# CARILLON CLARIVEST CAPITAL APPRECIATION FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

THIRD QUARTER | 2023

## Investment Team

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## Characteristics

Total Net Assets (millions): $368.32

Number of Holdings: 72

## Top 10 Holdings

- Apple
- Microsoft
- NVIDIA
- Amazon.com
- Meta Platforms
- Alphabet Class A
- Tesla
- Alphabet Class C
- Eli Lilly
- Visa

***Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial professional for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.***

## Market Overview

July kicked the third quarter of 2023 off to a strong start, but the continued upward momentum in interest rates was too much for equity markets to overcome with many indices ending up negative for the quarter.

Markets have remained laser-focused on the "magnificent seven," the mega-cap technology stocks that now make up more than 25% of the weight of the S&P 500 Index and are responsible for 85% of its gains year to date. Meanwhile, ChatGPT's release has triggered waves of excitement (and questions) about the potential benefits to specific companies and the world as a whole. Goldman Sachs estimates artificial intelligence (AI) could drive a 7% (almost $7 trillion) increase in global gross domestic product (GDP) and lift productivity growth by 1.5% over the next 10 years.

The U.S. Federal Reserve (Fed) left its key policy rate – the federal funds rate – unchanged in September (at a range of 5.25% to 5.5%) but signaled that another rate hike later this year is currently the consensus view of its board members. The Fed has been consistent in the message that it will continue to keep rates high until inflation comes down. In our opinion, this "higher for longer" message finally seems to be getting through to investors and has translated into pressure on both equities and bonds.

The quarter saw U.S. 10-Year Treasury yields spike to 16-year highs in an environment that a regional Fed president said may be a "high pressure equilibrium," characterized by high inflation, low unemployment and positive growth. That said, inflation is slowing. The Fed's preferred inflation metric, the "core" Personal Consumption Expenditures (PCE) Price Index, which excludes volatile food and energy prices, rose by just 0.1% in August and 3.9% year over year. This is the first time the reading came in below 4.0% in more than two years. And while the metric is still above the Fed's stated 2% target rate for inflation, it is much lower than it has been since inflation began to rise more than two years ago.

In Washington D.C., a last-minute deal temporarily averted (read: kicked the can down the road) a government shutdown. In a surprising turn of events, Congress passed legislation late on Sept. 30 to fund government operations until Nov. 17. President Biden signed the bill into law just 32 minutes before the midnight deadline. Of course, now lawmakers face a new mid-November deadline that will be just as tricky (if not trickier) to navigate.

The 30% surge in West Texas Intermediate crude (a commonly used U.S. crude oil benchmark) over the quarter, coupled with the United Auto Workers strike, also fed inflation and economic concerns. The jump in prices to their highest levels in over a year was driven by decreased supply amid production cuts from OPEC+ (the Organization of the Petroleum Exporting Countries plus other oil-producing nations) and Saudi Arabia, in particular, while demand from consumers has remained strong.

The Fund does not invest in securities traded in markets outside the United States, but given the interconnectedness of global markets, we monitor macroeconomic developments abroad for potential impacts to the U.S. large-cap companies that are our focus. European business activity contracted again in August, and that has increased recession fears. Yet European equity markets do not seem to reflect this extended string of disappointing data. For example, the MSCI Europe Index is up 25.4% over the year ending Sept. 30, 2023, compared with 21.2% for the Russell 1000® Index, despite the difference in economic momentum. This outperformance stems in part from how low the valuations for European stocks had become a year ago, given the very low expectations for European economic growth and the continuing bias of U.S. investors against European stocks. This sentiment has the potential to be a source of future opportunities as Europe inevitably turns around, and as investors are likely, in our view, to remain anchored to long-term negative news and to discount any positives.

China has been having a tough year, as the pace it set for growth in the first quarter – 2.2% – slowed to 0.8% in the second quarter. China's national data shows a country mired in deflation, plunging exports, youth unemployment above 20%, a consumer pullback and a fragile property sector. A weakening real estate sector is a serious problem for China, as the property market is estimated to have accounted for one quarter of the country's GDP in recent years. Worries about the housing market appear to be eroding overall consumer confidence and the pace of spending on goods. Given that China is the world's second-largest economy, all eyes are watching to see if it can navigate a turnaround.

