Columbia Integrated US Large Cap Value SMA Strategy

Our multifactor approach that focuses collectively on quality, valuation and catalysts should continue to be helpful.

Market overview

U.S. equities posted double-digit gains for the second consecutive quarter, with broad-based gains highlighted by multiple record closes.

Sentiment continued to be driven largely by interest-rate expectations. Investors were generally optimistic about potentially seeing multiple rate reductions during the year. A hotter-than-expected inflation report for February did little to dissuade investors from bidding equities higher, and neither did commentary from a couple of officials that questioned the Federal Reserve's generally dovish stance. In its March meeting, the Fed affirmed that it still expects to cut rates three times this year.

The strength in the market was accompanied by expanding breadth, mitigating fears that the dominant performance of a handful of high-growth mega-cap technology stocks associated with artificial intelligence (AI) were masking a potentially unhealthy, fragile market. While the theme of AI continued to be important, investors also focused on opportunities tied to economic resilience, with many cyclical stocks and industries doing particularly well, especially in the second half of the quarter.

The S&P 500 Index was up 10.56% in the first quarter. The tech-heavy Nasdaq Composite Index also rallied similarly, with a return of 9.11%. Small-cap stocks, while strongly positive, lagged their large-cap counterparts, with the Russell 2000 Index moving up 5.18%. Both value and growth stocks participated in the rally, with the Russell 1000 Value Index returning 8.99% compared to the 11.41% return of the Russell 1000 Growth Index.

Almost all economic-sector groupings within the S&P 500 Index experienced strong positive returns, except for real estate. Stocks within communication services, energy, information technology and financials did best, as each sector logged returns of more than 12%. Energy stocks benefited from crude oil prices rallying strongly during the quarter, and the sector was up 13.69%. Consumer discretionary was a relative laggard, but still managed a 4.98% return, as companies within the sector had to contend with worries about a potential drop in consumer spending. With continuing concerns about commercial real estate, the real estate sector was nearly flat during the quarter with a return of -0.55%.

Quarterly portfolio recap

During the first quarter, security selection was a positive contributor to relative performance, while sector allocation detracted from performance relative to the Russell 1000 Value Index. The strategy's underweights in real estate and materials contributed to relative returns, while the strategy's underweight in the industrials sector and overweight in the information technology sector detracted from relative returns. Stock selection was strongest within the energy and consumer staples sectors, while security selection within communication services and utilities detracted from relative performance. Top individual contributors for the quarter included Advanced Micro Devices and ExxonMobil, while AES and Charter Communications were the largest individual detractors.

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Outlook

The Fed's interest rate hikes and resolution of COVID-related global supply chain bottlenecks have driven inflation down quite rapidly from its peak. But the last mile of getting it down to the Fed's target of 2% is likely to be challenging and filled with uncertainty. The Fed has been clear and consistent in its messaging that it will wait for additional data before taking any action, and investors have already had to recalibrate their expectations of the timeline for rate cuts. The Fed's interest rate decisions and commentary in upcoming meetings will continue to be closely monitored and will likely be an important factor in determining the market trajectory from here.

The labor market and the overall economy continue to be resilient, which can provide support to the markets. On the other hand, we see signs of consumer spending tightening, and rising delinquency rates in consumer credit and auto loans — a trend that could put pressure on consumer-focused companies and the broader economy. While home mortgage rates are much higher than pre-pandemic levels, buyers seem to have come to terms with them as existing home sales surged in February to the highest level in more than a year. This suggests a robust housing market, at least for now.

With the results of the primary elections of the major political parties clear, the U.S. presidential election cycle is now in full swing. The election outcome will have an impact on policies and regulations. This will be an important focus for the markets and a potential source of market volatility. With multiple ongoing conflicts with substantial potential for escalation, geopolitical risk also remains elevated.

Adoption of AI and its impact on different industries continues to be an important theme. We are starting to see signs that beneficiaries beyond those in technology, and particularly hardware, are being recognized by the market. A company's individual vision and strategy for AI adoption and monetization will play a large role in future profits, providing a rich opportunity set for informed stock selection.

We believe that at the company level, those that can execute on their strategies, while posting solid earnings and cashflows, are likely to be rewarded. With meaningfully high interest rates, 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 that focuses collectively on quality, valuation and catalysts should continue to be helpful.

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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. **Value** securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth. 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 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 **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 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.
The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange.