

Seeking a More Favorable Risk/ Return Trade-off

Strategy overview

An actively managed mid cap growth SMA that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum.

Key takeaways

- In the third quarter of 2024, equity markets showed varied performance, with a notable broadening of returns. Small- and mid-cap stocks led the way, while emerging markets benefited from a strong rebound in China. Falling interest rates boosted bond returns, and value stocks outperformed growth stocks, driven by defensives, cyclicals and banks. Although technology saw a slight uptick in September, its sector returns were muted compared to the first half of the year. Artificial intelligence continued to be a significant driver, with companies involved in AI development and integration being rewarded.
- For the quarter, the SMA underperformed its benchmark, the Russell Midcap Growth Index (the Index), on a gross- and net-of-fee basis due to unfavorable stock selection effects. The stock selection effects within the information technology, industrials and consumer discretionary sectors were the greatest detractors.
- Looking ahead to the remainder of 2024, the equity market outlook is cautiously optimistic despite expected volatility. Uncertainties surrounding U.S. Federal Reserve policies, upcoming elections and rising geopolitical tensions are likely to cause continued market fluctuations. However, positive signals include potential buying opportunities in large-cap stocks and a generally favorable reaction to recent rate cuts. Additionally, a strong labor market could further support equities.

Portfolio review

U.S. stocks advanced during the third quarter following the Fed implementing a larger-than-expected 50 basis points interest rate cut. The S&P 500 Index rose by 5.89% and the Nasdaq Composite grew by 2.57% during the quarter. The utilities and real estate sectors led, while information technology and communications services lagged. Small cap stocks outperformed large caps and value significantly beat growth.

U.S. bonds logged their first positive quarterly performance of 2024 in the past three months. The Bloomberg U.S. Aggregate Bond Index rose by 5.20%. The 10-year U.S. Treasury yield fell from 4.48% at the beginning of July to 3.81% by quarter end (declines in the 10-year yield generally signal investor pessimism).

For the quarter, the SMA underperformed the Index on a gross- and net-of-fees basis due to unfavorable stock selection effects. The stock selection effects within the information technology, industrials and consumer discretionary sectors were the greatest detractors. The utilities sector was the only contributor to stock selection effects.

Key contributors to the quarter's performance were Builders FirstSource, Inc., Biohaven Ltd. and Parsons Corp.

An overweight position in Builders FirstSource, Inc. (BLDR) contributed to performance. Despite inline quarterly results and reduced forward guidance, the Fed rate cut boosted investor confidence in better housing demand in a lower interest rate environment going forward.

Owning a non-benchmark position in Biohaven Ltd. (BHVN) contributed to performance. The company's drug, troriluzole, for the treatment of a genetic disease affecting the nervous system met the main study goal, boosting the share price as the trial data allayed investor worries following a setback last year.

Owning a non-benchmark position in Parsons Corp. (PSN) contributed to performance. The stock outperformed due to a significant 2Q24 earnings results versus expectations, driven by the Federal Solutions segment's solid organic growth and recent contract wins. Additionally, improved margins and increased forward guidance contributed to the positive performance.

Key detractors for the quarter were CrowdStrike Holdings, Inc., Palantir Technologies Inc. and Domino's Pizza, Inc.

Owning a non-benchmark position in CrowdStrike Holdings, Inc. (CRWD) detracted from performance this quarter. The stock declined following an IT outage in July with uncertainty regarding financial impact weighing on the shares.

Our underweight position in Palantir Technologies Inc. (PLTR) detracted from performance this quarter. The stock was rewarded following a strong 2Q24 earnings report and a significant raise in fiscal year 2024 revenues and operating income driven by AI demand.

Our overweight position in Domino's Pizza, Inc. (DPZ) detracted from performance this quarter. The stock fell in July following mixed second quarter earnings with same-store-sales coming below expectations and a disappointing outlook, fueling concerns regarding future growth.

The Russell MidCap Growth Index is an unmanaged index that measures the performance of those companies included in the Russell MidCap Index with relatively higher price-to-book ratios and higher forecasted growth values. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark.

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