



Large Cap Growth Strategy



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Market Overview

Growth stocks extended their rally in May as investors remained focused on strong corporate earnings, AI-related investment and positive economic expectations despite inflation concerns and elevated geopolitical risks. The S&P 500 Index advanced 5.3% during the month, while the NASDAQ Composite gained 8.4%. The benchmark Russell 1000 Growth Index (RLG) returned 7.2%, meaningfully outperforming the Russell 1000 Value Index (+2.9%).

Within the benchmark, the information technology (IT) sector was by far the best performer, rising 13% on the back of a rebound in the recently pressured software industry. The reversal was supported by improving sentiment among software makers viewed as enablers of AI adoption, solid earnings results and a partial rotation out of semiconductor stocks that have led the sector year to date.

Corporate earnings overall continued to provide a key source of market support. According to FactSet, with 97% of S&P 500 companies having reported, 85% of companies have reported a positive earnings surprise. The estimated blended earnings growth rate of 28.6% for the first quarter, if accurate, would be the highest earnings growth rate since the fourth quarter of 2021.

The U.S. 10-year Treasury yield edged 6 bps higher in May to 4.44% as investors balanced strong equity market performance against persistent inflation pressures and a reduced likelihood of near-term Federal Reserve rate cuts.

The ClearBridge Large Cap Growth Strategy underperformed its benchmark in May, primarily due to weakness among our health care and industrials holdings. Within health care, medical robotics pioneer Intuitive Surgical faced downward pressure due to a sector-wide medtech valuation contraction. Recent addition Boston Scientific declined due to continued weakness in the company's WATCHMAN heart device franchise and fears of market share loss to competitors.

In industrials, Eaton traded lower primarily due to conservative financial guidance. Management acknowledged that earnings could be impacted in the near term as the company invests aggressively in new capacity to meet robust demand across data centers, utility customers and a secular electrification trend.

Software proved a bright spot during the month, with Palo Alto Networks, Datadog, Oracle and ServiceNow rerating on improving sentiment and solid earnings results. Information security provider Palo Alto was lifted by continued strong operating results and better market appreciation that IT security is unlikely to be disrupted by AI.

Datadog shares surged following positive first-quarter earnings and elevated full-year financial guidance as the data monitoring and observability company is seeing strong tailwinds from industrywide AI adoption. Oracle rallied on strong results from the hyperscalers that demonstrated measurable return on investment from large capex projects. ServiceNow also benefited from a more productive view on software, as well as a landmark \$50 billion share buyback announcement.

Portfolio Positioning

We exited Parker-Hannifin during the month as the short-cycle industrial and aerospace manufacturer has appreciated strongly since our initial purchase and reached our valuation target price. We also have maintained an overweight in aerospace the last several years with positions in RTX and Airbus and, while we still believe fundamentally in the theme, we felt it was prudent to reduce exposure following relative strength.

The remainder of our trading activity was geared toward [anticipated changes to the Russell 1000 Growth Index during its annual rebalancing](#) set for the end of June. We reduced our Amazon.com position from an active overweight to roughly neutral with the benchmark. Amazon's weight in the RLG is expected to be reduced meaningfully during the rebalance. We also added to Alphabet, a name set to become the second-largest weight in the RLG.

Outlook

In addition to being mindful of our exposures relative to the benchmark, we continue to calibrate our mega cap weighting based on our outlook for core business trends while also considering each company's AI opportunity. Additionally, we are encouraged by continued signs of a cyclical recovery emerging. The ISM Manufacturing PMI rose to 54.0 in May from 52.7 in April, pointing to the strongest expansion in manufacturing since May 2022.

We maintain our confidence that a diversified portfolio of growth companies is the best way to generate consistent results through the business cycle. Recent additions in health care and financials support this approach. We remain proactive when attractive growth opportunities present themselves and are constantly reviewing every portfolio holding to ensure we are targeting our highest-conviction names.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy underperformed its Russell 1000 Growth Index benchmark in May. On an absolute basis, the Strategy delivered positive contributions across three of the eight sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while the

communication services, health care and financials sectors were the main detractors.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in the health care, industrials, communication services and consumer discretionary sectors, an overweight to materials and an underweight to IT weighed on results. Conversely, stock selection in the consumer staples and IT sectors and an underweight to consumer staples contributed to performance.

On an individual stock basis, the primary contributors to relative performance for the month included Palo Alto Networks, Datadog, Oracle, an underweight to Alphabet and not holding Costco Wholesale. The main detractors from relative returns were Netflix, Eaton, an underweight to Apple as well as not holding Advanced Micro Devices and Eli Lilly.

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