

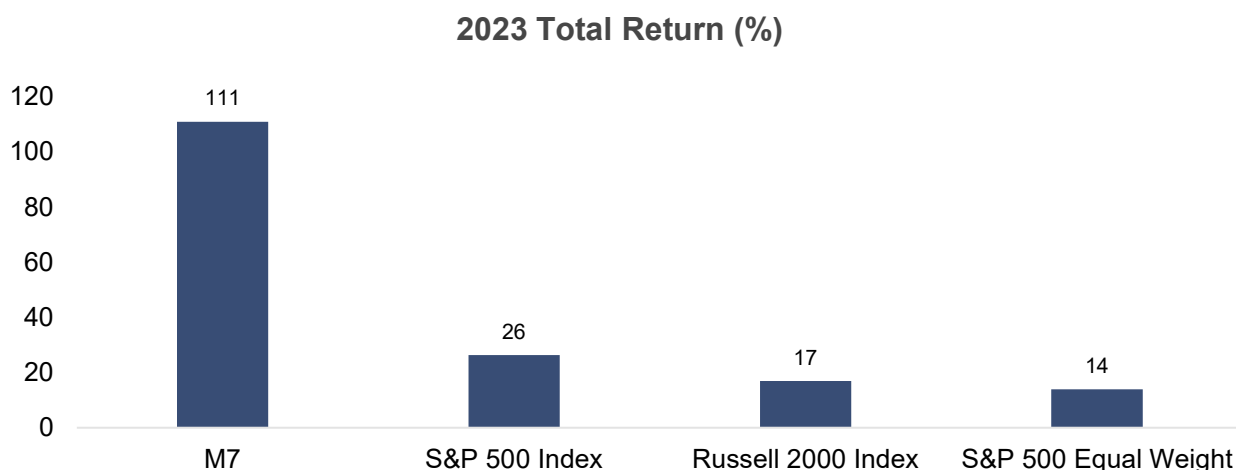
Are the S&P 493 and Small Caps Well-Positioned for Attractive Performance?

January 2024

During the calendar year of 2023, the “Magnificent Seven” (M7) of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla rallied 111% on average, outperforming the S&P 500® Equal Weight Index (+14% total return for 2024) by 97%, leading to an all-time high concentration for the seven largest stocks in the S&P 500® Index. Based on the factors below, some investors believe the rest of the S&P 493 and small-cap stocks are positioned for attractive returns in 2024 and beyond:

- Wall Street analysts expect less attractive returns for the M7 in 2024;
- Historically, significant outperformance by the largest stocks and peak concentration in equity markets have led to outperformance for the rest of the equity market;
- The S&P 493 and small caps appear to be trading at more attractive valuations;
- The law of large numbers favors smaller companies relative to the M7;
- The S&P 493 and small caps have more debt than the M7, and thus may benefit from lower interest rates.

The M7 Outperformed the S&P 500 Equal Weight Index by 97% in 2023¹



Wall Street Analysts Expect Less Attractive Returns for the M7 in 2024

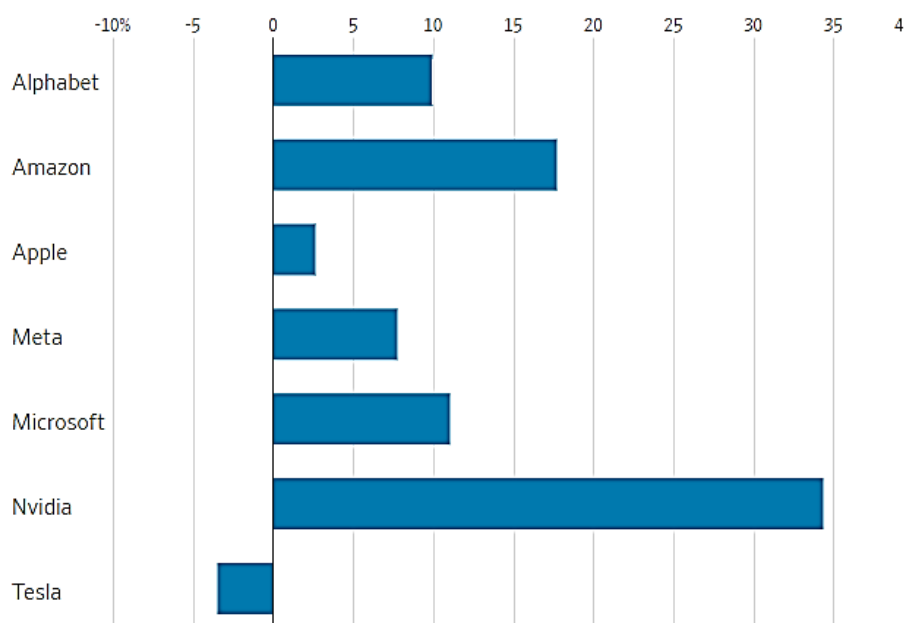
Wall Street analysts expect M7 to average 11.49% in 2024, which is well below their average return of 111% for 2023. In 2024, analysts expect double-digit positive returns for Nvidia, Amazon, Microsoft, and Alphabet, single-digit returns for Meta Platforms and Apple, and a modestly negative return for Tesla. Expected returns are calculated by the one-year average Wall Street analyst target price divided by the current price, according to the Wall Street Journal.

