022 wrong." The Federal Reserve expected 2021's inflation surge to be transitory, but it wasn't. Core inflation climbed to a four-decade high, nearly triple the Fed's forecast. Analysts predicted markets would have a so-so year. The extent to

Eagle Quarterly Commentary

EAGLE Asset Management

Large Cap Core

Fourth Quarter | 2022

Top 10 Holdings

Microsoft
Apple
UnitedHealth Group
McKesson
Broadcom
Exxon Mobil
Alphabet Class C
Alphabet Class A
Bank of America
Merck

As of Dec. 31, 2022. The information provided above 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.

which so many were wrong-footed has left many with a sense of unease.

Portfolio Review[1,2]

During the fourth quarter of 2022, the Eagle Large Cap Core portfolio underperformed its S&P 500 Index benchmark on a gross and net basis. Stock selection detracted the most from performance while sector allocation was also negative. An underweight to consumer discretionary and an overweight to healthcare contributed to performance while an underweight to industrials and an overweight to information technology detracted. Stock selection was weakest within healthcare and communication services, but strong within information technology.

At the start of the quarter, as compared to its S&P 500 benchmark, the Large Cap Core portfolio was most overweight the information technology and healthcare sectors, and most underweight industrials and financials. By the end of the quarter, the portfolio remained most overweight information technology and healthcare and was most underweight industrials and utilities. Within the universe of the S&P 500, energy and industrials performed the best while consumer discretionary and communication services lagged.

Exxon Mobil announced its corporate plan for the next five years saying it expects large increases to earnings and cash flow potential by 2027. The company reported a strong third quarter with positive earnings and revenue surprises, maintained a consistent capital expenditure plan and increased capital returns through an extended buyback program.

Broadcom designs, develops, and supplies semiconductors and integrated circuits and offers products such as broadband carrier access, network processors, and wireless connectors. The company beat earnings estimates with strength across all semiconductor lines and provided a solid revenue outlook for the following quarter.

Merck, one of America's largest pharmaceutical companies, beat earnings estimates on better sales of key drugs Gardasil, Lagevrio, and Keytruda, and rose steadily over the quarter along with large-cap pharmaceutical peers as the company also beat revenue estimates for the third quarter and maintained a strong outlook.

McKesson distributes pharmaceuticals, medical-surgical supplies, and health and beauty care products. The company raised 2023 earnings guidance on continued strength in specialty pharmaceuticals.

AECOM provides professional technical services. The company delivered in-line but solid results, reiterated guidance for continued robust growth, and increased its quarterly dividend.

Tesla is an electric vehicle and clean energy company. Tesla's selloff pushed the stock to a 17-month low as investors worried about the company's governance issues stemming from Tesla CEO Elon Musk's takeover of a high-profile social media company. Sentiment deteriorated further on production delays from its Shanghai facility due to China's COVID policy uncertainties, and potential demand weakness from China as competition heat up.

Amazon, the world's largest online retailer, fell on the company's guidance of the weakest holiday sales growth in its history. Additionally, the company's cloud business AWS reported a further weakening of revenue growth.

Apple reported a quarterly revenue beat helped by its Mac computer and wearable device businesses despite foreign exchange headwinds. Investor sentiment deteriorated on news of

Large Cap Core

Fourth Quarter | 2022

	Top Securities	Average Weight (%)	Contribution to Return (%)	Bottom Securities	Average Weight (%)	Contribution to Return (%)
Large Cap Core	Exxon Mobil	2.49	0.59	Tesla	1.56	-1.22
	Broadcom	1.93	0.46	Amazon	1.96	-0.58
	Merck	1.72	0.45	Apple	7.52	-0.40
	McKesson	3.17	0.38	Alphabet*	4.94	-0.38
	AECOM	1.70	0.37	Meta Platforms	0.71	-0.24

As of Dec. 31, 2022. The information provided above should not be construed as a recommendation to buy, sell, or hold any particular security. The data are shown for informational purposes only and are 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 or any portfolio. They are provided for informational purposes only. Raymond James Investment Management, Eagle Asset Management, Inc., their affiliates, or their respective employees may have a position in the securities listed. Please contact your financial professional to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall composite's performance during the measurement period.

* Combines both Class A and C shares.

production disruptions from its facilities in China due to COVID lockdowns and labor issues.

Alphabet, the parent company of Google, provides online advertising services worldwide. Earnings and revenue missed expectations, hit by a digital ad spending slowdown with YouTube and Search experiencing unexpected weakness.

Meta Platforms, the social media company, sold off sharply on the company's disappointing revenue outlook and guidance for higher capital expenditure, lower cash flow, and elevated execution uncertainty.

Outlook[1]

The intersection of the inflation narrative and concerns over slowing economic growth will be a key focus for us, and most investors, in 2023. These market headwinds are well-documented, and it feels rare these days to engage in an investment discussion that doesn't focus on very real and worrisome risks. That said, 2023 could also surprise us on the upside, and we often remind ourselves that it is important to consider the various potential futures. This isn't intended to minimize any of the challenges, but given many predictions for a challenging first half of the year, there are certainly some right-tail risks that we would do well not to forget.

