

# Large Cap Growth Quarter-End Review—1Q2026



Stocks tumbled during the first quarter, with virtually all of the decline occurring in March due to the Iran conflict. Within the S&P 500, the Energy and Materials sectors were notable outperformers, while the Financials and Consumer Discretionary sectors were significant underperformers. Even the Mag 7 stocks that led the market last year dropped an average of 12.2% during the quarter. Bond yields edged up, with 10-year Treasury yields ending March at 4.32% compared to 4.11% at the end of 2025. For the quarter, the S&P 500 declined 4.3% and the Russell 1000 Growth Index declined 9.8%. Large-cap stocks underperformed smaller-cap stocks and Value outperformed Growth. For the quarter, our portfolio returns exceeded the Russell 1000 Growth benchmark and lagged the S&P 500.

**Comfort Systems USA (FIX)** was our top contributor in the first quarter. The company reported broad-based upside to quarterly results, with backlog acceleration supporting further upside to 2026 estimates. Importantly, management noted that current demand trends are actually building off hyperscale capex announcements from 1–2 years ago and, therefore, growth should remain solid, driven by the continued buildout of new data centers that run AI applications. **Applied Materials (AMAT)** was also a top contributor. The company continues to see broad-based growth across all segments and financial metrics. We believe that strong demand for AI semiconductor chipsets, along with secular technological transitions and federal stimulus from the CHIPS Act, should continue to provide a favorable backdrop for the company. **Lam Research (LRCX)** was our third-best performer. Similar to other semiconductor equipment companies, Lam Research reported solid fourth quarter operating results. Importantly, Lam offered an upbeat outlook for wafer fabrication equipment growth in 2026, driven by AI tailwinds. We believe that demand

## SECTOR WEIGHTS & PORTFOLIO CHANGES<sup>(1)</sup>

Sector	Ending Weight <sup>(2)</sup>	Change from 12/31/2025	Large Cap Growth Additions & (Large Cap Growth Deletions) <sup>(3)</sup>
Information Technology	32.3%	-7.6%	(Adobe, Cadence Design Systems, Gartner, Nutanix)
Health Care	14.1%	1.2%	Zoetis
Consumer Discretionary	13.0%	3.0%	Carnival, Marriott International, The TJX Companies (O'Reilly Automotive)
Industrials	12.1%	2.1%	Illinois Tool Works (Copart)
Financials	11.9%	-0.3%	American Express (PayPal)
Communication Services	7.2%	-1.1%	(Pinterest)
Consumer Staples	4.2%	4.2%	Costco Wholesale, The Hershey Company
Real Estate	1.9%	-0.1%	
Utilities	1.7%	-0.1%	
Cash	1.5%	0.2%	
Energy	0.0%	0.0%	
Materials	0.0%	-1.6%	(Ecolab)

<sup>(1)</sup>Based on a representative account of the strategy discussed. Portfolio characteristics (e.g., sector weights, valuation, growth rate) are based on a representative account that we believe is illustrative of the strategy. All accounts in the strategy are invested identically in the same securities unless a client has imposed restrictions. Characteristics and/or holdings on a given date may vary due to pending trades.

<sup>(2)</sup>Weights as of the end of the presentation period. Cumulative total weighting may not add up to 100% due to rounding of percentages to the nearest decimal place.

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Source: Renaissance Research, FactSet

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## CONTRIBUTORS TO RETURN<sup>(1)(2)</sup>

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
<b>TOP FIVE CONTRIBUTORS—LARGE CAP GROWTH</b>			
FIX	Comfort Systems USA	2.58%	0.87%
AMAT	Applied Materials	2.16%	0.57%
LRCX	Lam Research	2.02%	0.50%
KLAC	KLA	2.25%	0.41%
EME	EMCOR	2.29%	0.37%
<b>BOTTOM FIVE CONTRIBUTORS—LARGE CAP GROWTH</b>			
APP	AppLovin	1.34%	-0.74%
MSFT	Microsoft	2.62%	-0.67%
BSX	Boston Scientific	1.45%	-0.58%
INTU	Intuit	1.22%	-0.53%
PEGA	Pegasystems	1.43%	-0.48%

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<sup>(3)</sup>Average weights over the presentation period.

Sources: Renaissance Research, FactSet

trends will continue and combined with market share gains, we expect upward earnings revisions for the company.

On the negative side, **AppLovin** (APP) declined. The stock initially saw weakness following the beta release of Alphabet's Genie, an AI online gaming platform that could become a competitive threat to incumbent gaming platforms. Software stocks, in general, started to underperform as the quarter progressed, as investors increasingly viewed large language models such as ChapGPT and AI coding models like Claude as key disrupters in the software development tools market. We think that the sell-off has been an overreaction, given that any increase in magnitude and complexity of code creation could make incumbent software providers more critical, as code quality, interoperability, compliance and security are essential infrastructure elements. **Microsoft** (MSFT) fell despite reporting solid operating results. The stock suffered one of its worst one-day drops after Azure, its Cloud offering, saw another quarter in which growth came in below expectations, which may suggest that the company's growth in Cloud and AI is peaking. While 20%+ growth rates at scale are impressive, growth deceleration will remain a headwind for the stock. Lastly, **Boston Scientific** (BSX) dropped despite reporting solid operating results. The stock declined after initial 2026 guidance came in below expectations, driven by revenue growth deceleration in its electrophysiology segment. This segment has contributed substantially to revenue growth in the past, and the deceleration suggests that the company's main competitor, Medtronic, may be gaining market share.

