



Value Strategy



Reed Cassady, CFA
Managing Director,
Portfolio Manager



Sam Peters, CFA
Managing Director,
Portfolio Manager



Jean Yu, CFA, Ph.D.
Managing Director,
Portfolio Manager

Key Takeaways

- ▶ Value stocks extended their year-to-date lead in a volatile third quarter, as higher oil prices tied to the Iran conflict lifted energy stocks while rising rates weighed on rate-sensitive areas of the market.
- ▶ The Strategy generated a modestly positive absolute return but underperformed its benchmark, as an underweight to IT and stock selection in health care and IT more than offset the benefit of our overweight to energy and selection in materials.
- ▶ We expect oil to remain an important swing factor, and we believe depleted inventories, energy security and capital discipline should continue to support cash flows for well-capitalized, low-cost producers.

Market Overview

U.S. equities posted modest gains in the third quarter, and value stocks extended their lead over growth. The benchmark Russell 1000 Value Index returned 2.6%, compared with 0.9% for the Russell 1000 Growth Index, adding to value's substantial year-to-date advantage.

Leadership shifted during the quarter. A sharp momentum selloff in July unwound crowded AI trades and favored value, before growth regained the upper hand in August and September on strong earnings and renewed optimism about AI investment.

Two macro forces shaped sector returns within the benchmark. Continued conflict with Iran drove oil prices sharply higher, making energy the benchmark's best-performing sector. Information technology (IT) also performed well, and June's Russell reconstitution gave large technology companies such as Apple and Microsoft a bigger presence in the value benchmark.

At the other end, the Federal Reserve's first rate increase since 2023 and a sharp rise in Treasury yields weighed on rate-sensitive and cyclical stocks. Utilities, among the most rate-sensitive areas of the market, were the weakest sector.

Performance Overview

The ClearBridge Value Strategy generated a modestly positive absolute return but underperformed its Russell 1000 Value Index benchmark during the third quarter, as our IT exposure and stock selection in health care more than offset the benefit of our overweight to energy and selection in materials.

Our focus remains on companies with visible cash generation that can compound value across a range of macro outcomes.

In IT, Microsoft rose sharply after quarterly results showed accelerating growth in its Azure cloud business, higher profits and wider adoption of its Microsoft 365 Copilot assistant. However, most of the gain came before we initiated our position, making Microsoft the Strategy's largest relative detractor. Apple, also a new and relatively underweight position, weighed on performance after the stock rose following record June quarter results led by strong iPhone sales.

Not owning several of the benchmark's legacy technology companies offset part of that drag. Intel fell as the rally in chip stocks faltered in July, and IBM and Cisco declined after disappointing second-quarter results, all of which contributed to relative performance.

Stock selection in health care was the other major drag. CVS Health detracted despite strong second-quarter results, as concerns about 2027 membership in its Caremark pharmacy benefit manager and second-half earnings pressure weighed on the shares.

Our overweight to energy was the largest positive contributor, as higher oil prices made it the benchmark's strongest sector. ConocoPhillips and Chevron led, rising with oil prices as renewed conflict in the Middle East heightened supply concerns. ConocoPhillips is also drawing more interest for a free cash flow profile we believe should ramp up over the next several years. Stock selection in energy detracted, however, as we didn't own ExxonMobil, whose second-quarter profits surged on higher oil prices, and several of our holdings gained less than the sector. Stock selection in the materials sector positively contributed to overall performance as gold producer Newmont rose with gold prices and reported strong free cash flow.

Several industrials holdings declined sharply. Chinese battery maker Contemporary Amperex Technology fell in a steep September selloff on reports of possible output cuts and concerns about profitability in an industry showing signs of potentially struggling with excess capacity. FedEx Freight, the less-than-truckload (LTL) carrier spun off from FedEx in June, declined alongside peers on higher diesel costs, which we believe it should ultimately be able to pass through, and on concerns about Amazon entering the LTL market. In our view, an LTL upcycle is underway, and improving execution after the spin-off should drive meaningful margin expansion and strong earnings and cash flow growth. L3Harris Technologies, a new position, fell despite strong results and higher guidance, as the company postponed the planned initial public offering of its missile business and later announced a CEO change.

