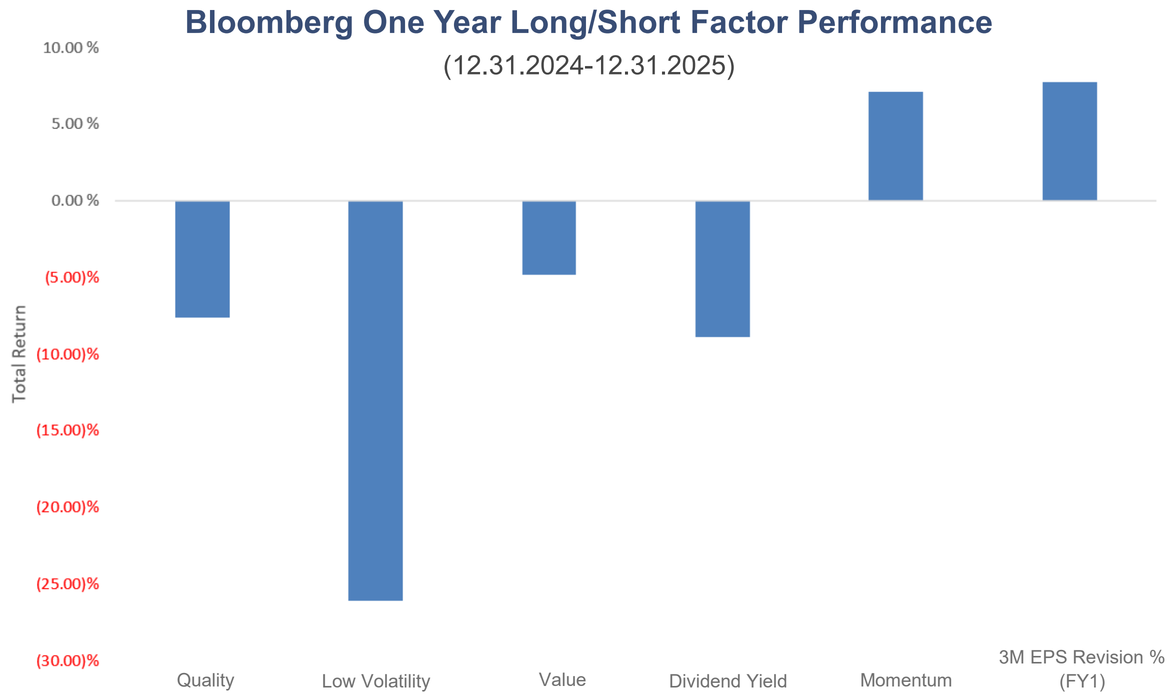
Stability in a Dynamic Market

The Lead | February 2026

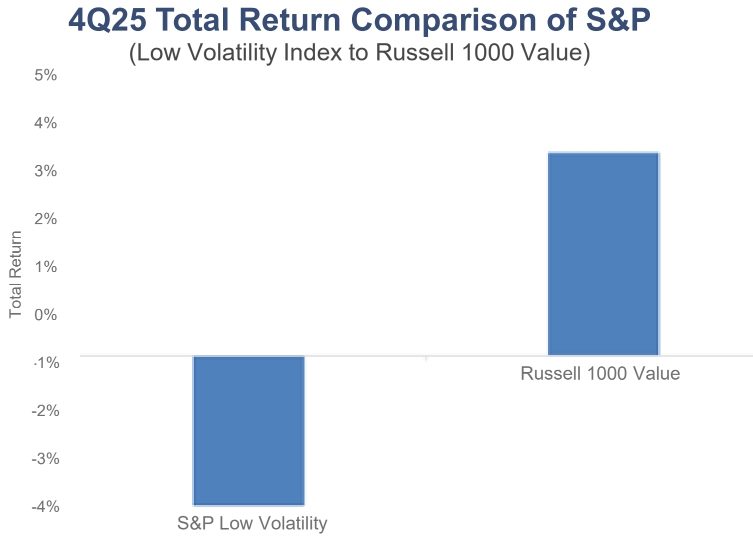


The chart shows the performance of Bloomberg-defined long/short factor portfolios which measure the return difference between securities with the highest and lowest exposure to each factor over the period shown. EPS: earnings per share. FY: fiscal year. Source: Bloomberg L.P.

How does one define "quality?" It is a question that we have sought to answer over the years in terms of a quality-oriented investment process and investing in what we consider "quality" stocks. We believe the most common quantitative measurement tends to be a company's return on equity and how it stacks up relative to other businesses in the stock market.

Another characteristic that we believe describes "quality" is stability—stability in earnings, earnings growth, and stock price movement in general. Why do entities such as Standard and Poor's and the rating agencies that use quantitative measurements of quality incorporate stability? For companies exhibiting high profitability, we believe it can be crucial to identify if this profitability is temporary and fleeting or if it is consistent and reliable, demonstrating a durable source of returns on capital. Assessing stability may weed out those companies that could be structurally unsound or subject to adverse changes under stress. In many ways, stability of a company's balance sheet and predictability of earnings may provide resiliency in market downturns and protect capital.

