Quarterly Commentary

EAGLE Asset Management

Large Cap Core

Second Quarter | 2024

Frank Feng, Ph.D.
Portfolio Co-Manager

Ed Wagner, CFA
Portfolio Co-Manager

Todd Wolter, CFA
Portfolio Co-Manager

Market Overview[1]

Global equities delivered solid returns in the first half of 2024 with those gains once again led by U.S. mega-cap growth stocks.

Growth stocks significantly outperformed value stocks in the second quarter and also year to date (YTD). The Russell 1000® Growth Index was up 8.33% in the second quarter and 20.70% YTD, while the Russell 1000® Value Index returned -2.17% and 6.62% in those same periods.

Meanwhile, smaller companies, which tend to be more exposed to interest rates, have faced stiffer headwinds from restrictive monetary policy. For example, year to date, the performance of the U.S. small-cap Russell 2000® Index has trailed the U.S. large-cap Russell 1000® Index by a wide margin (1.73% vs. 14.24%).

As represented by the broad Russell 3000® Index, U.S. stocks were positive in the second quarter, even as concerns over inflation and reduced expectations for U.S. Federal Reserve (Fed) interest rate cuts cooled some of the first-quarter enthusiasm. Markets were led primarily by a small group of high-flying mega-cap stocks, the "Magnificent Seven." These leaders were priced at roughly 40x earnings, whereas the other 493 stocks in the S&P 500 Index traded at an average of 23x forward price to earnings (P/E) as of June 28, 2024. Of course, P/E doesn't exist in a vacuum, and many would argue these mega-caps aren't necessarily expensive relative to their growth.

As usual, all eyes remain on the Federal Reserve and its possible paths to rate cuts. As Fed Chair Jerome Powell often states, Fed policy remains "data-dependent." The Fed is now forecasting a December 2024 federal funds rate of 5.1%, implying one 25-basis point (bp) cut. That is a very significant change from March when the Fed expected a 4.6% rate, implying three 25-bp rate cuts.

Despite higher-for-longer interest rates, the International Monetary Fund (IMF) predicts the U.S. economy will expand this year at more than twice the rate of other major developed countries. The IMF recently raised its forecast for U.S. growth to 2.7%, compared to 0.8% for the Eurozone. In addition, the strength of the U.S. economy is helping to support growth in the rest of the world. (The Eagle Large Cap Core strategy does not invest in securities traded in markets outside the United States, but given the interconnectedness of global markets, we monitor macroeconomic and market developments abroad for potential impacts to the U.S. large-cap companies that are our focus.)

Europe is recovering from near-recession conditions in 2023, boosted by the upturn in improving consumer and business sentiment and also resilience in labor markets, along with a more benign inflation environment. The European Central Bank (ECB) delivered its first 25-bp rate cut in early June, and the market anticipates a further 100 bps of easing over the next 18 months.

The Canadian economy has avoided recession as population growth has supported consumption and therefore gross domestic product (GDP); however, GDP per capita has declined. Inflation in Canada has fallen from the June 2022

Large Cap Core

Second Quarter l 2024

10 Largest Holdings

Microsoft
NVIDIA
Apple
Meta Platforms
Amazon.com
McKesson
JPMorgan Chase
Bank of America
Broadcom
Alphabet

As of June 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.

high of 8.1% to a point where the Bank of Canada now forecasts inflation reaching a low of 2% by some time next year. The spike in inflation was especially painful to Canadian consumers given household debt levels and reliance on housing markets to drive growth and wealth. Given that backdrop, it makes sense that the Bank of Canada (BoC) was the first central bank to ease from the Group of Seven, cutting its target rate by 25 bps to 4.75% in June.

The divergence between the pace of rate cuts by the Fed and other central banks has strengthened the dollar so far this year (higher interest rates can make holding a currency more attractive). Typically, other central banks take cues from the Fed given the implications for their local currencies. However, the U.S. economy has been so strong that it has forced the Fed to stay longer at its peak rate for the cycle, while other central banks have not been able to delay cuts given their relative economic weakness.

Portfolio Review[1,2]

During the second quarter of 2024, the Eagle Large Cap Core portfolio outperformed its S&P 500 Index benchmark on a gross and net basis. Stock selection contributed the most to performance while sector allocation was also positive. An underweight to materials and an overweight to information technology contributed to performance while overweights to financials and healthcare detracted. Stock selection was weakest within consumer discretionary and real estate, but strong within information technology and financials.

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 most underweight consumer staples and real estate. Within the universe of the S&P 500, information technology and communication services performed the best while materials and industrials lagged.

Top-performing securities

NVIDIA designs, develops, and markets 3D graphics processors and related software. The company reported an earnings beat, raised guidance, announced a stock split, and increased its dividend. Shares rose further after Elon Musk's artificial intelligence (AI) startup, xAI, raised $6 billion from investors and planned to use NVIDIA's H100 graphics processing units to construct a supercomputer.

Apple designs, manufactures, and markets mobile communication devices, personal computers, and media devices. The stock rose on news that Apple is preparing to overhaul its Mac line with a new family of in-house, AI-focused processors. Quarterly results came in above expectations, with services driving the top-line beat alongside surprising resiliency in iPhone sales.

Alphabet, the parent company of Google, provides online advertising services worldwide. The company posted strong results, highlighting robust growth across its search, YouTube and cloud businesses.

