COOKE & BIELER

Q2 2026

Large Cap Value Equity

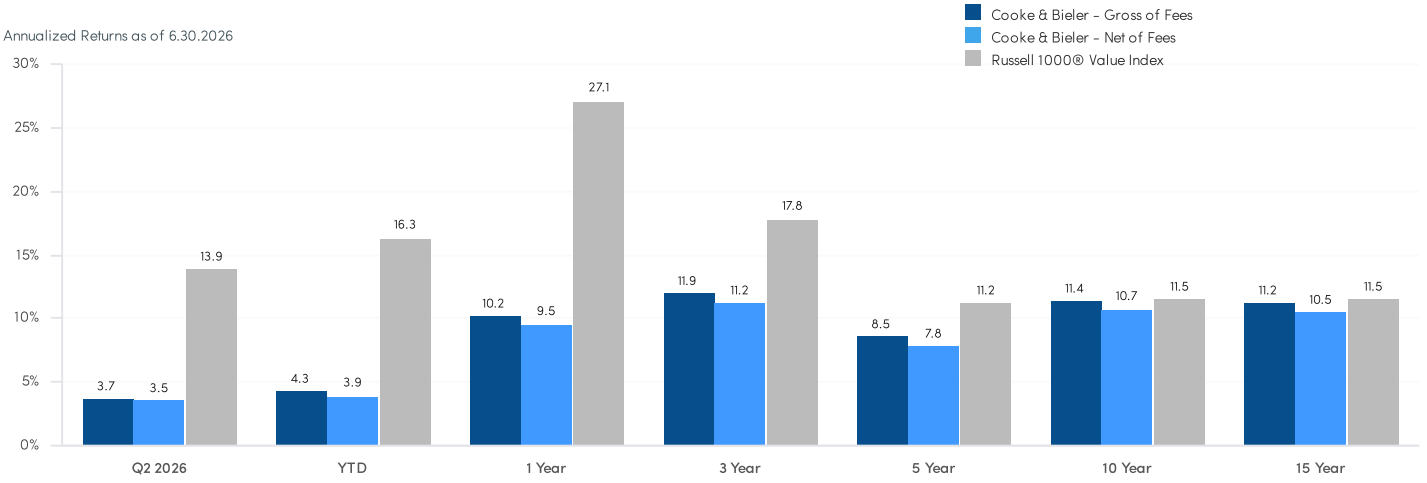
Overview

U.S. equities moved sharply higher in the second quarter. Markets remained decidedly risk-seeking as geopolitical risk shifted from a headwind to a tailwind, and investors continued to favor high beta stocks regardless of profitability. This stance further fed the momentum of AI enthusiasm, which dominated all other themes across indices and drove the S&P 500® and Nasdaq Composite® Index to their strongest quarterly returns in six years. Not surprisingly, growth beat value and small cap issues surged, though even within value benchmarks, Information Technology constituents drove index returns, posting extraordinary 50%–80% total sector returns in the quarter. Energy retreated on dramatically lower oil prices and tentative progress toward a ceasefire in Iran, marking a sharp reversal from its first quarter dominance, though the risk-on trends that emerged at the onset of the conflict otherwise accelerated in April and May. These forces posed intense style headwinds for the firm, though they eased somewhat across several strategies in June as investors began to question tech valuations and earnings. And while most sectors advanced, the market remains highly concentrated and dependent on both momentum and underlying economics that appear worryingly speculative or unsustainable.

Portfolio Performance & Developments

Cooke & Bieler's Large Cap Value Strategy posted a solid absolute result during the exuberant second quarter, but its 3.67% return gross of fees (3.50% net of fees) significantly lagged that of the Russell 1000® Value Index's at 13.87%. Both sector allocation effect and stock selection effect detracted from results, though sector allocation was the primary driver of underperformance. Stock selection was weakest within Financials holdings such as Fiserv and London Stock Exchange. While many other Financials holdings generated positive absolute returns, most were unable to keep pace with the broader benchmark sector return. Information Technology, Communication Services, and Real Estate holdings such as NXP Semiconductors, Verizon Communications, and Crown Castle also lagged their benchmark sector constituents. Conversely, Materials and Industrials holdings such as PPG Industries and RB Global contributed to relative results.

Large Cap Value Equity Composite Performance



Source: FactSet and Russell®

Returns greater than one year are annualized. Past performance is not indicative of future results. All investing involves risk, including loss of principal. Effective at the market opening on March 24, 2025, Russell US Style Indexes have applied the RIC 22.5/45 capping methodology if index weights breached the thresholds as of the quarterly review pricing dates.

