# Eagle Quarterly Commentary

EAGLE | Asset Management

## Large Cap Growth

Fourth Quarter | 2022

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### Market Overview

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, but 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



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## Large Cap Growth

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### Top 10 Holdings

Apple
Microsoft
Amazon
Alphabet Class C
Alphabet Class A
NVIDIA
UnitedHealth Group
Mastercard
Costco
Tesla

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[1,2,3]

Over the fourth quarter of 2022, the Eagle Large Cap Growth portfolio underperformed its Russell® 1000 Growth Index benchmark on a gross and net basis. Stock selection detracted the most while sector allocation was also positive. An underweight to consumer discretionary and an overweight to healthcare helped performance, while underweights to industrials and consumer staples detracted. Stock selection was weakest within consumer discretionary and consumer staples but was strong in energy and communication services.

At the start of the quarter, as compared to its Russell 1000 Growth benchmark, the Eagle Large Cap Growth portfolio was most overweight the information technology and healthcare sectors and most underweight consumer discretionary and industrials. At the end of the quarter, the portfolio was remained most overweight information technology and healthcare and most underweight consumer discretionary and industrials. Within the universe of the Russell 1000 Growth Index, utilities and industrials performed the best while consumer discretionary and communication services lagged.

Mastercard traded higher following the company's quarterly print where revenue and earnings beat expectations.

Merck, one of America's largest pharmaceutical companies, beat estimates on better sales of key drugs Gardasil, Lagevrio, and Keytruda, and rose steadily over the quarter along with large-cap pharmaceutical peers.

NVIDIA designs, develops, and markets 3D graphics processors and related software. The company reported mixed results with revenue above consensus and earnings per share below. Guidance also was mixed with revenue guidance below consensus and gross margin above.

Microsoft posted weakening growth rates in Azure and forecast a disappointing revenue outlook due to a deteriorating personal computer market, a slowdown in advertising spending, rising energy costs, and weaker consumer spending.

AbbVie, the research-based biopharmaceutical company, rose over the quarter, though with a brief decline around the company's earnings release where guidance was reduced for its aesthetics business.

Tesla is an electric vehicle and clean energy company. Tesla's selloff pushed the stock to a 17-month low as investors worried that Tesla CEO Elon Musk may be spreading himself too thin following his purchase of a high-profile social media company.

Amazon, the world's largest online retailer, fell on the company's prediction of the weakest holiday sales growth in its history.

Apple posted a quarterly revenue beat helped by its Mac computer and wearable device businesses despite foreign exchange headwinds.

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 its request for investor patience with investment spending.

## Large Cap Growth

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Large Cap Growth

| Top Securities | Average Weight (%) | Contribution to Return (%) | Bottom Securities | Average Weight (%) | Contribution to Return (%) |
|---|---|---|---|---|---|
| Mastercard | 2.30 | 0.45 | Tesla | 2.26 | -1.72 |
| Merck | 1.59 | 0.40 | Amazon | 4.40 | -1.28 |
| NVIDIA | 2.41 | 0.40 | Apple | 12.41 | -0.71 |
| Microsoft | 11.23 | 0.38 | Alphabet * | 5.82 | -0.44 |
| AbbVie | 1.72 | 0.33 | Meta Platforms | 0.35 | -0.35 |

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* Combines both Class A and C shares.

### Outlook[2, 4]

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.

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 will be a robust recovery.

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### Performance as of Dec. 31, 2022

| | | Fourth Quarter | Year to Date | One Year | Three Years | Five Years | Since Inception (Jan 1, 2013) |
|---|---|---|---|---|---|---|---|
| Eagle Large Cap Growth | Gross | 0.62% | -28.28% | -28.28% | 6.65% | 8.66% | 14.39% |
| Eagle Large Cap Growth | Net | -0.13% | -30.60% | -30.60% | 3.51% | 5.49% | 11.09% |
| Russell 1000® Growth Index | | 2.20% | -29.14% | -29.14% | 7.79% | 10.96% | 14.10% |

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

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 Growth 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, 2021. Performance data for 2022 and the current year may be revised, and Eagle will publish any revised performance data. No inference should be drawn by present or prospective clients that managed accounts will achieve similar investment performance in the future. Because accounts are individually managed, returns for separate accounts may be higher or lower than the performance figures stated above. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results.

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3. Source: FactSet

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The risks associated with Large Cap Growth investing are that growth-oriented companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

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.

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.

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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.

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.

A consensus estimate is a forecast of a public company's projected earnings based on the combined estimates of all equity analysts that cover the stock.

Gross margin is equal to net sales minus the cost of goods sold.

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 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® 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 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 S&P 500 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.

Indices are unmanaged and have no expenses. One cannot invest directly in an index.

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