

Putnam U.S. Large Cap Value Equity Concentrated SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US equity markets delivered gains in the fourth quarter, driven by strong earnings, Fed interest-rate cuts, and optimism around artificial intelligence.
- **Contributors:** Stock selection in the financials, consumer discretionary, industrials, and materials sectors
- **Detractors:** Stock selection in information technology and underweight exposure to communication services
- **Outlook:** We expect investors will continue to focus on actions from a divided US Federal Reserve, and we are monitoring lofty equity valuations and potential headwinds in the consumer sector.

Performance Review

- For the quarter, the portfolio generated a positive return and outperformed its benchmark, the Russell 1000 Value Index. Stock selection drove the positive relative performance while sector allocation decisions detracted modestly.
- Stock selection contributed most in the financials, consumer discretionary, industrials, and materials sectors. This was partially offset by relative weakness among stocks in the information technology sector. From a sector allocation perspective, an underweight to real estate added to relative performance while underweight exposure to communication services detracted.
- Top individual contributors to performance included overweight positions in Southwest Airlines (industrials), General Motors (consumer discretionary), Freeport-McMoRan (materials), Citigroup (financials), and Regeneron Pharmaceuticals (health care).
- Detractors included avoidance of Micron Technology (information technology), an out-of-benchmark position in Microsoft (information technology), and relative overweight positions in PulteGroup (consumer discretionary), T-Mobile (communication services), and Northrop Grumman (industrials).

Outlook

- The US economy and equity markets demonstrated resilience in 2025 despite concerns surrounding the impact of import tariffs. Looking ahead, we expect investors will continue to focus on actions from a divided US Federal Reserve. The Fed is challenged with a combination of inflation that is above target and a weakening employment outlook.
- Economic growth should be supported by an ongoing weak US dollar. Growth could accelerate due to the Trump administration's One Big Beautiful Bill, which supports increased capital spending and ongoing expansionary tactics.
- We are watching the consumer closely, given its significant impact on the overall economy. Data has pointed to a healthy consumer, with the credit picture particularly strong. However, we are mindful of potential headwinds, including the mid-2025 expiration of the student loan moratorium, expiring health care subsidies, increasing bifurcation between low-income and high-income consumers, and declining sentiment indicators.
- Equity valuations have been elevated by optimism over accelerating economic growth and the potential of AI to boost innovation, capital spending, and productivity. We have a cautious eye on lofty valuations that are so dependent on AI performance and investment. Markets could be vulnerable to results that don't meet the high expectations. However, high valuations could be supported by continued high earnings growth, fueled by AI spending and the One Big Beautiful Bill.
- With mid-term elections later in the year, we expect election-related headlines to cause market volatility. Given the delicate balance of power in both the House and Senate, we would anticipate significant efforts by the current administration to keep approval ratings high.

Top Equity Issuers (% of Total)

Holding	Portfolio
Citigroup	4.57
Walmart	3.85
Cisco Systems	3.64
Alphabet	3.60
Exxon Mobil	3.19
Bank of America	2.98
American International Group	2.96
McKesson	2.83
Capital One Financial	2.79
Microsoft	2.78

Average annual total returns (%) - as of December 31, 2025-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Gross of Fees	7.54	14.53	24.55	24.55	20.94	18.53	—	—	—	—	15.65	11/30/2016
Net of Fees	6.76	12.88	20.98	20.98	17.46	15.12	—	—	—	—	12.31	11/30/2016
Benchmark	3.81	9.34	15.91	15.91	13.90	11.33	—	—	—	—	10.00	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Value Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe.

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Source: FTSE.

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