Click for additional C&B Large Cap Value Performance Disclosures

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Five Largest Contributors/Detractors

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
UnitedHealth Group	2.2	54.5	88
Aramark	2.1	40.7	74
NXP Semiconductors	2.1	43.2	64
RB Global	2.6	21.9	53
State Street	0.9	31.1	34

	Avg Weight (%)	Gross Total Return (%)	Gross Contrib. to Return (bps)
ConocoPhillips	2.5	-20.7	-56
Occidental Petroleum	1.6	-24.9	-46
Verizon Communications	2.5	-14.4	-39
Fiserv	2.1	-12.1	-23
Ingredion	1.4	-15.3	-22

Source: FactSet

Past performance is not indicative of future results. All investing involves risk, including loss of principal. The performance attribution is an analysis of a representative Large Cap Value institutional portfolio's gross of fees return relative to the Russell 1000® Value Index. The Large Cap Value composite returned 3.50% net of fees and 3.67% gross of fees during the quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large Cap Value clients. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the quarter, contact your client service representative or email your request to contact@cooke-bieler.com.

Largest Contributors

UnitedHealth Group (UNH), a comprehensive health care company that touches all key aspects of the U.S. health care system through its managed care, health care IT, pharmacy benefits management, primary care provider, home health, and facilities operations, was the largest contributor. The stock's valuation was positively impacted by a better than expected final rate ruling provided for the Medicare Advantage program and favorable first quarter earnings.

Aramark (ARMK), a global leader in the food services and facilities management industry, was the second-largest contributor. ARMK continues to gain market share in attractive verticals, including health care, which combined with strong retention rates, is leading to strong organic growth. In addition, ARMK introduced Aramark Nexus, a new platform focused on integrated hospitality and workforce support services for hyperscale AI data centers, and provided incremental and attractive details outlining potential future financial impacts.

NXP Semiconductors (NXPI), a global Dutch semiconductor company with expertise in processors, analog, security, and connectivity, was the third-largest contributor. The stock benefited from unexpectedly strong revenue growth as well as improved free cash flow margins. The company delivered strong results despite elevated inventory levels and soft demand from China. Longer-term, NXPI has grown its presence in industrial automation, physical AI and its adaptation of analog chips, and data center infrastructure, creating sustainable growth opportunities in new markets.

Largest Detractors

ConocoPhillips (COP), one of the largest international E&P companies with a scaled and well-diversified portfolio of assets, was the largest detractor. Easing geopolitical tension in June pushed oil prices lower, weighing on E&P stocks broadly. Still, COP continued to demonstrate strong capital discipline, returning excess cash to shareholders through buybacks and dividends. Free cash flow should grow further as spending on major LNG projects and Willow winds down in the coming years.

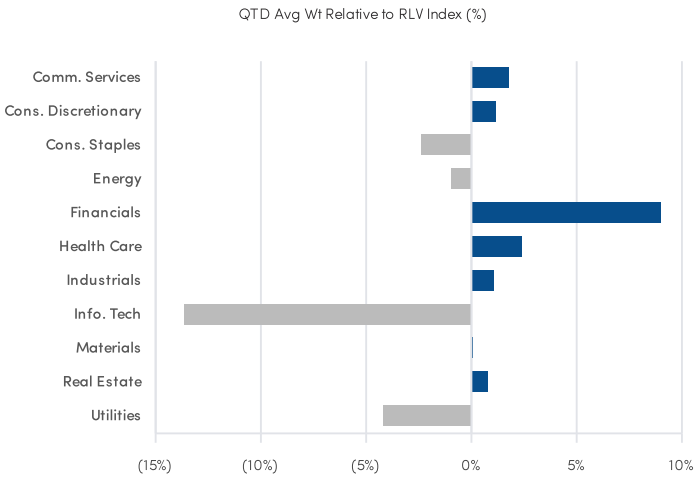
Occidental Petroleum (OXY), a diversified E&P company with strong shale and conventional assets, was the second-largest detractor. Easing geopolitical tension in June pushed oil prices lower, weighing on E&P stocks broadly. Given that 51% of OXY's production is crude oil, the stock came under additional pressure amid easing supply disruption fears. Around the same time, the company completed a CEO transition, posing a further headwind. Still, the company's U.S. positioning made them less vulnerable to the Strait of Hormuz disruptions that affected competitors, and they put up better than expected first quarter production while guiding to stable volumes for the rest of the year.

