

Large Cap Value

Commentary | Quarterly update: 1Q24

Separately managed account



Robert C. Doll, CFA® CEO/CIO

Top 10 portfolio (%)

JPMorgan Chase & Co.	4.25
International Business Machines Corp	2.68
American Express Company	2.57
Verizon Communications Inc.	2.56
PNC Financial Services Group, Inc.	2.52
Marathon Petroleum Corporation	2.49
Applied Materials, Inc.	2.42
Cigna Group	2.35
3M Company	2.32
McKesson Corporation	2.31
Total % of portfolio	26.46

Markets and performance

The Large Cap Value composite posted strong returns during the first quarter of 2024, outperforming the benchmark by 381 basis points (bps). During the quarter, the portfolio was up 12.80% compared to 8.99% for the Russell 1000 Value Index. Stock selection drove the strong performance, with positive allocation also adding value. The portfolio's bias to earnings quality and profitability detracted from the performance during the quarter while the slight tilt toward momentum and an overweight to companies with higher earnings yields added to performance.

Positive and negative contributors to performance

During the quarter, the stock selection was strongest in the information technology and energy companies, with selection within financials detracting. From an allocation basis, the overweight to financials and lack of exposure to utilities added to performance while the overweight to the technology companies detracted. Strong stock selection within information technology added to performance, driven by semiconductor companies, including Applied Materials (2.42% of total net assets) and Lam Research (2.21% of total net assets), which continue to benefit from strength in the sector with the adoption of AI. The hardware companies also helped drive returns, with Dell Technologies (1.75% of total net assets) being the top performer in the portfolio during the quarter. Positive performance in the energy sector was driven by the refiners, including positions in Marathon Petroleum (2.49% of total net assets), Valero Energy (1.37% of total net assets), and Phillips 66 (2.23% of total net assets), all of which benefited from increasing commodity prices during the quarter. Stock selection in financials detracted from performance due to the underweight to insurance companies that benefited from increasing rates during the quarter. The exposure to financial services companies, including XP Inc. (2.03% of total net assets) and S&P Global (1.47% of total net assets) plus an underweight to Berkshire Hathaway (1.13% of total net assets), also detracted. Within the industrial sector, Genpact Limited (1.86% of total net assets) was the primary detractor from performance as the stock continues to lag the market despite strong earnings growth.

Looking ahead

The key economic question for 2024 is whether central banks can continue the "landing of the plane" (soft landing) without a crash (recession). The consensus view of 2024 is a Goldilocks environment of not too hot and not too cold. Expectations include a soft economic landing, a continued decline in inflation toward targets, and double-digit earnings growth. We think that fairy tale is unlikely, meaning either 1) the economy weakens enough for a bumpy ride (perhaps a recession) and earnings fall short (most likely), or 2) the economy remains strong enough to support double-digit earnings growth at the risk of little progress on inflation and Fed rate cuts. Considering the market environment, the strategy continued to focus on higher quality companies with more predictability. During the quarter, the strategy trimmed exposure in the healthcare sector and sold select exposure in the market strength from the information technology and energy sector while adding to industrials and financials. At the end of the quarter, the portfolio's largest overweights were financials and information technology, and the largest underweights were in the utilities and healthcare sectors.

Composite performance (%)	Quarter	YTD	1-year	Since inception
Large Cap Value – Gross	12.80%	12.80%	29.45%	9.99%
Large Cap Value – Net ¹	12.74%	12.74%	29.15%	9.77%
Russell 1000 Value Index	8.99%	8.99%	20.27%	6.89%

1 Net performance was calculated using actual management fees.

Crossmark uses a model account to manage the individual client accounts that have selected this investment strategy. The portfolio characteristics shown are based on the model account. The characteristics of any individual account may differ from those of the model account. All performance information shown is composite performance derived from the aggregate of all accounts included in the composite.

Our firm

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.

The Large Cap Value Strategy may not achieve their objectives if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Some strategies incorporate values-based screening policies which exclude certain securities issuers from the universe of otherwise available investments. As a result, the strategy may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the strategy has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the strategy. Further, the strategy's values-based screening policies may prevent the strategy from participating in an otherwise suitable investment opportunity.

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The U.S. Dollar is the currency used to express performance. The performance reflects the reinvestment of dividends and other earnings to the extent that client accounts included in the composite elected to reinvest dividends and earnings. Performance figures shown gross of fees do not reflect the payment of investment advisory fees.

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