

Large Cap Growth

Second Quarter | 2024

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Market Overview

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 Growth 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

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10 Largest Holdings

NVIDIA
Microsoft
Apple
Amazon.com
Meta Platforms
Alphabet Class C
Alphabet Class A
Eli Lilly
Costco Wholesale
KLA

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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^{1,2,3}

Over the second quarter of 2024, the Eagle Large Cap Growth portfolio outperformed its Russell 1000 Growth Index benchmark on a gross basis and underperformed the benchmark on a net basis. Sector allocation contributed the most to performance while stock selection was in line with the benchmark. Underweights to consumer discretionary and materials helped performance, while overweights to financials and industrials detracted. Stock selection was strongest within consumer staples and industrials and weak within financials and communication services.

At the start of the quarter, as compared to the Russell 1000 Growth Index, the

Large Cap Growth portfolio was most overweight the information technology and communication services sectors and most underweight consumer discretionary and real estate. At the end of the quarter, the portfolio was most overweight communication services and financials and most underweight consumer discretionary and consumer staples. Within the universe of the Russell 1000 Growth Index, 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

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Performance² as of June 30, 2024

		Second Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan. 1, 2013)
Eagle Large Cap Growth	Gross	8.56%	23.75%	36.39%	12.72%	19.25%	15.95%	18.13%
Eagle Large Cap Growth	Net	7.77%	21.96%	32.46%	9.42%	15.78%	12.56%	14.67%
Russell 1000 [®] Growth Index		8.33%	20.70%	33.48%	11.28%	19.34%	16.33%	17.58%

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 Disclosures²

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, 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.

reported an earnings beat with Azure continuing to shine on the back of ongoing AI and cloud strength. Its Windows original equipment manufacturing delivered strong performance, and the company's robust monetization of AI solutions further bolstered sentiment.

Eli Lilly, the drug manufacturer, raised guidance on demand for its weight-loss and diabetes drugs.

Bottom-performing securities

CVS Health, the integrated pharmacy healthcare provider, cut its adjusted profit and revenue forecast for the year, citing persistent pressures in its Medicare insurance business.

WEX is a technology-based corporate payment solutions company. Total accounts grew and strong account growth is expected to continue into next year, despite the loss of the Medicare Advantage account.

Mastercard, a global payments and technology company, cut its forecast for full-year revenue growth, citing foreign-exchange headwinds.

Block operates as a financial services and digital payments company. Shares fell on news that federal prosecutors are reportedly probing the company's financial transactions involving its Cash App product and bitcoin.

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

Outlook^{2,4}

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 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

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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.

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3. Source: Bloomberg

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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.

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.

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 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.

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 dividends reinvested. The S&P 500 represents approximately 80% 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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