In the first quarter, we made several changes to our portfolio as market rotation provided us with several opportunities to upgrade the quality of the portfolio. In March, we added a new position

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in the Health Care sector with **Zoetis** (ZTS), the global leader in vaccines and pharmaceuticals for both the companion animal and livestock markets. Zoetis has faced difficult growth comparisons since the latter part of 2022, after an initial spike in demand caused by COVID-driven pet adoptions wore off and operational missteps in new drug launches hampered growth. However, we believe that revenue is positioned to reaccelerate as COVID-era pets approach the age when preventive and protective treatments begin, driving demand for professional veterinary services. We particularly like the company's new drug pipeline, with new drug launches over the next four years targeting cancer, kidney, heart, obesity, and anxiety treatments. In addition, we believe that increasing demand for protein consumption and a relaunch of the company's pain medication will likewise help reverse recent revenue deceleration. We also added a new position in the Consumer Discretionary sector with **The TJX Companies** (TJX), the largest discount retailer in the U.S. We are attracted to the company's consistent ability to maintain strong value for the consumer. In addition, the company's demographic reach, broad merchandise offerings, and strong margins provide a higher level of safety in uncertain macroeconomic environments. We believe TJX has room for much further growth as the company continues to take market share from traditional department stores, improves its merchandising, and grows internationally.

Conversely, we sold our position in **Copart** (CPRT), the largest provider of salvage car auctions, following a deterioration in fundamental factors. We believe that the operating environment for Copart will continue to face fundamental headwinds in the near-to-intermediate term, as the rising costs of automotive insurance have caused financially stretched consumers to drop collision coverage. Historically, Copart's contractual agreements with insurance companies gave them a steady supply of damaged automobiles, driving its auction volumes. However, the absence of collision insurance means that these cars are no longer obligated to go to Copart auctions, creating headwinds for Copart's vehicle inventories and auction volumes. We also sold our position in **Gartner** (IT) following a deterioration in fundamental factors and several quarters of disappointing operating results. We had previously believed that Gartner would benefit from AI adoption, as enterprises look to Gartner's expertise in technology to help chart the right path forward. Instead, Gartner has seen demand for its services moderate as companies take time to reevaluate their existing technological roadmaps and contemplate whether AI can replace some of Gartner's services. We believe it is prudent to move to the sidelines, as these external factors will likely remain challenges for the foreseeable future.

Oil prices surged over 50% during the quarter because of the Iran War. The ripple effects of the oil-price spike included higher bond yields, rising costs for other petroleum-related materials, rising inflation expectations, and falling consumer confidence. As of March 31, the situation remained incredibly fluid, with daily news headlines leading to sharp movements in the market, both up and down. However, oil traders seem to believe that the spike in oil prices will be short-lived. Oil futures prices for nine months ahead are well below current prices and are also below their levels of only two years ago. If these expectations play out, they imply a significant drop in oil prices over the next several quarters.

Value stocks outperformed Growth stocks during the quarter, continuing a trend that began late last year. The extraordinary developments relating to artificial intelligence (AI) and technology along with increasing adherence to momentum strategies on the part of some investors helped propel many growth stocks to exceptionally high valuations over the past several years. As investors have focused more on valuation in recent months, Value stocks have staged a comeback. We continue to believe that consideration of valuation in addition to growth metrics is key to achieving good, risk-adjusted returns over the long term and is likely to be particularly effective today.

Elevated oil prices are clearly not positive for economic growth, as higher energy costs can negatively impact consumer spending and corporate profitability. Nevertheless, the United States

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has become markedly more efficient in its energy use over the past several decades. As the country has moved from a manufacturing-oriented economic base to a more service-related economy, the relative amount of energy consumed has steeply declined from the levels of the 1970s and early 1980s. Efforts toward energy efficiency and conservation have also reduced energy consumption. As a result, a surge in oil prices similar to the surge we experienced in the 1970s and 1980s is unlikely to result in the same level of negative economic effect as it did then.

Inflation expectations have risen as the surge in oil prices have led to higher gas prices and transportation costs. Trailing 12-month inflation through February was only 2.4%, but expectations for the 12 months ending March 31 are currently above 3%. Fed Chairman Powell stated in late March that he sees inflation expectations as “still grounded” despite rising energy prices, and therefore the central bank did not need to respond with higher interest rates. However, market expectations at the beginning of the year were for the Fed’s targeted Fed Funds rate to decline meaningfully. Tracking those same expectations as of the end of March suggests that market participants no longer expect a significant decline in the rate this year.

Earnings expectations for S&P 500 companies have been in a strong uptrend for calendar years 2026, 2027, and 2028, and have continued to rise even after the onset of the Iran War. Some estimates suggest that if oil prices continue near current levels over the next year, there might be a roughly 5% negative impact on overall S&P 500 earnings (Source: Jefferies). We expect that the upward momentum in earnings forecasts may falter over the next several months given recent events but underlying earnings remain strong.

While we remain cognizant of the possible market risks in the current environment, we also remain alert to investment opportunities emerging from the first meaningful market decline of the past several years.

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## DISCLOSURES

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## REFERENCED INDICES

*(Indices are unmanaged and are not available for direct investment.)*

**Russell 1000 Growth Index**—The Russell 1000<sup>®</sup> Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.

**S&P 500 Index**—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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