¹Data is as of 12.31.2023. Source: FactSet. The S&P 493 is an abbreviation for the S&P 500 Index minus the M7 and is not an official index. The law of large numbers states that as a company grows, it becomes more difficult to sustain its previous growth rates. Charts are for illustrative purposes only. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is not indicative of future results.

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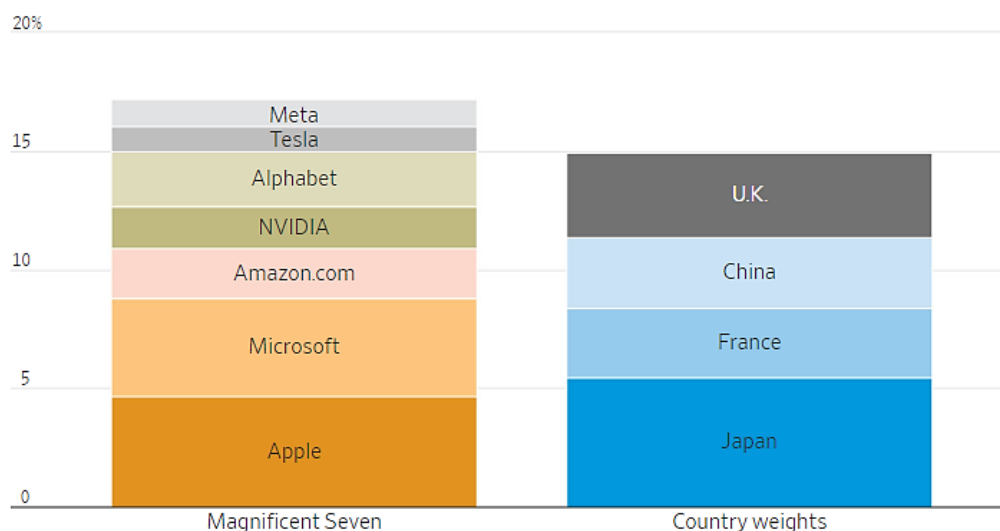
Expected One-Year Return of the “Magnificent Seven” Stocks²



Historical Peaks in Market Cap Concentration Led to Outperformance from the Rest of the Market

The M7's market cap in the S&P 500 is at an all-time high³ at nearly 29% of the index, with a combined market cap that is greater than the combined stock markets of the U.K., China, France, and Japan. Following the concentration peaks of 24% in 1981 and 22% in 2000, the largest seven companies in the S&P 500 generally underperformed the other 493 stocks over the following 3+ years, and the stock concentration in the S&P 500 declined (see chart at the top of page 3.)

M7 Allocation in MSCI ACWI Exceeds Combined Weight of U.K., China, France, and Japan⁴



²Note: calculated as one-year average Wall Street analyst target price divided by current price. Data as of 01.02.2024. Sources: Wall Street Journal; FactSet. ³As of 11.16.2023. Source: The Wall Street Journal. ⁴Weighting in the MSCI All Country World Index. Data as of 12.17.2023. Sources: MSCI; Allspring Global Investments. Charts are for illustrative purposes only. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is not indicative of future results.



