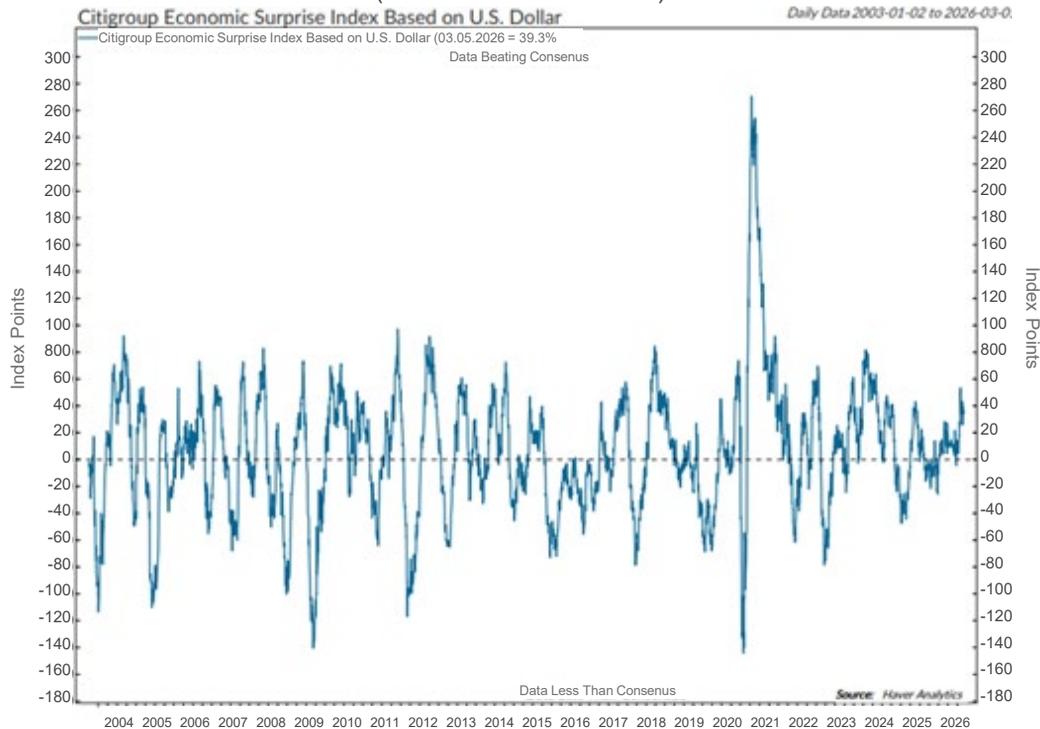


Signposts for Quality Improvement

The Lead | March 2026

Citigroup Economic Surprise Index Based on U.S. Dollar (01.02.2003-03.05.2026)



Data is as of 03.05.2026. Citigroup Economic Surprise Index for the U.S. measures how much data from the past three months is beating or missing median estimates in Bloomberg surveys. The index incorporates key economic data releases where a positive value indicates data is exceeding consensus forecasts (surprising to the upside), while a negative value indicates data is missing expectations, reflecting shifting market sentiment. Sources: Ned Davis Research, Haver Analytics.

We started this year by analyzing how “quality” stocks experienced historic headwinds last year in terms of relative performance in the market, according to BofA’s strategy team. Last month we discussed how investors define quality, typically those companies with strong balance sheets/stable earnings (see “The Lead” – February 2026) and provided perspectives on this term. In a client meeting this month, the conversation turned beyond defining quality to when quality stocks may experience an improvement in relative performance.

We went back and looked at performance over the last two decades, looking for common themes. We believe the first component that drove improved relative performance in quality stocks was the attractiveness of earnings stability that we discussed last month. It appeared to us that the greater predictability and stability of future earnings growth became more attractive after speculative recovery trades were exhausted. When might we see this occur this cycle?

As stock prices tend to follow earnings growth, we think stocks with profits tied to the ebbs and flows of the macro economy or temporary stimulus experience may hit their limit in terms of earnings potential. As their earnings begin to revert back to more historic profitability levels, the stability of earnings that quality stocks provide may offer greater relative value. The chart at the top of this page

measures the level of economic surprises over time. As surprises decline from current elevated levels, we believe quality stock performance may improve. The second chart below shows how a broader lift in profit margins has benefitted many industries. Again, looking back, as the percentage of companies with rising margins began to decline, and showed a tendency to favor companies with more consistent earnings, stability, and predictability.

Percent of S&P 500® Industries with Rising Gross Profit Margins (06.30.1986-09.30.2025)



Data is as of 11.01.2025. Source: Ned Davis Research.

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Relative Valuation: Quality versus Low-Quality Large Cap Stocks



Bloomberg analysis based on U.S. Large Cap quality stocks (investment grade debt ratings BBB- and above versus low quality (investment grade debt ratings BB+ and lower). Price-to-earnings (P/E) ratio compares a company's share price with its earnings per share (EPS). Price-to-book ratio is a comparison of a firm's market capitalization to its book value. The enterprise multiple (EV/EBITDA) is a key ratio used to assess a company's value by considering its debt alongside earnings before interest, taxes, depreciation, and amortization (EBITDA). Data is as of 02.26.2026. Source: Bloomberg, L.P.

We believe one definition of quality is that, all else being equal, investors may be willing to pay a higher price to acquire the asset. If that definition is correct, the market may appear to be offering quality stocks at a discount. The chart on this page shows the relative value of high- and low-quality stocks based on their debt ratings across a number of valuation measures. Across each assessment shown, in our opinion, quality appears to be on sale.

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

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The S&P 500® 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. (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.