

## Portfolio Manager



**Maira Thompson**  
Co-Head of Equity

## Top Contributors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
PulteGroup, Inc.	1.59	0.34
Applied Materials, Inc.	1.40	0.30
Stryker Corporation	1.91	0.30

## Top Detractors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
First Republic Bank	0.52	-0.54
Charles Schwab Corp	1.28	-0.54
Bank of America Corp	1.96	-0.29

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period and the last 12 months, contact [PortfolioAnalytics@ccmg.com](mailto:PortfolioAnalytics@ccmg.com).

## Growth Rally Dominates the First Quarter

## Market Review

Despite an abundance of negative news, the S&P 500 Index rallied 7.0% in the first quarter. Persistent inflation, recession fears, and regional bank failures did not prevent the market rebound which was in anticipation of the end of rate hikes. In 2022, dividend growers and value stocks dominated followed by a sharp reversal in Q1 when growth stocks outperformed value by 1475 basis points and large-cap stocks rallied versus small-cap.

Top contributing performance factors for the High Dividend Equity portfolio were beta, momentum, residual volatility versus detractors including investment quality, earnings variability, and earnings quality. By yield decile, non-dividend stocks and lower yield stocks outperformed the highest yielders. S&P 500 dividends in the quarter rose 6.4% year over year with a record \$146.8 billion paid to investors.

Last year, 83% of S&P 500 dividend payers increased their dividend with the trend continuing this quarter. The strong outperformance in beta stocks was in contrast with weaker corporate fundamentals indicating an earnings recession. Historically, high beta stocks underperform in periods when the next twelve months earnings per share decline.

Q1 earnings growth is expected to decline -5.2% following the Q4 2022 decline of -3.2%. If Q2 expectations of an earnings decline of -4.0% materialize, a total of three negative quarters is a classic earnings recession. In a slower economic environment, we expect quality metrics that are characteristic of dividend stocks to prevail such as valuation, free cash flow, earnings growth, and revenue guidance.

## First Quarter Portfolio Highlights

- For the quarter, the top relative sector performers were Technology, Industrials, and Consumer Discretionary.
- The bottom sectors were Financials, Communications, and Energy.
- The top three individual contributors to portfolio return were PulteGroup, Inc., Applied Materials, Inc., and Stryker Corp., versus detractors First Republic Bank, Charles Schwab Corp., and Banc of America Corp.

## Positioning and Outlook

Technology and Communication stocks dominated with the NASDAQ up 16.7% versus the Russell 1000 Value rising +1.0%. The rotation into growth signaled that the market is "looking through" a potential earnings recession due to a resilient consumer, lower inflation, and weakening commodity prices. We believe that weak economic activity will ease inflation, but companies face margin pressure and less pricing power in

Past performance is not indicative of future results.  
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



the second half of the year. We also believe that additional bank failures or higher rates will increase the odds of an economic recession in the U.S.

The Navigator® High Dividend Equity is positioned with approximately 98.7% in developed countries with the remainder in cash. The United States is the largest country weight at 89.9%, followed by Britain at 4.7% and Switzerland at 2.1%. 92.1% of the portfolio is in large-cap, 5.7% of the portfolio is in mid-cap, 0.9% is in small-cap, and the remainder is in cash. Financials are the largest sector weight at 18.7% and below the benchmark at 20.1%. The next two largest portfolio weights are Healthcare and Information Technology at 18.4% and 11.0%, respectively.

Portfolio changes focused on selling companies that we believe were demonstrating weak business momentum including Allstate Corp, Devon Energy, Caterpillar Inc., The Williams Companies Inc., AstraZeneca PLC, First Republic Bank, and Constellation Brands, Inc. New positions established focused on companies that we believe have strong free cash flow and an improving earnings profile including PPG Industries, Siemens AG, Pentair PLC, General Motors Corp., Celanese Corp., Goldman Sachs Group, Inc.

Sources: NDR, Morgan Stanley, Bloomberg, FactSet

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

International Securities means securities listed on a foreign stock exchange and includes, but is not limited to stocks, shares, bonds, debentures or other debt securities, notes, rights, units, options and any other instruments representing rights to receive, purchase or subscribe for same

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The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price to- book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to book ratios and lower forecasted growth values.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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