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Share of Largest Seven Companies' Market Cap in S&P 500 is at an All-Time High⁵

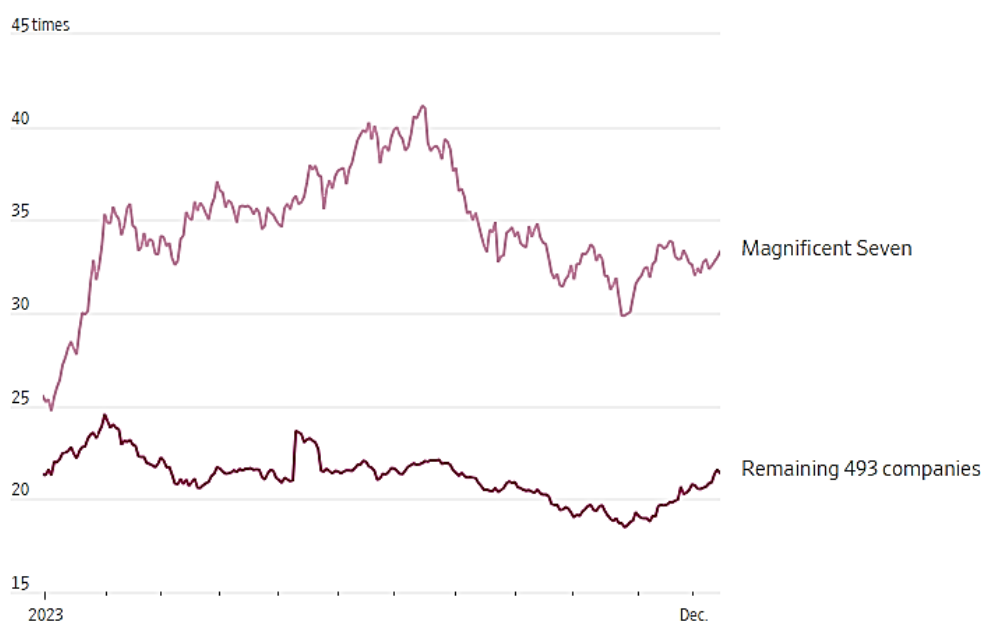
Seven largest companies as share of S&P 500 total market cap



The S&P 493 and Small Caps Are Trading at More Attractive Valuations

At the end of 2023, the M7 was trading at an average price-over-earnings (P/E) of nearly 33x, while the S&P 493 stocks and small caps are trading at an average P/E of 23x, and 24x, respectively. Historically, investing in equities with more attractive valuations led to outperformance over the long run.

Average P/E Ratio for S&P 500 Stocks, Next Twelve Months⁶



⁵Data as of 11.16.2023. Sources: Compustat; Goldman Sachs Research. ⁶Data as of 12.31.2023. Source: Dow Jones Market Data. Charts are for illustrative purposes only. Yields are subject to market conditions and are therefore expected to fluctuate. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is not indicative of future results.



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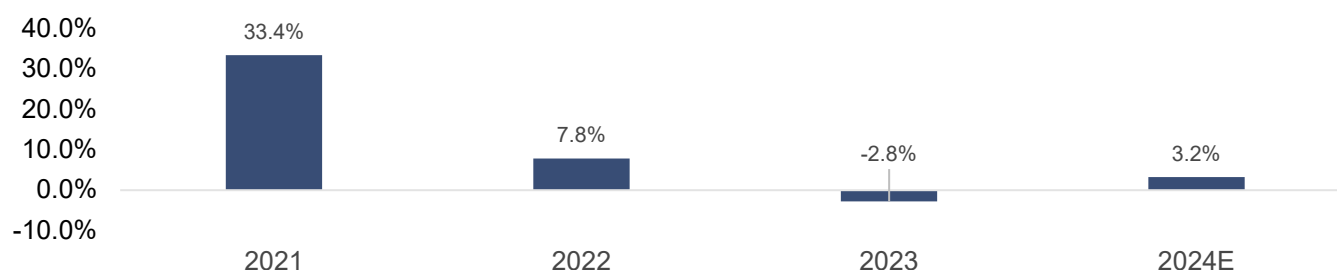
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Law of Large Numbers Favors Smaller Companies Relative to the M7