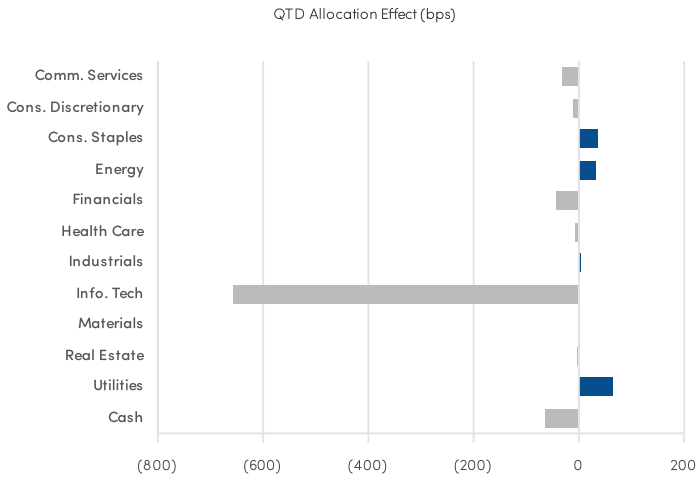
Verizon Communications (VZ), a leading provider of wireless and wired connectivity, was the third-largest detractor. While the company reported solid earnings and early progress on the new CEO's strategic initiatives, the stock sold off sharply toward the end of the quarter amid fears that SpaceX (SPCX) might launch a satellite-based mobile wireless service. While we would not doubt SPCX's technological prowess or deep pockets, the barriers to a successful satellite-only wireless service, particularly in densely populated areas, are considerable. Trading at a single digit multiple of earnings and with improving cost management and capital allocation, we believe the risk-reward profile remains favorable.

Large Cap Value Equity

Sector Positioning

Portfolio positioning was decidedly negative during the second quarter. The strategy's underweight in Information Technology drove nearly all of this shortfall as the sector posted a staggering return of approximately 80% during the quarter amid the accelerating theme of AI driven capex across industries. Despite the market's enthusiasm and our deep coverage in the space, the majority of holdings in the universe do not currently fit the firm's framework for investability on the basis of valuation and profitability. Therefore, the portfolio remains underweight, although we continue to look for viable opportunities within the sector. Outside of Information Technology, the portfolio's overweight to Financials and Communication Services posed more modest headwinds to relative performance. An underweight to Utilities was a partial positive offset.





Source: FactSet

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Initiations

There were no initiations.

Eliminations

Stanley Black & Decker (SWK) was eliminated to make room for better opportunities.

State Street (STT) reached its price target and was eliminated.

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Outlook

The U.S. stock market enters the second half of the year riding a monumental but narrow wave of momentum. The environment has increasingly become a winner-take-all affair, greatly rewarding AI infrastructure providers and perceived beneficiaries while ignoring almost everything else, regardless of underlying economics or cash flow generation. This dynamic has been reinforced by benchmark construction, persistent flows into passive strategies, and proliferation of highly leveraged and narrowly themed investment vehicles, resulting in a market that appears more speculative than almost any period since the late 1990s. In such an environment, the pressure to get on the wave and chase market leaders is immense.

We appreciate the market's passionate enthusiasm for AI and recognize the favorable near-term supply and demand dynamics benefiting certain enabling technologies. At the same time, the revenue and profitability required to justify today's elevated capital spending and valuations appear increasingly demanding, especially as implementation costs rise and pressure grows to show true transformational effects and not just potential from AI usage. Also worrying, creative – and in some cases circular – financing schemes are increasingly being used for the massive AI infrastructure buildout. At this point, we see aggressively bullish scenarios reflected in current earnings expectations and valuations of AI themed stocks, leaving them particularly vulnerable to fundamental disappointment and downside corrections.

Our limited exposure to the market's favorite areas has left our strategies increasingly out of favor over the past year, resulting in frustratingly weak relative performance. Our experience tells us that now, more than ever, we must remain disciplined and true to our investment principles. Although relative valuation contraction has been a significant headwind, consistently solid fundamental progress across many of our holdings over the past two to three years reinforces our confidence in our process and the quality of our portfolios. We also see increasingly attractive opportunities to invest in businesses with limited risk of AI disruption, above-average underlying economics protected by durable competitive advantages, and valuations grounded in discounted cash flow reality rather than thematic enthusiasm. We believe our portfolios are increasingly well positioned to outperform, supported by continued strong fundamental progress as well as the normalization of their unjustifiably low relative valuations.

Sources: Bloomberg, FactSet, Forbes, Wall Street Journal

Past performance is not indicative of future results. All investing involves risk, including loss of principal. The material presented represents the manager's assessment of the Large Cap Value institutional portfolio and market environment at a specific point in time and should not be relied upon by the reader as research or investment advice regarding any particular security or sector. The above commentary and portfolio attribution are based on a representative Large Cap Value institutional portfolio for the quarter ending 6/30/26. Certain client portfolios may or may not hold the securities identified above due to the respective account's guidelines, restrictions, required cash flows, or other relevant considerations. The performance attribution is an analysis of the portfolio's return relative to the Russell 1000® Value Index. The holdings identified do not represent all of the securities purchased, sold, or recommended for Cooke & Bieler's Large Cap Value clients. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the quarter, contact your client service representative or email your request to contact@cooke-bieler.com.

Additional Cooke & Bieler Large Cap Value Performance Disclosures