Microsoft develops and markets software and hardware services. The company reported an earnings beat with Azure continuing to shine on the back of ongoing AI and cloud strength. Its Windows original equipment

Large Cap Core

Second Quarter | 2024

Performance[2] as of June 30, 2024

		Second Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan. 1, 1976)
Eagle Large Cap Core	Gross	6.17%	22.15%	32.29%	12.36%	16.75%	13.43%	13.75%
Eagle Large Cap Core	Net	5.39%	20.39%	28.50%	9.09%	13.36%	10.11%	10.46%
S&P 500® Index		4.28%	15.29%	24.56%	10.01%	15.05%	12.86%	11.87%

Source: Eagle Research, Callan. 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.

manufacturing delivered strong performance, and the company's robust monetization of AI solutions further bolstered sentiment.

Broadcom designs, develops, and supplies semiconductors and integrated circuits and offers products such as broadband carrier access, network processors and wireless connectors. The company reported a strong quarter boosted by strength in AI and performance from its acquisition of VMWare.

Bottom-performing securities

Salesforce, the cloud-based customer relationship management software provider, reported an earnings per share beat, but weaker bookings, revenue, and guidance raised growth concerns.

Molina Healthcare, the Medicaid-related solutions provider, fell following the 2025 rate announcement for the Medicare Advantage and Medicare Part D Prescription Drug programs.

Caterpillar manufactures construction and mining equipment, off-highway diesel and natural gas engines, industrial gas turbines, and diesel-electric locomotives. Shares fell following the company's first-quarter report where revenue missed estimates and management guided second-quarter sales to decline year over year.

Builders FirstSource manufactures and distributes building products to professional homebuilders. A weakening multi-family market and higher mortgage rates driving affordability challenges were headwinds for the company.

Toll Brothers designs, builds, markets, and arranges financing for detached and attached homes in residential communities. The company received a lawsuit from the U.S. Department of Justice alleging failure to construct apartments that are accessible for persons with disabilities. Higher mortgage rates driving affordability challenges were headwinds for the company.

Outlook[1]

Elections will likely dominate the news across the globe the rest of this year, but none will be more closely watched than the rematch between incumbent U.S. President

Large Cap Core

Joe Biden and former President Donald Trump. A great deal depends on whether the winning presidential candidate will have a "coattail" or "down-ballot" effect that pulls others in his party to victory, taking control of the U.S. Senate and the House of Representatives. Regardless of how it plays out investors should expect bouts of market volatility leading up to and following Election Day.

Outside the United States, upcoming elections have the prospect to generate both political turmoil and market volatility. There have already been remarkably impactful elections this year in countries such as France, Mexico, and India. As with the United States, the prospect of new leadership brings the potential for serious changes in a variety of government policies including taxes, capital spending, and tariffs, all of which can certainly drive market volatility.

A key question now facing investors is whether the improved inflation news will continue, allowing the Fed to cut rates in September, as many economists now expect. At the same time, can the economy continue its moderate growth pace, or will a slowdown raise the risk of recession? And of course, the same questions are being asked outside the United States. The debate around growth and inflation drives the conversation around what type of "landing" we might experience: no landing, soft landing, or hard landing?

At the moment no landing (equal or above-trend growth) seems least likely, as the data does suggest that the economy could be slowing, and inflation pressures are easing.

The potential for a soft landing (below-trend growth) does seem backed by the slowdown in some labor market indicators (hiring rates and wages growth) and weakness from consumers (rising default rates on credit cards and auto loans, for instance).

However, the same data that suggests a soft landing can be used to make the case for a hard landing (negative growth, or recession) as signs of slowing can be read as either a healthy step that eases inflation pressures, or as the first step toward a recession. In addition, a resilient economy can make a hard landing more likely by delaying the timing of rate cuts.

Of course, you can argue that this interest rate cycle and also this election year is so different from history that the normal rules simply don't apply. It is hard to imagine that the remainder of 2024 isn't going to be a stressful one as all investors deal with the non-linear path of inflation and the changing tides of elections. As always, we will seek to remain vigilant of the top-down risks as we seek bottom up-based 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 or are better than the expectations of analysts and others who follow the company's stock.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

The federal funds rate is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

The Group of Seven, or G7, is an informal bloc of advanced democracies that meet annually to coordinate global economic policy and discuss other transnational issues. G7 countries include the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom.

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

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.

Mega-cap tech stocks are the technology companies with market capitalizations that are in the trillions or hundreds of billions of U.S. dollars, levels that far exceed many of the other stocks in the S&P 500 Index.

A no landing is a cyclical economic outcome in which growth remains at or above the trend for the cycle. A soft landing is a cyclical slowdown in economic growth that avoids a recession. A hard landing is a significant economic slowdown or downturn, that could include a recession, following a cycle of rapid growth.

An original equipment manufacturer (OEM) makes parts for use in another company's finished products.

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.

Price-to-earnings (P/E) ratios measure a company's current share price relative to its earnings per share. The ratio is used to help assess a company's value and is sometimes referred to as the price multiple or earnings multiple.

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.

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. the strategy's benchmark 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 3000® Index measures the performance of the 3,000 largest U.S.-traded stocks, which represent about 96% of the total market capitalization of all U.S. incorporated equity securities.

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.