The law of large numbers states that as a company grows, it becomes more difficult to sustain its previous growth rates. As a result, the company's growth rate declines as it continues to expand, according to the Corporate Finance Institute. For example, Apple generated a revenue decline of -2.8% (ending in September 2023) and revenue growth of 3.2% in fiscal year 2024E, both of which are below Apple's revenue growth of 7.8% in 2022 and 33.4% in 2021. This is partly due to the size of Apple's total revenue in 2022 of \$394B and 2021 of \$365B, according to FactSet.

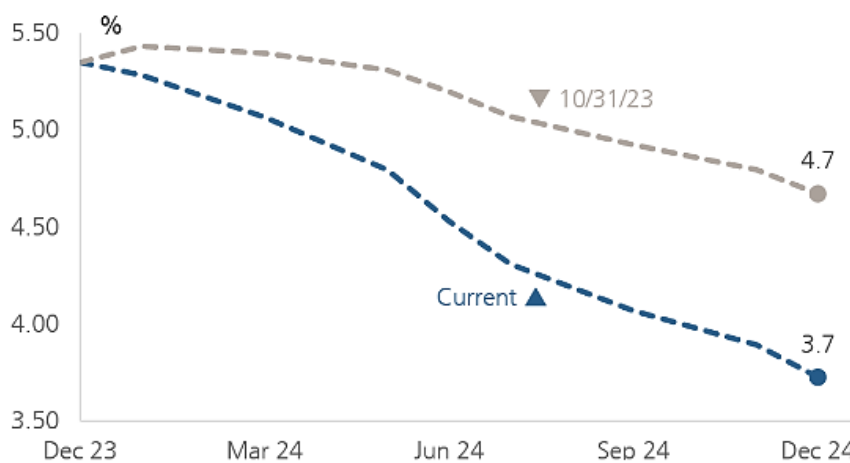
Apple Fiscal Year Revenue Trends 2021 - 2024E⁷



S&P 493 and Small Caps Have More Debt Than the M7, Thus Likely to Benefit from Lower Interest Rates

The fed funds futures market expects the Federal Reserve to cut short-term interest rates approximately six times in 2024 as inflation approaches the Fed's 2% target rate. Since the S&P 493 and Small Cap stocks generally have greater debt and interest expense relative to the M7, lower interest rates could improve earnings growth for the S&P 493 and small caps as these companies might pay less interest on their debt as rates decline (see chart on page 5). Additionally, we believe the S&P 493 and small caps are likely in a more favorable position to refinance their debt over the next few years as interest rates decline.

Fed Funds Futures Expect Six Rate Cuts in 2024⁸



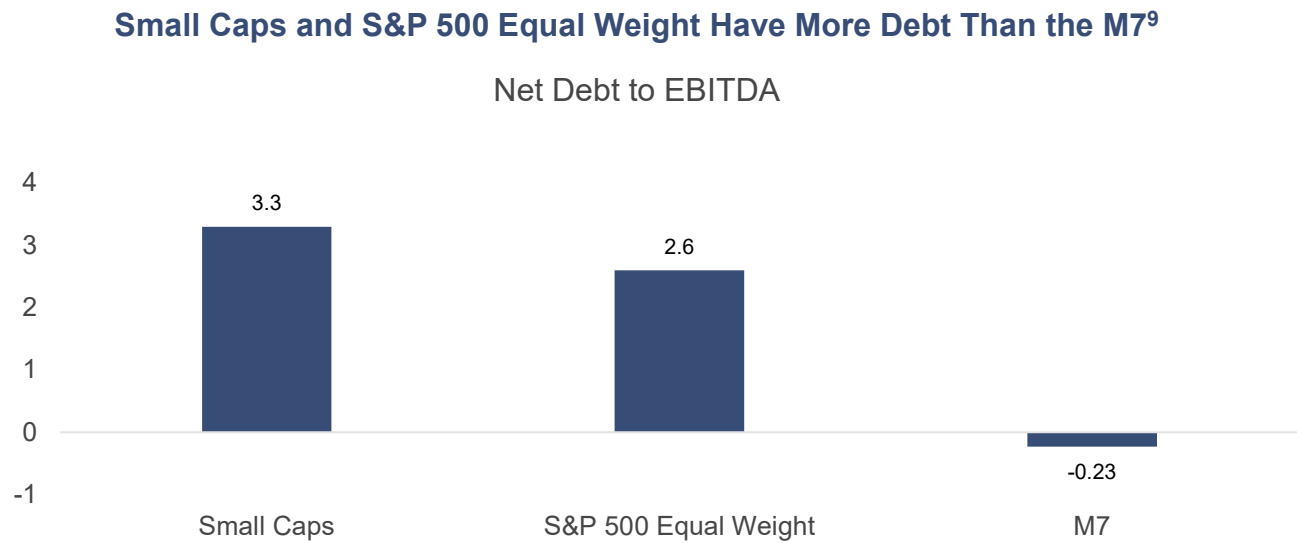
⁷E = estimate according to FactSet. Data as of 09.30.2023, reflective of Apple's fiscal year end. Source: FactSet. ⁸Data as of 12.31.2023. Sources: Federal Reserve; Bloomberg L.P.; UBS. Charts are for illustrative purposes only. Yields are subject to market conditions and are therefore expected to fluctuate. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is not indicative of future results.



