Dana All Cap Equity Strategy

Quarterly Review

As of June 30, 2024

The S&P 500 Index delivered another strong quarter in Q2 2024, and once again, a handful of large-cap tech stocks with exposure to explosive AI tailwinds continued to lead the way. Meanwhile, the median stock performance of the Index actually delivered a negative return for Q2. Small-cap stocks, notably the Russell 2000 Index, declined in Q2 as well. Interest rates surprised investors again, this time for their lack of change. Indeed, by the end of the second quarter, yields rose just a bit higher across the curve and finished almost exactly where they had started the quarter. This is in stark contrast to the surprisingly strong move up in interest rates during the first quarter.

Strategy Performance

The top 5 performance contributors were NVIDIA Corporation (NVDA), Alphabet Inc. (GOOGL), Apple Inc. (AAPL), Broadcom Inc. (AVGO), and Microsoft Corporation (MSFT).

Investor enthusiasm over all things AI did not slow in Q2 and NVIDIA has become the purest way to participate in the space. The company reported exceptional financial results, exceeding expectations. NVIDIA's Data Center segment, crucial for AI applications, continued to see explosive growth. Strong demand for AI chips, an optimistic future outlook, increased share buybacks, and a dividend hike further boosted investor confidence. Apple's shares also fared well during the quarter despite challenges surrounding slowing iPhone sales, weak China demand and muted expected near-term growth. The company's services segment continued to experience strong sales growth and management announced a material share buyback. Importantly, Apple's World Wide Developers Conference (WWDC) highlighted Apple Intelligence (AI) offering capabilities such as image generation and text summarization while prioritizing privacy and security. Apple Intelligence is limited to newer devices, particularly the iPhone 15 Pro and Pro Max. This exclusivity is expected to encourage Apple's loyal customer base to upgrade their devices, potentially accelerating iPhone sales, and bolstering AAPL's leadership in consumer technology.

GOOGL is currently one of the world's largest investors in LLM (large language model) computing infrastructure. The company reported strong financial results, exceeding expectations for both earnings and revenue. GOOGL saw robust growth in its Cloud unit and advertising business while improved operating efficiency led to an increase in margins. The announcement of GOOGL's first-ever dividend was also well-received by investors. Optimism around Alphabet's AI initiatives contributed to the stock's rise as well.

Broadcom's earnings beat was two-fold. AVGO's revenue topped $3 billion for AI products and VMware (acquired in Q4 2023) experienced acceleration in orders for its software stack. Positive analyst sentiment, and higher price targets, further bolstered the stock's performance. Lastly, Microsoft's quarterly results cleared a high bar including strong Azure revenue growth. Management's outlook and guidance was positive.

Top 5 Performance Contributors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
NVIDIA Corporation (NVDA)	36.7
Apple Inc (AAPL)	23.0
Broadcom Inc (AVGO)	21.5
Alphabet Inc (GOOGL)	20.8
Microsoft Corporation (MSFT)	6.4

Bottom 5 Performance Detractors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
CVS Health Corporation (CVS)	-25.2
Bristol-Myers Squibb Company (BMY)	-22.5
Envista Holdings Corporation (NVST)	-22.2
Salesforce Inc (CRM)	-14.6
Lowe's Companies (LOW)	-13.0

As measured by contribution to return, the top contributors and bottom detractors represent the best and worst performing securities held by the Strategy based on the position weight and total return of each Strategy holding. Securities are ranked by each position's Individual Performance impact on the Strategy's return for the analysis period. The contributors and detractors are listed in the order of their non-weighted total return.

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While we remain excited about AI driven prospects, we are also aware that many of these stocks are not cheap. Next-gen AI models could be much better and justify the datacenter buildout, yet capex has soared and AI revenue for enterprises is strong but not explosive. This is a fast-moving space.

The largest 5 performance detractors were CVS Health Corporation (CVS), Bristol-Myers Squibb Company (BMY), Salesforce Inc. (CRM), Envista Holdings Corporation (NVST), and Lowe's Companies Inc. (LOW).

CVS is not immune to rising medical cost trends and revised guidance for the full year was worse than expected. The stock reacted negatively to a Medicare Advantage rate update that revealed lower payment increases. A heavily discounted stock multiple did not provide downside support as estimate revisions and sentiment deteriorated. Bristol-Myers suffers from a perceived lack of near-term catalysts and investors are seeking out more exciting near-term or secular growth opportunities within the sector. The stock is trading at a deep value level that includes a single-digit price/earnings multiple and a dividend yield of nearly 6%. However, value is out of favor and the factor performed poorly during the quarter. Envista's revisions are moving lower as North American demand for dental equipment and high end dental implants has softened putting pressure on shares. The company also recently named a new CEO and, while impressions have been positive, new leadership adds an element of uncertainty. The company has been especially efficient leaving little room for operational improvements and investors await a turn in macro fundamentals. We like the long-term prospects and quality management.

In technology, investors have been sour on software stocks lately due to concerns regarding slowing growth rates. Salesforce did not help change that narrative in the second quarter. The company reported weaker than expected results and disappointing guidance. Growth is decelerating and deal cycles are longer. There are also concerns regarding the success of CRM's AI strategy. Finally, home improvement company, Lowe's, cited pressure in DIY larger ticket discretionary spending leading to lower comparable sales year-over-year. Continued uncertainty over the pace or probability of interest rate cuts, stubborn inflation and low housing turnover is also weighing on consumer demand.

Strategy Activity

There were no additions or deletions to the Strategy this quarter.

Outlook

Growth and particularly AI storied stocks should continue to capture investors' imagination and investment dollars. The anticipated Fed rate cuts are still on pause, with the market beginning to accept the possibility of fewer and more delayed cuts ahead. Our expectations for rate cuts have been pushed out along with others. Investors may need to see rate cuts to spur market breadth and confidence in earnings growth across sectors. We remain committed to our disciplined stock selection process.

Source: Dana Investment Advisors; (a) FactSet Research Systems; (b) Morningstar Direct.

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