Columbia Integrated US Large Cap Value SMA Strategy

Our multifactor approach focusing collectively on quality, valuation and catalysts should put us in good stead in selecting stocks.

Market overview

During the second quarter of 2024, the S&P 500 Index and the technology-heavy Nasdaq Composite Index both reached new record highs. The indices were propelled by the remarkable outperformance of mega-cap technology stocks like NVIDIA, Apple and Amazon. Concerns about narrow market breadth were back to the fore. The equal-weight S&P 500 Index significantly lagged its capitalization-weighted counterpart, highlighting the concentration of gains in a handful of large-cap names. Treasury yields rose across the yield curve as market expectations for multiple 2024 interest rate cuts by the U.S. Federal Reserve eased. The rising Treasury yields reflected the central bank's hawkish repricing of rate cut expectations in the face of somewhat stubborn high inflation and robust job growth.

The quarter was also notable for substantial performance divergence among major U.S. equity indices. The S&P 500 Index was up 4.28% for the second quarter and the tech-heavy Nasdaq Composite Index did even better, with a return of 8.47%. However, small-cap stocks lagged their large-cap counterparts again this quarter, with the Russell 2000 Index dropping 3.28%. While growth stocks rallied strongly, with the Russell 1000 Growth Index returning 8.33%, the Russell 1000 Value Index lost ground, falling 2.17% for the quarter.

The narrative of a potential soft economic landing gained traction during the second quarter, as continued disinflation was accompanied by signs of a gradual economic slowdown. Core inflation moderated, with the May core Consumer Price Index (CPI) and core Personal Consumption Expenditure (PCE) at their lowest annual levels since 2021. However, job growth remained resilient, defying expectations of weakening. Home prices rose to an all-time high in May, accompanied by a continued drop in existing home sales. Both were driven by a lack of inventory, as higher mortgage rates have deterred current homeowners from listing their homes for sale.

Corporate earnings for S&P 500 Index components grew better than anticipated, though this was largely skewed by the exceptional performance of big tech companies. Excluding the "Magnificent 7" tech giants, earnings for the remaining S&P 500 Index components declined year-over-year.

The quarter also saw a wide range of returns among economic-sector groupings within the S&P 500 Index. Stocks within the information technology and communication sectors rose. Utilities, consumer staples and consumer discretionary were also positive. On the other hand, materials and industrials stocks fell.

Quarterly portfolio recap

During the second quarter, security selection was a negative contributor to relative performance, and sector allocation also detracted from performance relative to the Russell 1000 Value Index. The strategy’s underweight in materials contributed to relative returns, while the strategy’s underweight in the utilities sector detracted. Stock selection was strongest within the health care and communication

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services sectors, while security selection within financials, industrials and information technology detracted. Top individual contributors for the quarter included Vertex Pharmaceuticals and Alphabet, while Global Payments and Builders FirstSource were the largest individual detractors.

Outlook

As the second quarter concluded, the consensus view suggested that a path of resistance remained to the upside for U.S. equities. Multiple analysts raised their year-end 2024 S&P 500 Index targets, citing strong big-tech earnings prospects predicated on artificial intelligence (AI) optimism, an anticipated Fed easing cycle, ongoing disinflation and a goldilocks economic environment. However, bearish concerns also persisted due to reasons that included stretched valuations, the risk of decelerating economic growth weighing on corporate earnings, emerging cracks in the economic health of consumers, rising unemployment, bumpy disinflation and a sluggish Fed rate response.

With elections this year in a number of major economies, including the U.K., France and the U.S., there is potential for substantial additional market volatility. In the U.S., the current candidates from both major political parties have already been in the Oval Office. That said, there is added doubt surrounding the Democratic nominee after the latest presidential debate. This uncertainty makes it more difficult for markets to price in the Democratic candidate's policies and increases volatility around the election. Regardless of the final nominees, the election in November still has a binary outcome with impact on policies and regulations, which will be an important focus for the markets.

The influence of these macroeconomic factors and themes on individual stock performance is undeniable; however, we also see a return of focus and increased emphasis on company fundamentals and earnings. Recent reaction to earnings beats and misses has been sizable. In addition, companies in the same market space have experienced varied fortunes depending on their individual successes, failures and prospects.

All of this leads us to believe that at the company level, those that can execute on their strategies, while posting solid earnings and cash flows are likely to be rewarded. With meaningfully high interest rates continuing to persist, characteristics of profitability, margins and cash flow generation will continue to be important for companies to fund their own growth. In such an environment, our multifactor approach focusing collectively on quality, valuation and catalysts should put us in good stead in selecting stocks.

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Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Generally, **large-cap** companies are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycle. **Growth** securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors. The strategy may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the strategy more vulnerable to unfavorable developments in the sector.

Indices shown are unmanaged and do not reflect the impact of fees. It is not possible to invest directly in an index.

The **Russell 1000 Index** tracks the performance of 1,000 of the largest U.S. companies, based on market capitalization.
The **Russell 1000 Growth Index** is an unmanaged index that measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.
The **Russell 2000 Index** is an unmanaged index that tracks the performance of the 2,000 smallest of the 3,000 largest U.S. companies, based on market capitalization.
The **NASDAQ Composite Index** is an index of over 3,000 OTC issues with an aggregate market value of approximately $500 billion. It tracks the performance of domestic common stocks traded on the regular NASDAQ market as well as National Market System traded foreign common stocks and ADRs.
The **Consumer Price Index** is an index representing the rate of inflation of U.S. consumer prices as determined by the U.S. Bureau of Labor Statistics. It is determined through a monthly survey of various consumer goods and services including housing, food, fuel, transportation, electricity, etc.
The **Personal Consumption Expenditures Index (PCE)** is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.
The **Russell 1000 Value Index** measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.
The **Standard & Poor's 500 Index** (S&P 500 Index) is an unmanaged list of common stocks which includes 500 large companies.