Last year we noted the vigorous year for beta, or risk, in terms of stock performance. We also thought it was a challenging year for stability, notably in the fourth quarter. In the charts on this page, we look at stability from two sources—both measure the market volatility of stocks. The top chart measures 4Q25 performance with just the difference in the top and bottom quintiles of familiar characteristics, with low volatility experiencing stronger results. The chart below shows the absolute return difference between S&P 500 Low Volatility Index against the Russell 1000® Value Index.



Data is as of 12.31.2025. Source: Bloomberg L.P.

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Charts are for illustrative purposes only.

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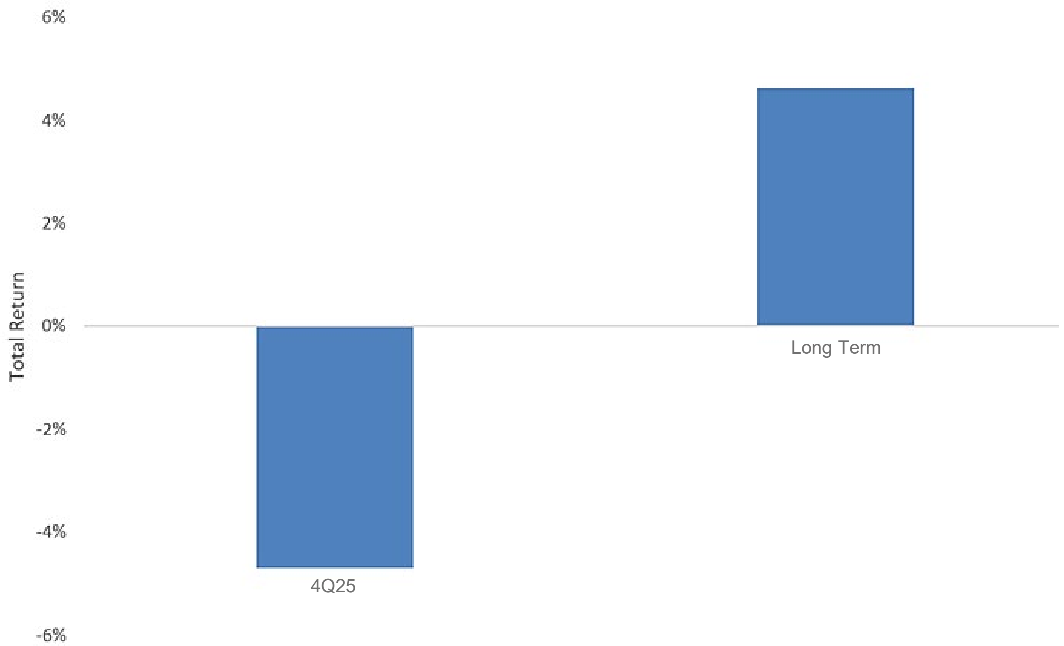
EPS/Stability Characteristic – Most Recent Quarter versus Long Term

(Long Term - January 31, 1985 to December 31, 2025)



This chart measures the performance difference between the top and bottom 10% of stocks ranked by stable earnings per share growth.
Source: Ned Davis Research.

We observed that the nature of market volatility tends to be tightly aligned with the stability of a company's earnings growth. Companies that historically have exhibited more stable earnings growth and results tend to have less volatile stock market moves. The chart on this page summarizes Ned Davis Research data and shows how the EPS/stability characteristic performed last quarter versus how it has performed over the long term. Despite impressive long-term performance from stocks that have historically demonstrated stable earnings growth, last quarter was a challenge, in our opinion. We believe assessing the performance of characteristics over decades rather than quarters provides perspective on durable characteristics that may add value for the long haul.

As always thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is Co-Portfolio Manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation and served as President of CFA Society Virginia from 2012-2013.

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Important Information

Disclosures

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The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Low Volatility Index The S&P 500® Low Volatility Index measures performance of the 100 least volatile stocks in the S&P 500. The index benchmarks low volatility or low variance strategies for the U.S. stock market.

The Russell 1000 Value Index tracks the performance of the 1,000 largest publicly traded companies in the U.S., representing a significant portion of the overall market capitalization of U.S. equities.

Technical Terms: **Earnings per share (EPS)** is a commonly used measure of a company's profitability. It indicates how much profit each outstanding share of common stock has earned. Generally speaking, the higher a company's EPS, the more profitable it is considered to be. **Return on Equity (ROE)** is a measure of a company's financial performance. It is calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is a way of showing a company's return on net assets. **Dividend yield** is a ratio that demonstrates a company's annual dividends relative to its shares' market price. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

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Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long-term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long-term characteristics, if those characteristics are out of favor over a period of time, the given strategy's performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long-term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.