## Portfolio Review

At the start of the quarter, the Carillon ClariVest Capital Appreciation Fund (the "Fund"), as compared with the Russell 1000® Growth Index, was most overweight the information technology and healthcare sectors and most underweight consumer discretionary and communication services. At the end of the quarter, the portfolio continued to be most overweight information technology and healthcare and was most underweight consumer discretionary and consumer

## Portfolio Review

| Top Securities | Average Weight (%) | Contribution to Return (%) |
|---|---|---|
| Alphabet* | 5.48 | 0.43 |
| NVIDIA | 6.14 | 0.20 |
| AbbVie | 1.72 | 0.17 |
| Splunk | 0.44 | 0.16 |
| Eli Lilly | 1.69 | 0.15 |
| **Bottom Securities** | | |
| Apple | 12.18 | -1.46 |
| Microsoft | 11.51 | -0.82 |
| Fortinet | 0.92 | -0.22 |
| Netflix | 1.07 | -0.16 |
| Intuitive Surgical | 1.01 | -0.15 |

*As of Sept. 30, 2023. The information provided above should not be construed as a recommendation to buy, sell, or hold any particular security. The data are shown for informational purposes only and are not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the fund. They are provided for informational purposes only. Carillon Tower Advisers, ClariVest Asset Management, their affiliates, or their respective employees may have a position in the securities listed. Please contact Carillon at 800.421.4184 to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall fund's performance during the measurement period.*

** Combines both Class A and C shares.*

staples. Within the universe of the Russell 1000® Growth Index, energy and communication services performed the best while utilities and real estate lagged.

During the third quarter of 2023, an underweight to real estate and an overweight to healthcare helped performance, while an overweight to information technology and an underweight to energy detracted. Stock selection was strong within information technology and consumer staples but was weak within financials and communication services.

**Top securities**

Alphabet, the parent company of Google, provides online advertising services worldwide. The company launched its chatbot in Europe and Brazil and said that the artificial intelligence tool can now be interacted with in more than 40 languages and includes new features such as the ability to use images in chat.

NVIDIA designs, develops and markets 3D graphics processors and related software. The company also expanded its partnership with Google Cloud to advance AI computing, software and services.

AbbVie, the research-based biopharmaceutical company, announced quarterly results that came in ahead of expectations partly because of strong performance from its product suite beyond Humira, its drug for rheumatoid arthritis, Crohn's disease and other illnesses.

Splunk, the cloud software solutions provider, delivered another solid quarter and raised guidance. Shares also rose further on the announcement of the company's expected acquisition by a leading networking technology company.

Eli Lilly, the drug manufacturer, announced the completion of previously disclosed acquisitions of Versanis Bio and Sigilon Therapeutics, as it continues to expand its pipeline for diabetes and weight-loss medications. Shares gained after its sales and earnings per share exceeded estimates and a competitor's study on the beneficial results of these treatments reported positive data.

**Bottom securities**

Apple designs, manufactures and markets mobile communication devices, personal computers and media devices. Shares fell following a report that Chinese government agencies have barred staff from using Apple products at work because of security concerns.

Microsoft develops and markets software and hardware services. European Union antitrust regulators opened an investigation into Microsoft for the bundling of its Teams and Office products amid concerns about competition.

Fortinet provides cybersecurity solutions to a variety of business, such as enterprises, communication service providers, and small businesses. The stock plunged following the company's quarterly report as billings missed estimates and the company gave cautious guidance on the basis of macroeconomic concerns.

Netflix, the internet streaming subscription service company, missed expectations. That suggested the company's crackdown on password sharing has yet to deliver the sales growth analysts expect.

Intuitive Surgical provides robotic-assisted surgical solutions and invasive care through a comprehensive ecosystem of products and services.

Management expects the backlog of deferred surgical procedures to take several quarters to recover, with bariatric surgery growth potentially slowing down with the increasing use of weight-loss drugs.

## Outlook

A big question facing the markets is: Are we at the peak in the interest rate cycle, or are there more hikes ahead? There are economic signs to support (or to oppose) the statement that the Fed's rate-hike cycle has done its job – slowing the economy enough to cool inflation – and can be ended. Whether the central bank still sees the need for another increase is a key question as we head into the final quarter of the year and look to 2024. Regardless, there has been enough uncertainty about the Fed's decision to cause volatility in both the stock and bond markets.

The "dot plot" is a chart that records each Fed official's projection for where the federal funds rate will be at the end of each year. Based on the dot plot, the consensus still looks for one more rate hike this year while the size of rate cuts in 2024 has decreased. The median dot for next year suggests a year-end rate of 5.1%, compared to a median projection of 4.6% at the June meeting. Likewise, the year-end fed funds rate projection for 2025 was revised from 3.4% up to 3.9%. In other words, Fed projections continue to suggest a "higher for longer" interest rate environment.

The impact of higher rates is showing up in the labor market, but less than one might have expected given the macroeconomic environment. The U.S. unemployment rate rose in August to 3.8%, in part from a combination of fewer job openings and increased workforce participation. These trends have decreased pressure on companies to continue raising wages. Over the long run, the declining trend in inflation and balance in labor markets should allow yields to fall from current levels.

