



Q&A: Staying Active and Aware through Historic Volatility

May 20, 2025

Key Takeaways

- ▶ By being mindful of existing concentration concerns and more recent trade policy risks, ClearBridge portfolio managers can actively and deliberately position portfolios to navigate elevated volatility in the current environment.
- ▶ Selectively investing in high-quality international stocks with similar characteristics to their U.S. peers but trading at lower valuations has enabled ClearBridge Dividend Strategy to benefit from the strong performance of European companies in a period where U.S. equities have lagged.
- ▶ Diversification across different types of growth stocks, purposeful management of its mega cap exposure and ongoing recession analysis of its holdings have helped promote consistency for the ClearBridge Large Cap Growth Strategy through difficult market environments.

Dividend Strategy, Large Cap Growth Cognizant of Risks and Opportunities

The first 100 plus days of the second Trump administration have been defined by the president's aggressive and unpredictable approach to global trade, tariffs and geopolitics, and have caused equity volatility to spike to its highest levels since the early days of the COVID pandemic. Every major U.S. index has endured a correction since Trump took office and U.S. stocks have ceded leadership to international equities for the first time in years.

We recently spoke with Erica Furfaro and Mike Clarfeld, portfolio managers of the ClearBridge Large Cap Growth Strategy and the ClearBridge Dividend Strategy, respectively, about how they are investing through the risks and opportunities created by heightened uncertainty and the importance of an active approach in such an environment.

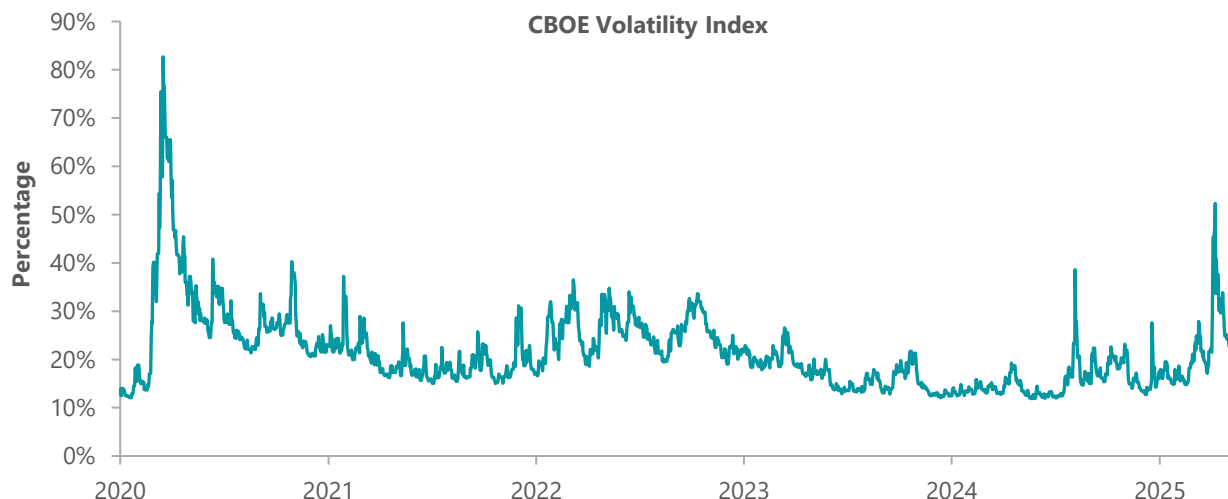
Q: The U.S. market has been dealing with seismic changes to the global financial order in a short period of time. How are you managing these risks as an investor in dividend growers?

Mike Clarfeld: Ever since World War II, the U.S. has been at the center of the global economy and global order. The U.S. dollar became the dominant currency and U.S. capital markets were at the center of global capital flows. As the country is reimagining its position in the world and withdraws from global leadership, it creates turbulence.

The U.S. approach to global trade has obviously changed and investors around the world are reassessing their exposure to U.S. assets in their portfolio. This comes at a time when U.S. stock markets are, as a percentage of global markets, near all-time highs at about 65% of global equity market valuation. That's up from 50% coming out of the Global Financial Crisis (GFC) 15 years ago.