In financials Intercontinental Exchange (ICE), which owns exchanges and data platforms for financial and commodity markets, rose on solid second-quarter results, strong trading activity and record open interest. ICE tends to do well when volatility lifts trading volumes, which was the case this summer across several asset classes.

Portfolio Positioning

We made the most significant positioning changes in IT, where we used the risk budget created by the June reconstitution to rebalance

our technology exposure. Our AI-related holdings already covered one side of the AI trade, and we initiated positions in Apple and Microsoft to cover the other. The market has increasingly penalized heavy AI capital spenders, which we believe can favor Apple, and since the reconstitution Apple has also acted as a strong diversifier for our existing technology holdings. Microsoft addresses our underweight to large software companies and offers Azure growth that is becoming more capital efficient. We also initiated a position in Celestica, an electronics manufacturing services provider and AI infrastructure supplier, buying on weakness after the summer selloff in AI capex beneficiaries.

In industrials, we added defense and aerospace exposure. L3Harris Technologies, a broad-based supplier across many defense platforms, lets us participate in growing defense technology spending without having to pick the ultimate winners. We believe the planned offering of its missile business and the sale of a majority stake in its space propulsion unit could help unlock value at what we view as an attractive valuation. We also initiated a position in Honeywell Aerospace following its separation from Honeywell in late June. We expect organic growth to reaccelerate as supply chain execution improves, and we believe its post-spin decline reflected technical selling pressure more than fundamental impairment.

Elsewhere, we initiated a position in Marsh & McLennan after a sharp derating in insurance brokers left valuations implying overly punitive long-term growth, and in social platform Reddit, where we believe the market is overly discounting the risk of AI disruption given the company's growth and free cash flow. We exited IT services provider Globant, taking a tax loss after a disappointing second-quarter profit report.

Outlook

The July unwind of AI momentum trades, the rebound that followed and the September jump in Treasury yields point to a market that remains sensitive to flows, funding costs and the price of energy. We expect oil to remain an important swing factor, and we believe depleted inventories, energy security and capital discipline should continue to support cash flows for well-capitalized, low-cost producers.

Large technology companies are now a bigger part of the Russell 1000 Value, which makes an IT underweight a larger source of relative risk than in the past. We continue to own AI enablers selectively rather than chase the most extended names, and we remain skeptical that all of the capital being committed to AI can earn an attractive return. With value still well ahead of growth year to date, we believe investors continue to reward tangible earnings power and balance sheet strength, and our focus remains on companies with visible cash generation that can compound value across a range of macro outcomes.

Portfolio Highlights

The ClearBridge Value Strategy underperformed its Russell 1000 Value Index benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions from four of the 10 sectors in which

it was invested (out of 11 sectors total). The leading contributors were the energy, materials and consumer discretionary sectors, while the industrials sector detracted the most.

On a relative basis, overall stock selection detracted from performance, while overall sector allocation contributed. Stock selection in the materials, consumer discretionary and financials sectors, as well as an overweight to the energy sector and a lack of exposure to the real estate sector, benefited performance. Conversely, an underweight to the IT sector and stock selection in the health care, IT, energy, consumer staples and communication services sectors weighed on relative results.

On an individual stock basis, the biggest contributors to relative returns were ConocoPhillips, Newmont, Chevron and Intercontinental Exchange, as well as not owning Intel. The largest detractors from relative returns were Contemporary Amperex Technology, Talen Energy and FedEx Freight, as well as underweights to Microsoft and Apple.

In addition to the transactions discussed above, we initiated a new position in Danaher in the health care sector. We exited positions in Thermo Fisher Scientific, Gilead Sciences and Elanco Animal Health in the health care sector, Broadcom in the IT sector, Nestle and Celsius in the consumer staples sector, GXO Logistics and WESCO International in the industrials sector and Teck Resources in the materials sector.

Past performance is no guarantee of future results. Copyright © 2026 ClearBridge Investments. All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the portfolio management team named above and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information.

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2026. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" and "Russell®" are a trademark of the relevant LSE Group companies and are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.