

FUND COMMENTARY – Q2 2025

CT US EQUITY INCOME FUND



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Summary

- The S&P 500 index returned 10.9% in dollar terms in the second quarter (Q2).
- Gross of fees, the fund returned 7.1%,¹ underperforming the benchmark S&P 500 index by 343 basis points (bps) over the quarter.
- Key detractors included the zero weights in Nvidia and Meta, along with the holding in Bristol Myers Squibb. The holding in Broadcom added value.

Market Background

US equities rebounded in Q2 of 2025, with the S&P 500 index returning 10.9% in US dollars, leaving year-to-date returns at 6.2%. The strong performance came as investors overcame a “wall of worry” – a combination of unpredictable and rapidly changing US tariff policy, uncertainty about the US economic outlook and elevated geopolitical risk. On the other side, risk sentiment was underpinned by a strong corporate earnings season, generally resilient economic data and ongoing expectations for Federal Reserve interest-rate cuts this year.

Risk appetite was weak at the start of the period following President Trump’s “Liberation Day” announcement of sweeping “reciprocal” tariffs, which prompted a spike in market volatility and Treasury yields. However, the US administration then paused many of the highest tariffs and entered into trade talks with several countries, including China, which allayed fears of a global economic downturn and paved the way for a broad-based risk rally. The rally gathered steam in May after the UK became the first country to strike a trade deal with the US, and the US and China agreed to reduce tariffs for 90 days, easing trade-war and growth worries.

Later in the quarter, geopolitics took centre stage as Israel launched a major airstrike campaign against Iran on 13 June. The attack, designed to knock out Iran’s nuclear capabilities, led to a sharp rise in oil prices. Retaliatory strikes from Iran ensued, before both sides launched further attacks. The US eventually joined the conflict, striking three Iranian nuclear facilities. The limited nature of Iran’s retaliation against the US and the subsequent agreement of a US-brokered ceasefire between Israel and Iran helped risk sentiment to rebound. The rally strengthened into month end after US officials confirmed that a deal had been signed with China regarding rare earth exports to the US.

On the economic front, there were signs of weakening activity. Non-farm payrolls data remained generally above forecasts, but the March and April readings were subject to downward revisions during the period. Revised US GDP figures showed the economy contracted more than previously estimated in Q1 due to a downgrade in reported consumer spending and exports. The S&P Global US composite purchasing managers’ index for June continued to indicate expansion, but growth cooled a fraction as service sector output softened slightly; manufacturing, however, hit its highest level in over three years in June. On the consumer side, retail sales in May experienced their biggest fall in four months. Meanwhile, inflation data was mostly below forecasts: the consumer price index showed annual inflation rose for the first time in four months in May, but the print was still lower than expected. Producer price inflation was also softer than expected over the quarter.

The Fed left interest rates unchanged, as expected, despite President Trump ramping up public pressure on Chair Jerome Powell to begin easing monetary

policy. Policymakers at the central bank raised their inflation forecast for 2025 and downgraded growth forecasts for this year and next. In May, Moody's stripped the US of its triple-A credit rating due to the country's worsening fiscal position. The significant tax cuts in President Trump's proposed tax and spending bill, which was amended and advanced by the Senate in June, added to the worries about the US fiscal outlook.

As in Q1, there was considerable market dispersion during the period. Eight of eleven index sectors registered gains over the quarter. The market was led by technology and communication services, which delivered returns of around 24% and 18%, respectively, as optimism about AI rebounded into the end of the quarter and hopes for trade deals supported semiconductor names. Industrials and consumer discretionary also outperformed and posted double-digit returns. Meanwhile, financials, utilities and materials registered robust gains but trailed the broad index materially. At the other end, energy and healthcare were the weakest sectors, ending the quarter substantially in the red. The energy sector struggled as oil prices fell during the period, while healthcare stocks were pressured by an executive order aimed at lowering prices for prescription drugs and Medicaid funding cuts in Trump's spending bill.

Performance

On a gross basis, the fund returned 7.1%,¹ underperforming the S&P 500 index by 343 bps. Unfavourable sector allocation drove the relative underperformance, with the underweight in technology and overweight in energy proving particularly unfavourable. However, the underweight in healthcare was beneficial. Stock selection also weighed on relative returns in aggregate, especially in healthcare, consumer discretionary, communication services and utilities, although these drags were partially offset by positive contributions from choices in financials, technology and energy.

At the stock level, detractors included the zero weights in Nvidia and Meta. Both companies released forecast-beating quarterly results over the period, and both benefited from renewed enthusiasm about AI. Shares of chipmaker Nvidia were also supported by news of President Trump rescinding incoming restrictions on AI chip exports, together with hopes that successful trade negotiations between the US and China could result in further easing of export curbs. Meanwhile, Meta's stock was helped by the company reaffirming its commitment to AI investment and by reports in June of plans to add advertisements to WhatsApp.

Our holding in pharmaceutical company Bristol Myers Squibb (BMS) also detracted amid concerns about President Trump's aforementioned plans to cut medicine prices in the US. News of disappointing results in two phase 3 drug trials, including one for the firm's schizophrenia drug Cobenfy as an add-on treatment, dented sentiment as well. In addition, the stock was subject to a broker downgrade due to concerns about the revenue impact of upcoming patent expirations. However, BMS's Q1 results beat forecasts for revenue and earnings, helped by better-than-expected sales of Cobenfy. Management also raised its full-year sales outlook, citing its strong portfolio of newer drugs and higher-than-anticipated sales of older medicines.