The main economic storyline of 2022 was inflation. Despite hopes that it was transitory, it has remained high and has been damaging. We believe that broad macroeconomic forces like inflation can dominate sentiment and make everything feel negative despite pockets of good news. For example, wages are up, many jobs are available, and consumers, for much of the year, kept up spending. And with some positive signals like crude oil continuing to trade lower, it contributes to the notion that we might be past the point of peak inflation and central bank hawkishness.

We started 2022 with many companies, industries, and even sectors apparently priced for perfection, but after the serious multiple compression over the past 12 months there are many parts of the market that appear much more reasonably priced relative to fundamentals. Some are certain to be "falling knives," and some are likely going nowhere until the Fed ultimately pauses the rate-hiking cycle, but we believe many have strong underlying businesses and have simply been thrown out with the bathwater. We are always on the lookout for companies whose strength is underappreciated by the market.

More than 15% of the constituents of the S&P 500 are trading with single-digit P/E multiples, with that percentage having crossed 20% during the selloffs in the spring and late summer. The U.S. market as a whole is now much more reasonably priced than a year ago, and European markets are now trading below 17-year averages. The key question is whether valuations are now reasonable enough, especially as the Fed tightens further. And with elevated levels of cash sitting on the sidelines, investors could start putting money back to work in some of cheaper parts of the market where fundamentals are possibly disconnected from valuations.

Eagle Quarterly Commentary

EAGLE | Asset Management

Large Cap Core

Fourth Quarter | 2022

Performance as of Dec. 31, 2022

		Fourth Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan 1, 1976)
Eagle Large Cap Core	Gross	5.86%	-19.41%	-19.41%	7.33%	8.02%	12.75%	13.10%
Eagle Large Cap Core	Net	5.11%	-21.94%	-21.94%	4.18%	4.86%	9.49%	9.84%
S&P 500® Index		7.56%	-18.11%	-18.11%	7.66%	9.42%	12.56%	11.37%

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.

Performance Disclosures

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. Past performance is not a guarantee of future results, and no inference should be drawn that managed accounts will achieve similar performance in the future. 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, 2021. Performance data for 2022 and the current year may be revised, and Eagle will publish any revised performance data. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated. Performance includes reinvestment of all income and gains, and is depicted on a time-weighted and size-weighted average. Investing in securities may result in a loss of capital.

Like all investors, we will be watching inflation, yields, and jobs as some of the key indicators that could signal a bottoming process in financial markets. Nonetheless, we would expect any sustainable market recovery to take time, as we unwind some of the dislocations from the pandemic. Monetary policy works with a lag; therefore, changes in interest rates don't immediately have a significant impact on the economy. This has been the fastest rate-hiking cycle in decades, and it may take some time to work its way through the economy. For long-term investors, this bottoming process may present an opportunity to diversify, rebalance, or put new capital to work at potentially better prices ahead of what we hope is a robust recovery.

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.

A multiple, sometimes referred as the price multiple or earnings multiple, is a measure of a company's value based on the ratio of its current share price to its earnings per share. This ratio is known as the price-to-earnings ratio, or P/E.

Multiple compression is an effect that takes place when a company's earnings rise, but its stock price does not move in response. This decreases the company's financial multiple, and this often reflects a change in investor expectations. In the case of a company that posts flat earnings, a multiple compression could see the stock price fall or, in the event that the company reports falling earnings, the stock price could fall faster than the earnings.

A trailing indicator, also known as a lagging indicator, is an observable or measurable factor that changes some time after the economic, financial, or business variable that it is correlated with changes.

The price/earnings or price to earnings ratio (P/E) measures a company's current share price relative to its per-share earnings.

Core inflation is measured by the Personal Consumption Expenditures (PCE) excluding Food and Energy, Price Index, also known as the core PCE price index, is a measure of the prices that U.S. consumers pay for goods and services, not including two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices. The core PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, measures inflation trends and is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

Tail risk describes a form of portfolio risk associated with the increased possibility that an investment will move more than three standard deviations from the mean in a normal distribution. Left tail risks refer to unusually large losses. Right tail risks refer to unusually large gains.

Hawkish, dovish, and centrist are terms used to describe the monetary policy preferences of central bankers and others. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

A falling knife is a saying used in investing to describe a rapid drop in the price or value of a security. The admonition against trying to catch a falling knife is a way of saying that an investor should wait for a price to bottom before buying a security that could either rebound or lose all of its value if the company issuing it goes into bankruptcy.

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 dividend reinvested. The S&P 500 represents approximately 75% of the investable U.S. equity market.

The MSCI EAFE® (Net) Index measures the performance of performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI EAFE® (Net) Index subtracts any foreign taxes applicable to US citizens but not applicable to citizens in the overseas country.

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.

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

The views and opinions expressed are not necessarily those of any broker/dealer or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent any broker/dealer policies, procedures, rules, and guidelines.