



Value Strategy



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Key Takeaways

- ▶ Rapid rotations and macro-driven volatility reshaped market leadership, with value benefiting from rising rates, commodity strength and a shift toward more cyclical sectors.
- ▶ The Strategy outperformed the broader market but trailed its benchmark as AI challenges in IT and headwinds to consumer staples overcame contributions from health care and materials.
- ▶ Continued volatility is likely, but a broadening market and stronger support for asset-sensitive sectors should create opportunities for disciplined value investors.

Market Overview

The first quarter of 2026 was defined by heightened macro-driven volatility, as markets contended with geopolitical shocks, shifting rate expectations and evolving economic expectations. While headline index performance appeared relatively stable prior to the pullback that followed the onset of the Iran conflict, underlying market conditions were far more turbulent, with sharp rotations and episodic drawdowns reflecting a market increasingly influenced by top-down forces rather than company-specific fundamentals. This dynamic contributed to rapid and often counterintuitive shifts in market leadership as investor sentiment adjusted quickly to changing macro conditions and policy signals.

Against this backdrop, value stocks outperformed meaningfully, with the benchmark Russell 1000 Value Index returning 2.1% and the Russell 1000 Index and the Russell 1000 Growth Index falling 4.2% and 9.8%, respectively. Elevated valuations within growth equities left them more susceptible to multiple compression as interest rate expectations moved higher and uncertainty increased, while value-oriented sectors — particularly those tied to energy and other real assets — benefited from rising commodity prices and improving earnings expectations.

Geopolitical developments added a significant layer of complexity. The escalation of tensions in the Middle East, including disruptions to energy supply through the Strait of Hormuz, triggered volatility spikes and forced a repricing of inflation and growth risks. Rising energy prices heightened concerns around stagflation, while uncertainty around the duration of the disruption led to sharp swings in sentiment. These conditions generally favored more cyclical and

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asset-sensitive areas of the market, further supporting value performance.

These dynamics unfolded against a backdrop of compressed risk premiums and elevated valuations. Notably, volatility events continue to resolve quickly, with limited evidence of sustained increases in risk premiums, creating a challenging environment for investors as traditional signals prove less reliable and market direction shifts rapidly.

Performance Overview

The ClearBridge Value Strategy generated positive absolute returns (gross of fees) in a quarter that saw a broad pullback in equities but trailed its Russell 1000 Value benchmark as stock selection in the information technology (IT) and consumer staples sectors overcame positive contributions from our holdings in health care and materials.

In IT, weakness in software and IT services reflected growing investor uncertainty around AI's potential for disruption to traditional service platforms and its subsequent impact on business models and spending priorities. Enterprise-focused software and services companies, including Salesforce and Amdocs, came under pressure as investors reacted to signs of moderating demand and more cautious forward outlooks, alongside concerns that incremental AI-related investment and sales spending could limit further margin expansion. We exited both positions during the quarter. New addition Globant, an IT services provider, also declined as the market questioned the durability of traditional outsourcing models in an increasingly AI-enabled environment. However, we believe that the combination of a limited legacy outsourcing business and Globant's leading position in helping corporate customers make the most of their AI tools position the company for attractive, long-term opportunities.

In consumer staples, negative performance was largely driven by our position in energy drink company Celsius. Rising competitive pressures following Costco's launch of a lower-priced private-label energy drink raised fears of demand disruption and pricing pressure; concerns that future inflationary pressures could hurt consumer spending also weighed on shares.

In energy, strong performance of several of our holdings and our overweight to the sector overcame the drag from not owning Exxon Mobil. Energy providers Chevron, ConocoPhillips and EQT, along with energy infrastructure provider SLB, were supported by a sharp increase in oil, gasoline and natural gas prices driven by geopolitical tensions in the Middle East. This helped strengthen the earnings outlook for upstream producers and the overall outlook for energy infrastructure both in the Middle East (damaged energy assets will need to be rebuilt) and outside the Gulf.