It is a potent combination when you take a concentrated U.S. market and it runs up against increased volatility. By being aware and mindful of these risks, we can use our ability to position our dividend portfolios thoughtfully and deliberately in a way that we think will position us to navigate the increased turbulence given how the U.S. is changing its role in the world.

Exhibit 1: Volatility Has Spiked in Early Days of Trump 2.0



As of May 19, 2025. Source: CBOE Global Markets.

Q: As a growth investor, why is diversification so important in navigating environments like the current one and how do you achieve that diversification with your growth buckets approach?

Erica Furfaro: The philosophy of the large cap growth team is to construct a portfolio that compounds through market cycles. We aim to protect on the downside in down markets with exposures like our overweight in health care and positions in more defensive companies like insurance brokerage Marsh & McLennan.

Regarding our three growth buckets framework, the majority of portfolio assets (50% to 60%) are held in our stable bucket of steady compounders. A third of the assets are held in the higher growth select bucket, and the remainder (about 10%) is in cyclical companies. This framework helps balance the portfolio in achieving the objectives of protecting on the downside while also having good upside opportunity to benefit from some of the exciting growth trends we're seeing in the market, like AI. This balanced approach has benefited the portfolio in what has been a turbulent environment so far in 2025.

Q: The Magnificent Seven stocks make up over half of the Russell 1000 Growth benchmark. How are these companies faring after first quarter earnings and how are you managing your mega cap exposure in light of tariff and valuation concerns?

Erica Furfaro: Thus far, the Mag Seven have been resilient in the face of macro pressure and fears of an economic slowdown. We see that in results of digital advertising players like Meta and e-commerce company Amazon. There was fear heading into earnings that, given economic uncertainty, the companies would reduce their capex spending intentions. And we did not see that play out — Google and Amazon reiterated their spending plans, and Meta raised its capex forecasts for 2025, driven by AI.

AI spending remains robust, and these companies have given multiple examples of actual, tangible results from those investments, such as Microsoft reporting a high percentage of its code already being written with AI-aided assistance.

On the tariff front, there is a range of exposure among the group. We see Apple as the most exposed given the majority of its iPhone supply chain remains in China. Amazon also has exposure in its retail business, although 60% of its units sold are by third-party sellers, which provides a buffer to them. Others in the Mag Seven have more indirect exposure to an economic slowdown.

Within the Mag Seven we remain overweight to Meta and Amazon and have added to our Tesla and Google positions in 2025 as market volatility has opened up more attractive risk-reward opportunities in those stocks.

Q: Tariffs have highlighted the global nature of equities and how American consumers are reliant on goods from many overseas markets. How does that create opportunity to look beyond the U.S. for dividend growers?

Mike Clarfeld: It's important to frame this in terms of the historical perspective of the last 10 or 15 years where U.S. stocks have been far and away the best performer in global equity markets. Post the GFC, the U.S. has had a healthy recovery, whereas much of the rest of the world has not, most notably in Europe.

Coming into the year, U.S. equities were trading at high multiple premiums to the rest of the world. The trade and geopolitical volatility were a shock to Europe and have acted as catalysts for the region to get their defense and investment priorities in order.

We are primarily U.S. investors in the ClearBridge Dividend Strategy, but we do own a handful of international names that tend to be global peers of our U.S. holdings. A good example is consumer staples companies, which we like for their recurring, predictable revenue, strong brands, great balance sheets and the fact they're not at risk of being technologically disintermediated.

In the last couple years, because of the lack of enthusiasm for European securities, we were able to buy high-quality European staples akin to the U.S. staples that traded at meaningful discounts to their U.S. peers mostly due to being listed in Europe. While U.S. markets are generally flat year-to-date, our European holdings are up strongly as part of that tariff-driven rotation and investors realizing these companies are not as moribund as past performance might suggest.

Q: As active managers, it's not enough to simply buy and hold a portfolio of companies. Can you explain the ongoing due diligence and risk management process you conduct for the ClearBridge Large Cap Growth portfolio?

Erica Furfaro: We've been using the growth buckets framework as a tool to help us with portfolio construction since 2012. In 2017, we also developed a way to think specifically about economic recessions. How would our portfolio act through a downturn? We do it on a bottom-up basis with stock-level analysis that includes quantitative and qualitative components.