Expectations of weaker economic data from the Eurozone feel baked in and no longer seem to hurt stock prices. Investors willing to look beyond the current weakness could start to drive up price-to-earnings ratios from these depressed levels as they anticipate the next upswing. Counterintuitively, more disappointing economic data could act as a catalyst if it proves to be weak enough to persuade the European Central Bank to cut interest rates.

Other potential catalysts for the next economic upswing could include effective stimulus in China, a rebound in European consumer spending as rapid disinflation pushes up real incomes, or restoration of the grain deal between Russia and Ukraine, which would help ease food prices that are currently the largest component of overall Eurozone inflation.

A tipping point for the U.S. economy could come if declines in corporate profits force firms into measures such as layoffs and decreased capital expenditures, and households are forced to respond by cutting back on spending. While central bank moves take time to work, some companies are starting to feel the pressure from tighter lending conditions and costlier funding. Economists surveyed by Reuters in August estimated the risk of recession in the next year to be 55%. This is down from a recent high of 65%, but well above the 25% estimate from April 2022. Meanwhile, mounting pressures on the consumer include higher energy and housing prices that could continue to deplete savings and accelerate delinquencies.

While such factors could lead to increased uncertainty, there are many opportunities for investors to find value and growth in a rapidly evolving market. Our stock market outlook for the fourth quarter and 2024 is one of (very) cautious optimism. Global equity markets have experienced a turbulent year so far in 2023, with investors grappling with a range of questions, but there are also reasons to continue to see the glass as half full. For example, robust corporate earnings continue to provide a strong foundation for current equity valuations. However, investors will need to remain vigilant and closely monitor market conditions to navigate the challenges and opportunities that lie ahead.

*Risk Considerations: As with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.*

*Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns.*

*Investments in mid-cap and small-cap companies generally involve greater risks than investing in larger capitalization companies. Mid-cap companies often have narrower commercial markets, more limited managerial and financial resources, and more volatile trading than larger, more established companies.*

*Quantitative risk involves the dependence on proprietary quantitative tools for security selection which may not be predictive of a security's value.*

***Securities in the Carillon Clarivest Capital Appreciation Fund are typically selected from investment universes consisting of U.S. Large Cap and U.S. Mid Cap companies, but may invest in the stocks of U.S. companies of any size without regard to market capitalization. The fund does not invest in securities traded in markets outside of the U.S.***

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Definitions

A consensus estimate is a forecast of a public company's projected earnings or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or the data in question.

The U.S. Federal Reserve dot plot is a chart summarizing the Federal Open Market Committee's (FOMC) outlook for the federal funds rate. Each dot represents the interest rate forecasted by one of the 12 members of the committee.

The federal funds rate is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Guidance is statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses.

The term "magnificent seven" refers to the seven largest stocks in the S&P 500 index, which collectively make up more than 25% of the market capitalization of the entire index. These stocks are Apple, Alphabet, Amazon, Meta Platforms, Microsoft, Nvidia and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock. It is calculated by multiplying a company's current stock price by its total number of outstanding shares.

The Organization of the Petroleum Exporting Countries is an organization enabling the co-operation of leading oil-producing countries to collectively influence the global oil market and maximize profit. Current OPEC members are Algeria, Angola, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, the Republic of the Congo, Saudi Arabia, the United Arab Emirates and Venezuela. Ecuador, Indonesia and Qatar are former OPEC members. A larger group called OPEC+, consisting of the OPEC members plus other oil-producing countries, formed in late 2016 to exert more control on the global crude-oil market. Canada, Egypt, Norway and Oman are observer states.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

The Personal Consumption Expenditures (PCE) Price Index, also known as the core PCE Price Index, is a measure of the prices that U.S. consumers pay for goods and services, not including two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices. The core PCE Price Index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, measures inflation trends and is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

The price-to-earnings (P/E) ratio measures a company's current share price relative to its earnings per share. The ratio is used to help assess a company's value and is sometimes referred to as the price multiple or earnings multiple.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

West Texas Intermediate (WTI) is a grade or mix of crude oil. The term is also used to refer to the spot price, the futures price, or assessed price for that oil. In colloquial usage, WTI usually refers to the WTI Crude Oil futures contract traded on the New York Mercantile Exchange (NYMEX). The WTI oil grade is also known as Texas light sweet, oil produced from any location can be considered WTI if the oil meets the required qualifications.

Indices

The Russell 1000® Growth Index, the Fund's benchmark, measures a growth-oriented subset of the Russell 1000 Index, which tracks approximately 1,000 of the large-sized capitalization companies in the United States equities market.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represent approximately 93% of the total market capitalization of the Russell 3000® Index.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets in Europe. With 427 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

Indices are unmanaged, and one cannot invest directly in an index.

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