



DECEMBER 31, 2024

CAMPBELL NEWMAN

# LARGE CAP DIVIDEND GROWTH 4Q 2024 COMMENTARY

## MARKET OVERVIEW

The S&P 500 recorded a 2.41% 4Q return to deliver full-year performance of 25.02%, representing the Index's first back-to-back >20% annual returns since the late 1990s. The headline numbers don't represent the bigger picture, though, as market leadership reverted to its narrow AI-related Mega-cap focus in 4Q, rebuffing the long-awaited and all-to-brief broadening of participation seen last quarter. Indeed, the equal-weighted S&P 500's 4Q and full-year returns of -1.87% and 13.01%, respectively, paint a less heady picture.

The Fed Funds rate was cut in November and December by 25 bps each to a level of 4.25%-4.50%, down one percentage point so far in this loosening cycle -- despite stubborn inflation and amidst solid GDP growth (estimated at 2.5% in 2024) and full employment (unemployment rate just over 4%). Taken with the recognition that the annual interest expense on the

\$35+ trillion federal debt has surpassed \$1 trillion and talk of the return of the "bond vigilantes", the yield curve responded by steepening, with the benchmark 10-year U.S. Treasury rising from 3.74% on October 1 to 4.58% on December 31. Also, the Fed's December 18 "dot plot" projected only two 25 bps cuts in 2025, replacing the September 18 projection of four 25 bps cuts.

As noted, market participation was narrow. Only four of the S&P 500's 11 economic sectors outperformed the benchmark: Consumer Discretionary (14.26% return), Communication Services (8.87%), Financials (7.13%) and Information Technology (4.85%). All other sectors posted negative returns, with the worst laggards being Materials (-12.42%) and Health Care (-10.29%), followed by interest-rate sensitive Real Estate (-8.77%) and Utilities (-5.52%).



The election's impact during the quarter is hard to pin down but November's 5.87% performance was viewed by some as a "Trump bump." Overall, market sentiment and flows into equities were positive as the year ended.

## PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth strategy underperformed for the quarter with a return of -1.75% (-1.91% net of fees) vs. 2.41% for the S&P 500. The strategy's dividend growth and valuation disciplines were out of sync with the market's narrow, somewhat momentum-driven focus.

The greatest contributors to relative performance were:

- 1.) Industrials' stock selection added 65 bps due to the portfolio's return of 3.19% vs. the benchmark's -2.25%.
- 2.) A portfolio underweight to the underperforming Consumer Staples sector added 27 bps.

The greatest detractors to relative performance were:

- 1.) Consumer Discretionary stock selection cost 154 bps due to the portfolio's return of -8.82% vs. 14.26% for the Index.
- 2.) Stock selection in Information Technology cost another 115 bps due to the portfolio's 1.31% return vs. 4.85% for the benchmark.

## TOP CONTRIBUTORS

**Broadcom, Inc. (AVGO)** delivered solid fiscal 4Q 2024 results led by strong AI semiconductor demand. Fiscal year 2024 AI revenues were \$12.2 billion, up 3x year-over-year, and are forecast to grow to \$17 billion - \$18 billion (+40% Y/Y) in fiscal 2025 given continued strong cloud and hyperscaler capex spending trends.

**Visa, Inc. (V)** reported a strong fiscal 4Q earnings result, while outlining fiscal 2025 expectations that call for another year of double-digit earnings growth. Importantly, payment volume trends improved after slowing in the previous quarter and results through October pointed to a continuation of that trend, lending confidence to management's outlook.

**Apple, Inc. (AAPL)** delivered a solid set of results during the quarter showing 12% earnings growth, while also releasing multiple updates of its Apple Intelligence software throughout the quarter. With the company's iPhone installed base reaching another record, the company is positioned to see an improved upgrade cycle as new AI features roll out and gain traction.

## BOTTOM CONTRIBUTORS

**KLA Corp. (KLAC)** delivered strong fiscal 1Q 2025 results driven by solid trends in its core process control and services segments. The threat of increased restrictions on sales to Chinese customers by the U.S. Commerce Department has pressured semi-cap equipment stocks. That said, we believe the market continues to underappreciate KLA's strong product differentiation and exposure to technology capex spending with its dominant market share in the inspection and metrology segments.

**Eli Lilly & Co. (LLY)** 3Q earnings results missed expectations, primarily due to destocking on Mounjaro/Zepbound for diabetes/weight loss. Management continues to believe the underlying volume trends are healthy and demand is outstripping supply. With additional capacity coming online soon, growth is expected to remain strong in 4Q and into 2025. Further, we see data results in 2025 for LLY's oral obesity drug as a potential growth catalyst.

**UnitedHealth Group (UNH)** shares underperformed following the tragic shooting of its Healthcare division CEO and the ensuing fear around potential changes in the healthcare system. Additionally, significant Pharmacy Benefit Management reforms were proposed late in the calendar year that further sparked fears. While change is likely to be evaluated and we will monitor potential proposals, it also may be difficult or take longer to be achieved. With shares now trading at a significant discount to the broader market, we see the current risk/reward as being positive.

## PORTFOLIO POSITIONING

With 4% turnover, portfolio positioning changed little from the end of 3Q. Information Technology, Financials, Health Care and Industrials remained the portfolio's largest absolute sector weights at 33.2%, 18.3%, 17.9% and 12.9% at quarter



end. Consumer Discretionary, Energy and Communication Services accounted for 5.8%, 4.3% and 2.0%, respectively. The purchase of Vulcan Materials (VMC) during 4Q provided new exposure (1.8%) to the Materials sector. There are no holdings in the Utilities, Real Estate and Consumer

Staples sectors. The portfolio's sector weights are a residual of the team's bottom-up stock selection, reflective of where they see the best risk/return opportunities when applying the strategy's methodology.

## TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

4Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Broadcom, Inc.	4.95%	34.73%	157 bps
Visa, Inc.	3.50	15.15	47
Apple, Inc.	6.16	7.58	43
Emerson Electric Co.	3.18	13.77	39
Mastercard, Inc.	3.89	6.77	23

4Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
KLA Corp.	3.81%	-18.42%	-79 bps
Eli Lilly & Co.	2.96	-12.71	-41
UnitedHealth Group	2.80	-13.16	-36
Lowe's Companies, Inc.	4.09	-8.50	-36
Zoetis, Inc.	1.94	-16.41	-35

## PERFORMANCE

	4Q 2024	2024	5 YEARS	10 YEARS
Representative Account (Gross)	-1.75%	14.00%	12.60%	12.61%
Representative Account (Net)	-1.91	13.28	11.89	11.90
S&P 500 Index	2.41	25.02	14.53	13.10

Returns greater than 1 year are annualized.

### IMPORTANT DISCLOSURES:

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after deducting management fees (and custodian fees) and include the reinvestment of all income. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. Portfolio sector weights reflect a representative account and are subject to change without notice. Sector returns are presented net of management fees. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a representative account and are subject to change. Portfolio holdings returns are presented net of management fees. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk. Past performance does not guarantee future results. The future performance of any specific investment should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended. Securities mentioned should not be construed as recommendation for purchase or sale. Portfolio transactions should not be considered a recommendation to buy, hold or sell securities.

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