

# L2 US LARGE CAP VALUE STRATEGY

Portfolio Manager Quarterly Commentary as of March 31, 2026

## Q1 2026 STRATEGY PERFORMANCE:

The Russell 1000 Value ETF rose 1.97%, while L2's strategy rose 3.83%<sup>1</sup> net in the quarter. In a quarter characterized by extreme volatility, we are happy with the performance of the strategy and continue to pound the table on the availability of high-quality companies trading at reasonable prices.

## MARKET OVERVIEW: QUICK SUMMARY

Large Cap Value and Midcap benchmark ETFs delivered modest but positive returns in Q1 2026 of 1.97% and 1.27%, respectively, due to their relatively large exposures to the Energy sector. In contrast, with much smaller weights in Energy and big losses in Information Technology stocks, Large Cap Core declined -4.29% and Growth, which has almost no Energy stocks, tumbled -9.83%.<sup>2</sup>

As these returns show, this quarter, or more specifically, the final month of the quarter, was all about Energy, as disruptions in oil supplies due to the war in Iran dominated markets. Energy stocks delivered a whopping 39% return, on average, depending upon the benchmark. The Materials sector also benefitted (think petrochemical and fertilizer makers). While the upturn in Energy stocks is understandable, returns of this magnitude suggest that investors expect high oil prices to stick around for a while.

On the flip side, Consumer Discretionary and Financials suffered, for the same reason: unease about how long high oil prices will persist. Consumers were already pinched by inflation and high-income households that had been holding up spending are taking a hit in their stock portfolios, which may lead them to pull back. Supporting this view, Consumer Staples rallied. The Fed is now unlikely to cut rates until late in 2026, if then, hurting the outlook for bank lending.

Growth stories were clearly out of favor this quarter, with investors apparently questioning whether massive spending on the AI buildout will pay off. Morgan Stanley estimates nearly \$3 trillion of AI-related infrastructure investment will be made globally by 2028, with more than 80% of that spending still to come.<sup>3</sup> If every working-age adult on earth paid \$20 per month to use AI, it would take over three years to recoup that \$3 trillion. A Bloomberg columnist observed that "AI is both an object of speculative excess and a source of genuine existential risk."<sup>4</sup> All of the Mag 7 stocks declined this quarter, even though not all of them are betting the farm on AI build-outs.

At a macro level: Even without the spike in oil prices, it's hard to argue that the Fed should cut interest rates. Inflation measured by the Personal Consumption Expenditures index, the Producer Price Index, and other inflation measures have been heading in the wrong direction. Some of this could be tariff-driven, but services inflation, which has been moving higher, is not. And despite the not irrational concern that AI will eliminate large numbers

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1 Returns represent the L2 US Large Cap Value Composite Strategy

2 As defined by the Russell Large Value ETF "IWD", the Russell Midcap ETF "IWR", the Russell 1000 Core ETF "IWB", and the Russell 1000 Large Growth ETF "IWF".

3 <https://www.morganstanley.com/insights/articles/ai-market-trends-institute-2026#:~:text=Morgan%20Stanley%20Research%20estimates%20that.earnings%20and%20capital%20markets%20activity>.

4 <https://www.bloomberg.com/news/newsletters/2026-03-11/one-chart-captures-the-great-contradiction-in-markets-right-now>

of jobs in the not-too-distant future, that hasn't happened yet. Hiring is far from robust, but unemployment is holding steady.

The good news is that there has been significant dispersion in the returns of the individual stocks that comprise broad market indices. To us, that indicates opportunities to identify high-quality companies whose prices do not fully reflect their earnings outlook. With all of the recent upheaval and big daily swings, we stay focused on what our models tell us. We rarely make changes based on headlines; we adjust when our models pick up on persistent signals of the underlying causes of market moves.

Below we show some fundamentals of the stocks in your Value Strategy (top row) vs. the benchmark Russell 1000 Value ETF (second row). In our view, this is pretty simple. The application of our evidence derived, rules based, active management process has assembled a portfolio of stocks that have equal to higher quality characteristics yet trade at significant discounts to the benchmark. Of note, the 6% yield funded entirely by FCF generation.