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⁹Small Caps are represented by the iShares Russell 2000 ETF (Ticker: IWM). S&P 500 Equal Weight Index is represented by the Invesco S&P 500 Equal Weight ETF (Ticker: RSP). iShares Russell 2000 ETF (Ticker: IWM) seeks to track the investment results of the Russell 2000 Index composed of small-capitalization U.S. equities. Invesco S&P 500 Equal Weight ETF (Ticker: RSP) seeks to track the investment results of the S&P 500 Equal Weight Index composed of an equal weighting of U.S. equities in the S&P 500 Index. M7 holds more cash than debt, thus Net Debt to EBITDA is -0.23. Data as of 12.31.2023. Source: FactSet. The views expressed represent the opinions of Sterling Capital Management. Any type of investing involves risk and there are no guarantees that these methods will be successful. Past performance is not indicative of future results.



Important Information



Whitney Stewart, CFA®
Executive Director, Client Portfolio Manager

Whitney L. Stewart, CFA®, Executive Director, joined Sterling Capital Management in 2018 and has investment experience since 2005. Whitney is a Client Portfolio Manager, focusing on Sterling's equity franchise. Prior to joining Sterling, he was a portfolio specialist supporting the sales effort with the various affiliates within AMG Funds. Before his time at AMG, he was a research analyst and investment counselor with Fisher Investments. Whitney received his B.A. in Economics from University of North Carolina at Chapel Hill. He holds the Chartered Financial Analyst® designation.

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Technical Terms: The **fed funds rate** is the rate banks charge each other for overnight loans of reserves on deposit with the Federal Reserve. The **net debt-to-EBITDA** (earnings before interest depreciation and amortization) ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The **price-to-earnings (P/E) ratio** is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple. (The technical terms are sourced from Corporate Finance Institute and Investopedia.)

A Note on Indices: The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The iShares Russell 2000 ETF seeks to track the investment results of an index composed of small-capitalization U.S. equities. **Fed funds futures** are financial futures contracts based on the fed funds rate and traded on the Chicago Mercantile Exchange (CME) operated by CME Group Inc. (CME).

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500®. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Invesco S&P 500® Equal Weight ETF (Fund) is based on the S&P 500® Equal Weight Index (Index). The Fund will invest at least 90% of its total assets in securities that comprise the Index. The Index equally weights the stocks in the S&P 500® Index. The Fund and the Index are rebalanced quarterly.

ETFs are subject to investment advisory and other expenses, which will be indirectly paid by the Fund. ETFs are subject to issuer risks and other risks specific to the Fund. As a non-diversified fund, the Fund may invest more than 5% of total assets in the securities of one or more issuers. A concentrated portfolio may add a measure of volatility to performance, as a major fluctuation in any one holding will likely affect the fund more than a fund with greater diversification.

Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The Fund may face more risks than if it were diversified broadly over numerous industries or sectors.