Health care was a notable area of strength during the quarter, benefiting both from positive contributions within the portfolio and from its perceived defensive characteristics amid the broader market volatility. Johnson & Johnson delivered better-than-expected results, driven by strong performance from key pharmaceutical products and resilient demand across its medtech business. This combination of solid execution and defensive positioning helped support the stock during periods of broader market weakness. Strength in the sector extended to other areas of health care, including biopharmaceutical and life sciences companies, where holdings such as Gilead Sciences benefited from continued demand for established therapies and improving sentiment around pipeline durability, while Abbott Laboratories contributed through steady execution across its diversified portfolio of diagnostics, medical devices and nutrition products.

Materials was another contributor to relative performance, as rising input prices and tightening supply conditions as well as supply constraints and geopolitical developments drove improving pricing dynamics across key markets. Corteva advanced as tightening global fertilizer markets — exacerbated by disruptions to natural gas and fertilizer supply chains in the Middle East — improved pricing power across the agricultural value chain. Similarly, Freeport-McMoRan benefited from higher copper prices, driven by a combination of improving demand expectations and ongoing supply constraints. We believe the company's leverage to global industrial activity and long-term electrification trends leaves it exceptionally well positioned to continue to capitalize on the growing demand for copper.

Portfolio Positioning

We were particularly active within the health care sector during the quarter, initiating new positions in Eli Lilly, Alnylam Pharmaceuticals and Boston Scientific. In each case, our activity reflects a focus on taking advantage of dislocations created by short-term uncertainty and reallocating capital toward more attractive long-term opportunities.

Pharmaceutical company Eli Lilly has come under pressure due to concerns around pricing pressure in obesity treatments, but we believe the market is underestimating the strength of demand, the company's leadership in this category and the potential for future innovation to drive continued growth. Similarly, Alnylam has faced near-term volatility in sales, which we view as temporary, with its leading platform in RNA-based therapies supporting a strong long-term outlook. In the case of medical device manufacturer Boston Scientific, shares came under pressure due to slower growth in its electrophysiology business, but we believe the company remains well positioned with a diversified portfolio and multiple avenues for sustained growth.

To help fund these additions, we exited our position in Medtronic following a period of strong performance. The original investment thesis — centered on accelerating growth driven by its entry into pulsed field ablation — has largely played out. Looking ahead, we see growth becoming more challenged as comparisons become more difficult and adoption of other key initiatives progresses more gradually.

Outlook

Looking ahead, the market environment remains uncertain, with macroeconomic and geopolitical developments likely to continue driving volatility. While conditions have stabilized from recent extremes, key risks remain unresolved — particularly around energy markets, inflation and interest rates — and sustained commodity strength could weigh on growth while keeping inflation elevated. At the same time, relatively compressed risk premiums leave markets sensitive to new information and prone to sharp shifts in sentiment.

We are also beginning to see signs of a potential broadening in market leadership, with sectors tied to more tangible demand drivers such as energy and industrials appearing better supported. While the near-term path is likely to remain uneven, this environment should continue to create opportunities for disciplined, long-term investors.

Portfolio Highlights

The ClearBridge Value Strategy underperformed its Russell 1000 Value Index during the first quarter. On an absolute basis, the Strategy had positive contributions from four of the 11 sectors in which it was invested. The leading contributors were the energy and materials sectors, while the financials sector detracted the most.

On a relative basis, overall stock selection detracted from performance but was partially offset by positive sector allocation effects. Stock selection in the energy, IT, consumer staples, financials, utilities and communication services sectors weighed on performance. Conversely, stock selection in the health care, materials and industrials sectors, as well as overweights to the energy and materials sectors, proved beneficial.

On an individual stock basis, the biggest contributors to relative returns were Chevron, Micron Technology, SLB, ConocoPhillips and Corteva. The largest detractors from relative returns were Salesforce, Corebridge Financial, Ryan Specialty Holdings, Bank of America and not owning Exxon Mobil.

During the period, in addition to the transactions listed above, we initiated new positions in Kinetik in the energy sector, Capital One Financial in the financials sector and TFI International in the industrials sector. We exited positions BP in the energy sector, Fortune Brands Innovations in the industrials sector, and American Tower in the real estate sector.

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