Large Cap Quality Growth: 1Q25 Portfolio Review & Outlook

Portfolio Review

The equity markets endured a tough first quarter that saw the major indices erase all of last year's fourth quarter gains. Continued uncertainty around tariffs and fiscal policy from the new administration turned investor sentiment more cautious on equities. In this environment of elevated volatility and nervous investor flight towards quality companies, the Large Cap Quality Growth portfolio held up well. LQG limited losses to 6% besting the benchmark Russell 1000 Growth index which declined 10% for the quarter. The portfolio's lower risk positioning benefitted from the investor rush out of crowded trades in the Mega Cap and AI-related stocks.

The preference for stocks with low price volatility paid off particularly in the Consumer Discretionary sector where stocks such as AutoZone, TJX Companies, and McDonald's produced positive returns. Overweights in the more attractively valued sectors of Health Care and Industrials magnified the effect of outperformance in those stocks. Cboe Global Markets was a significant contributor in the Financial sector as demand for the largest operator of options exchanges tends to increase in heightened periods of market volatility.

The portfolio struggled most in the Communications sector where the underweight to Meta Platforms and large declines in ServiceNow were a drag on returns. Some of the portfolio's consistently growing companies were adversely affected by macro headlines. High end apparel maker, lululemon, declined on rumors of potential tariffs for its non-China suppliers. Export restrictions on certain semiconductor components sent chip companies, Broadcom and NVIDIA into 20-plus percent free falls. Cautious guidance from Adobe shifted focus away from continued double-digit growth in all segments.

Market Outlook

As investors sit on the runway patiently awaiting market liftoff, there are questions if current conditions represent a temporary delay or a pending cancellation (of the bull market). The S&P briefly entered correction territory in mid-March after falling 10.5% from its latest peak. However, market fundamentals suggest that it is not yet time to panic. The labor market is still strong, inflation is slowly inching closer to 2%, and corporate profits continue to grow. The rotation of money into non-tech sectors and international stocks suggests that investors are still exhibiting risk seeking behavior which could help to propel markets higher. As uncertainty still looms large, diversifying among multiple themes is a prudent way to navigate turbulence if the market eventually gets clearance for takeoff.

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What Helped:

- *Strong performance in low volatility stocks within the Consumer Discretionary sector: AutoZone, TJX Cos., McDonald's.*
- *Overweights in Health Care and Industrials sectors.*

What Hurt:

- *Underperformance in Communications sector (mostly underweight in Meta Platforms).*
- *Rotation out of major semiconductor stocks: Broadcom and NVIDIA.*
- *Tariff-induced sell offs: Lululemon, Nike*