So, as the chances of a recession have risen in 2025, we have conducted another in-depth analysis of the portfolio. The quantitative metrics we analyze for all holdings include beta, downside beta and exposure to the beta factor, which helps us understand the stock-specific risk from a quantitative view. We combine that with a thorough qualitative review. For example, we will ask ourselves for a holding like Meta, how do we think about advertising generally being economically sensitive with the company being a share gainer with a very strong balance sheet to weather a downturn?

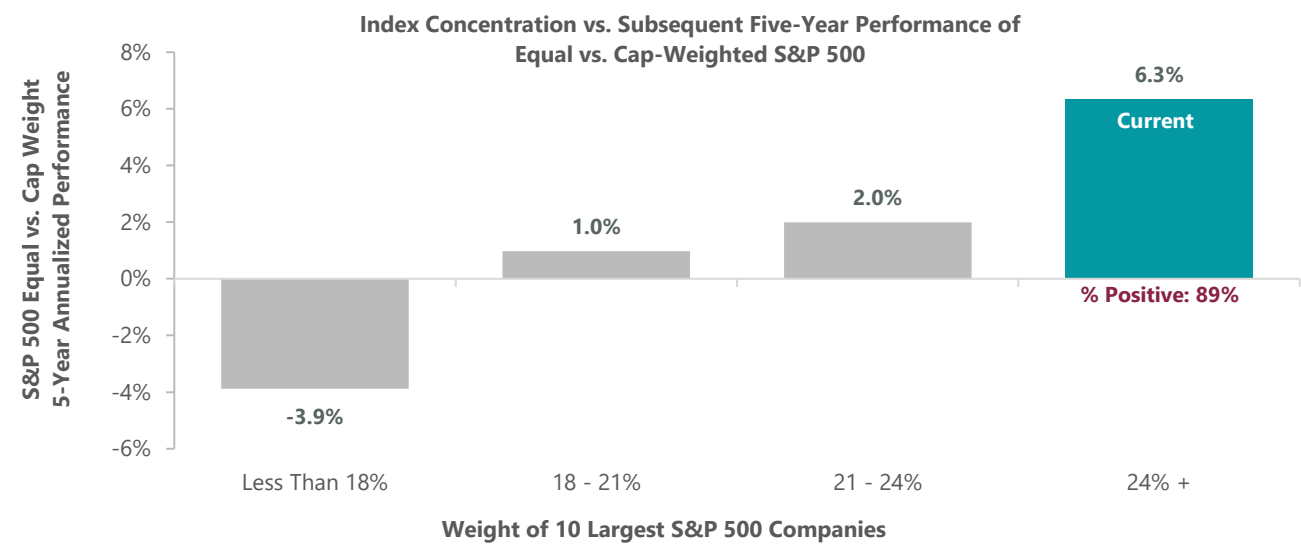
This work helped us reposition the portfolio earlier in the year, taking off some risk that we were able to redeploy as volatility increased into new positions or into higher-conviction ideas.

Q: In addition to opportunistically taking advantage of drawdowns, why should investors consider investing with active managers in environments like the current one?

Mike Clarfeld: As we think about active investing versus passive investing, in a bull market, a rising tide lifts all boats. So, maybe just having exposure to beta is enough in a bull market, but in a down market, passive investing just offers beta, broad exposure to the market without trying to sidestep risk and minimize losses.

In the market we’re in today, passive benchmarks are characterized by intense concentration that’s clearly a risk to investors thoughtfully trying to construct a diversified portfolio. Some large cap benchmarks today have 30% to 40% of assets in a single sector — we believe putting a substantial amount of capital in a handful of names entails meaningful risk.

Exhibit 2: Concentration Leads to Broadening



Data shown is from Dec. 1989 – March 2025. Monthly constituent level market cap data. Data as of March 31, 2025. Source: FactSet.

In down markets, such as the April selloff, that sort of concentration and the risk that is embedded is brought to the fore. As active investors who are monitoring those risks and managing position sizes and portfolio concentrations, we believe we are better positioned to navigate those kind of drawdowns.

About the Authors



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- Joined ClearBridge Investments in 2006
- B.A. in history from Duke University



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- M.B.A. from Stanford Graduate School of Business
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