

# US Mutual Fund Performance Update

## Active narrowly beat passive

### 54% outperformed last month, 63% ahead YTD

Active funds posted solid results in February, with 54% of large cap funds beating their benchmark by an average of 3bp. Narrow market breadth continued to create a challenging backdrop for managers (only 26% of stocks outperformed the S&P 500 last month), but we still see other supportive trends for stock pickers (see [The tide is turning](#)). Year-to-date (YTD), 63% of funds are ahead of their benchmark, much stronger than the average annual hit rate of 37%. Quant funds also posted strong performance, with 70% ahead of the Russell 1000 in February and 75% ahead YTD.

### Hit rates by style: Growth > Value > Core

Growth funds led across all size segments in February, with 58% of large cap Growth funds outperforming vs. 53% of Value funds and 48% of Core funds. Broad ownership of NVDA, META, AMZN, and MSFT likely helped as these stocks contributed 40% of the Russell 1000 Growth's gains last month. Funds' bet on long-term growth (LTG) also paid off – the top quintile of stocks by LTG (30% overweight by Growth funds) outperformed the bottom quintile by 16ppt within the index (see [Performance Monitor](#)). YTD, Growth funds and Value funds are both tracking a 65% hit rate vs. 60% for Core funds.

### SMID funds fared worse than large

SMID cap stocks rebounded in February, with the Russell 2000 (+5.7%) and Russell Midcap (+5.6%) both outperforming the Russell 1000 (+5.4%). But SMID managers struggled to keep up with the rally – only 26% of small cap funds outperformed, a reversal from last month where we saw 86% ahead of a lagging benchmark (Russell 2000 -3.9% in Jan.). Mid cap funds also struggled, with only a slightly better hit rate of 30%. By style, Growth funds posted stronger hit rates than Core and Value funds, consistent with large cap fund performance. YTD, 52% of small cap funds and 39% of mid cap funds are ahead of their benchmark.

### Next pain trade: up-cycle, high beta leadership

While sentiment has improved from bearish to neutral (see [Sell Side Indicator](#)), our positioning data show that active funds are still hedged against a sluggish economy via low cyclical and beta exposure (see [ownership report](#)). Funds have historically been overweight high beta vs. low beta stocks but are now 6% underweight, the lowest level since the GFC. This tilt likely hurt in February as the highest beta quintile outperformed the lowest beta quintile by 11ppt within the Russell 1000 and 8ppt within the Russell 2000. We think the next pain trade could be a shift in leadership to high beta/cyclicals given funds' underexposure to these themes – the Global Wave recently troughed, suggesting that a sustained global upturn is likely.

Trading ideas and investment strategies discussed herein may give rise to significant risk and are not suitable for all investors. Investors should have experience in relevant markets and the financial resources to absorb any losses arising from applying these ideas or strategies.

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Refer to important disclosures on page 7 to 8.

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Equity and Quant Strategy  
United States

#### Savita Subramanian

Equity & Quant Strategist  
BofAS  
+1 646 855 3878  
[savita.subramanian@bofa.com](mailto:savita.subramanian@bofa.com)

#### Victoria Roloff

Equity & Quant Strategist  
BofAS  
+1 646 743 6339  
[victoria.roloff@bofa.com](mailto:victoria.roloff@bofa.com)

#### Jill Carey Hall, CFA

Equity & Quant Strategist  
BofAS  
[jill.carey@bofa.com](mailto:jill.carey@bofa.com)

#### Alex Makedon

Equity & Quant Strategist  
BofAS  
[alex.makedon@bofa.com](mailto:alex.makedon@bofa.com)

#### Ohnsung Kwon, CFA

Equity & Quant Strategist  
BofAS  
[ohnsung.kwon@bofa.com](mailto:ohnsung.kwon@bofa.com)

#### Nicolas Woods

Equity & Quant Strategist  
BofAS  
[nicolas.woods\\_barron@bofa.com](mailto:nicolas.woods_barron@bofa.com)

**Table 1: February 2024 performance quartile**

Large-cap active fund performance

	Core		Growth		Value	
<b>Best</b>	14.3		12.2		7.7	
<b>Worst</b>	0.4		2.5		-0.7	
<b>Quartile</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
<b>Q 1</b>	6.0	14.3	7.7	12.2	4.6	7.7
<b>Q 2</b>	5.4	6.0	7.0	7.7	3.8	4.6
<b>Q 3</b>	4.6	5.4	6.1	7.0	3.0	3.8
<b>Q 4</b>	0.4	4.6	2.5	6.1	-0.7	3.0

**Source:** BofA US Equity & Quant Strategy, Lipper Analytical Services. Past performance is not necessarily a guide to future performance.