More positively, our position in chipmaker Broadcom added value amid the general upbeat sentiment surrounding AI and semiconductor-related names discussed above. During the period, Broadcom also reported forecast-beating quarterly revenue and earnings, driven by strong demand for AI chips and networking solutions. The firm's software business saw strong growth as well, beating estimates, while revenue guidance for the current quarter narrowly exceeded expectations.

Activity

We opened positions in Public Service Enterprise Group (PSEG), American Tower and Applied Materials.

PSEG primarily owns regulated electric and gas utilities with distribution, transmission and generation assets. The company generates electricity from unregulated nuclear plants in New Jersey and Pennsylvania. PSEG's utilities have strong rate-base growth prospects and should have a clearer sense of the scope for future increases following the conclusion of a pending rate case in New Jersey. Following the sale of its fossil-fuel-based and offshore wind generation assets, the company has an improved business mix, which should provide better visibility on future earnings and dividend growth. Moreover, the company's merchant generation

¹ Past performance does not predict future returns and future returns are not guaranteed. Please refer to the KIID document found on our website for further information on the fund performance.

business, which sells electricity on the open market, offers additional flexibility that could prove beneficial. PSEG is also in talks to provide power to data centres via its Hope Creek and Salem nuclear generation units.

American Tower is the largest global owner and operator of wireless and broadcast communications towers. The tower business is an attractive model that has annual escalation clauses in its contracts, high incremental margins, low capital expenditure requirements and high barriers to entry. The business additionally benefits from high cash yields and a lack of cyclicality, while also being relatively insulated from macroeconomic pressures. American Tower is considered the best operator in the sector, and its management is focused on delivering earnings and dividend growth via the gradual decrease of customer churn related to Sprint's merger with T-Mobile, contributions from its data centre business and, potentially, cost-cutting initiatives.

Applied Materials is a diversified supplier of semiconductor fabrication equipment and related technologies. The firm provides nanomanufacturing solutions for electronic products, including in the global semiconductor and flat-panel display industries. The stock has suffered on concerns around softening demand in China due to export restrictions and slower growth in legacy nodes (older, less advanced semiconductor manufacturing processes that are nevertheless still in use). However, these concerns were reflected in the stock price and should pose less of a headwind going forward. Additionally, a substantial increase in demand for leading-edge logic chip manufacturing, which uses the most cutting-edge processes, could drive growth in the coming years.

To fund these purchases, we sold out of Lam Research, Target and Albemarle. We also took some profits in Broadcom and Microsoft following recent strong performance, while we trimmed the holding in Apple.

Outlook

The outlook for US risk assets has undeniably become more challenged in 2025. Economic fundamentals have remained firm for the year to date, despite a noticeable uptick in volatility and uncertainty around tariffs, immigration and other policies. The labour market continues to show resilience, with non-farm payrolls firmly in positive territory, unemployment remaining low, wages rising at a healthy clip and layoffs staying minimal. Consumer spending is also holding up, while inflation has plateaued close to the Fed's target.

Despite early – and broad-based – market weakness following the “Liberation Day” tariff announcements, US equity indices across the cap spectrum had fully recovered their initial losses and even rose beyond the levels seen prior to the announcement by the end of Q2. Headlines about trade negotiations – particularly with China – along with strong Q1 corporate results and robust economic data have buoyed sentiment. However, there are still many unknowns, with the ever-changing policy landscape creating heightened uncertainty and making it exceptionally difficult to forecast either corporate or economic outcomes. Investors continue to debate the extent to which recent announcements are a negotiating ploy, and thus transitory, versus an effort by President Trump to rebalance trade relationships. With the effective tariff rate still set to rise dramatically, many believe we are yet to see the full economic impact of the administration's tariff policy in hard economic indicators.

In spite of recent market turbulence, Q1 earnings results beat expectations in aggregate. The year-over-year earnings growth rate exceeded consensus expectations, marking the second straight quarter where the market achieved double-digit growth. However, while Q1 results were unexpectedly strong, forward guidance has been fraught, with companies generally deciding to either lower forecasts to account for negative trade impacts or retract guidance altogether, citing heightened uncertainty and limited visibility into future operating environments.

Companies may respond to increasing tariffs in a number of ways to maintain profit margins, including a mixture of price rises, cost reductions and, ultimately, avoidance by reshoring manufacturing to the US. In the near term, with companies expected to pass through price increases, inflation is forecast to rise, as entire supply chains will be impacted. After the initial “Liberation Day” announcements, the market quickly moved to price in more rate cuts in the expectation that the Fed would have to ease its policy rate aggressively to support a faltering economy. The market has since pared back those expectations given the administration's openness to negotiation on tariffs. Fed Chair Jerome Powell has steadfastly stated that policymakers will exercise caution and not rush to ease rates.

Against this backdrop, we remain committed to our process, with a sharp focus on fundamentals and identifying and owning companies we believe can withstand this uncertainty and weather near-term headwinds.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.

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