	FCF/EV*	P/S	P/E	Fwd P/E	ROE	Total Yield	3 Yr Sales Grth	36m Beta
Large Cap Value Strategy	6.1%	2.2x	19.1x	14.0x	39%	6%	13%	0.90
Russell 1000 Value ETF	3.1%	2.1x	22.7x	16.7x	18%	4%	25%	0.90

Source: L2 Asset Management, LLC; Data from 3/31/2026; \*ex financials

## CONTRIBUTORS & DETRACTORS:

**CF Industries Holdings, Inc. (CF)** was a strong contributor in the quarter, helped by both impressive operating results and a sharp rise in nitrogen prices tied to the U.S.-Iran conflict and the closure of the Strait of Hormuz. The company's 4Q 2025 results were strong, with EPS of \$2.59, adjusted EBITDA of \$821 million, and 2025 free cash flow of \$1.8 billion, while benchmark nitrogen prices rose from roughly \$350 per short ton in late December 2025 to about \$600 by March 10. Because U.S. natural gas input costs have remained relatively stable, we think higher fertilizer prices should translate into materially stronger earnings and cash flow in 2026. Even after the stock's recent move higher, CF still trades at only about 13x earnings and 7x EV/EBITDA and continues to repurchase stock aggressively, reinforcing our view that the shares remain undervalued.

**Caterpillar Inc. (CAT)** was another strong contributor in Q1 2026 as investors responded to powerful operating results and growing enthusiasm around its data-center exposure. In January, the company reported record 4Q 2025 revenue of \$19.1 billion, all-time-high backlog of \$51 billion, and especially strong performance in Power & Energy, where sales and adjusted operating profit rose roughly 24% to 25% on demand for large generation equipment used in data centers. Those trends helped drive the stock up nearly 24% in the quarter and more than 115% over the last year. We remain positive on the underlying business, but with the shares now trading near 30x forward earnings versus about 18x a year ago, we expect to review position sizing at the next rebalance.

A leading installer and distributor of insulation and a major installer of commercial roofing, **TopBuild Corp. (BLD)** detracted in the quarter as housing-related stocks remained under pressure, with the shares falling about 16%, but we continue to view the name constructively. Residential and light commercial weakness weighed on 2025 results, yet revenue still rose 1.5% to \$5.4 billion thanks to acquisitions, while adjusted EBITDA declined only modestly to \$1.04 billion despite a much weaker construction backdrop. We think that resilience matters because 22% of revenue is now non-cyclical and management still guided to roughly \$1.08 billion of adjusted EBITDA in 2026

even with further residential softness. With the stock trading at sub-S&P 500 multiples and generating about \$700 million of annual free cash flow, we believe current earnings are near trough levels and that the shares remain undervalued.

**Fox Corporation (FOXA)** detracted in the quarter despite reporting better-than-expected fiscal 2Q 2026 results, as investors remained focused on stagnant traditional TV advertising and rising sports-rights costs. Those concerns are understandable, but the business continues to show resilience: advertising still represents about 47% of revenue, and recent advertising revenue rose 1% year over year as stronger news and sports pricing and growth at Tubi offset pressure in conventional TV. After a roughly 19% decline in the share price, the stock trades at only about 12.7x earnings and 8.1x EV/EBITDA on estimated FY 2026 results. Given Fox's strong free-cash-flow generation and discounted valuation, we continue to view the shares as materially undervalued.

## **CONCLUSION:**

We continue to follow the data which tells us that the current market backdrop, characterized by historically high concentration coupled with bloated valuations, will create substantial tailwinds for our evidence-based, process driven investment methods. Our biggest concern would be the return of a wildly speculative environment like 2020 which could temporarily inhibit the excess returns we believe are inevitable.

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## INDEX DEFINITIONS

**Russell 1000 Value ETF:** iShares Russell 1000 Value ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the Russell 1000 Value Index. The ETF holds mid and large-cap U.S. stocks. Its investments are in companies that are thought to be undervalued by the market. The ETF weights the holdings using a market capitalization methodology and rebalances annually.