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NVDA: NVIDIA

META: Meta Platforms

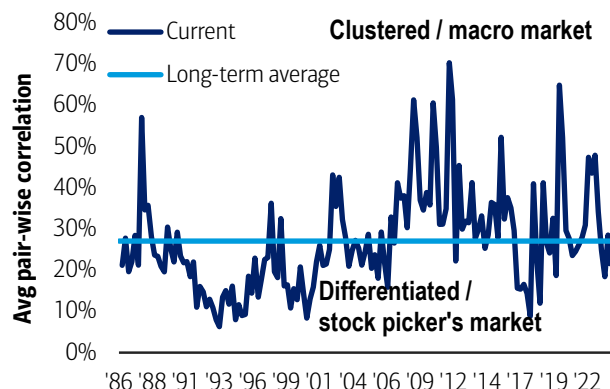
AMZN: Amazon.com

MSFT: Microsoft

# Active opportunity set

## Exhibit 1: Pair-wise correlations lower = more micro, less macro

Average pair-wise stock correlations based on 90-day periods, daily frequency

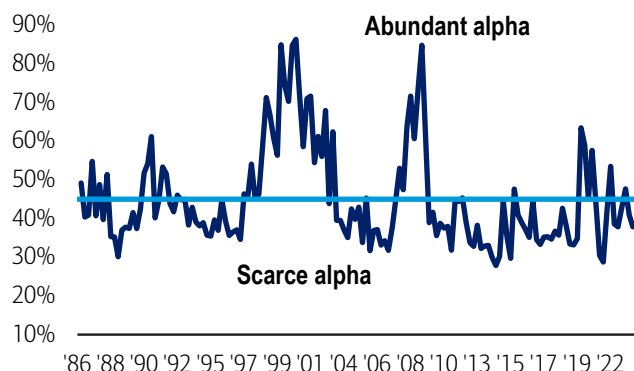


Source: BofA US Equity & Quantitative Strategy, FactSet

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## Exhibit 2: Performance dispersion within the S&P 500 is slightly below avg.

Large cap dispersion in returns by top/bottom quintile

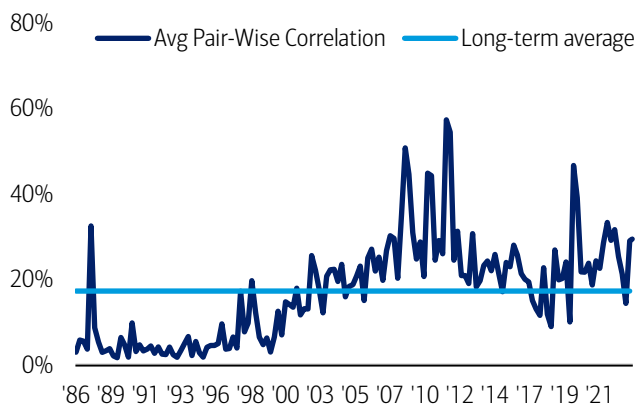


Source: BofA US Equity & Quantitative Strategy, FactSet

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## Exhibit 3: Pair-wise correlation in the Russell 2000 jumped above average

Average pair-wise stock correlations based on 90-day periods, daily frequency

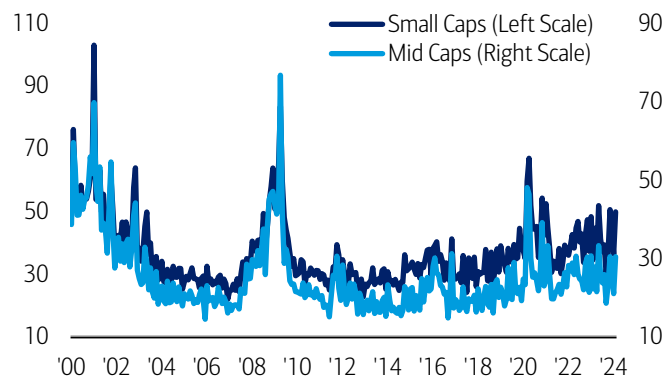


Source: BofA US Equity & Quant Strategy, FactSet. Based on the Russell 2000 Universe.

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## Exhibit 4: Performance dispersion within the Russell 2000 is above average

Small/midcaps dispersion in returns by top/bottom quintile



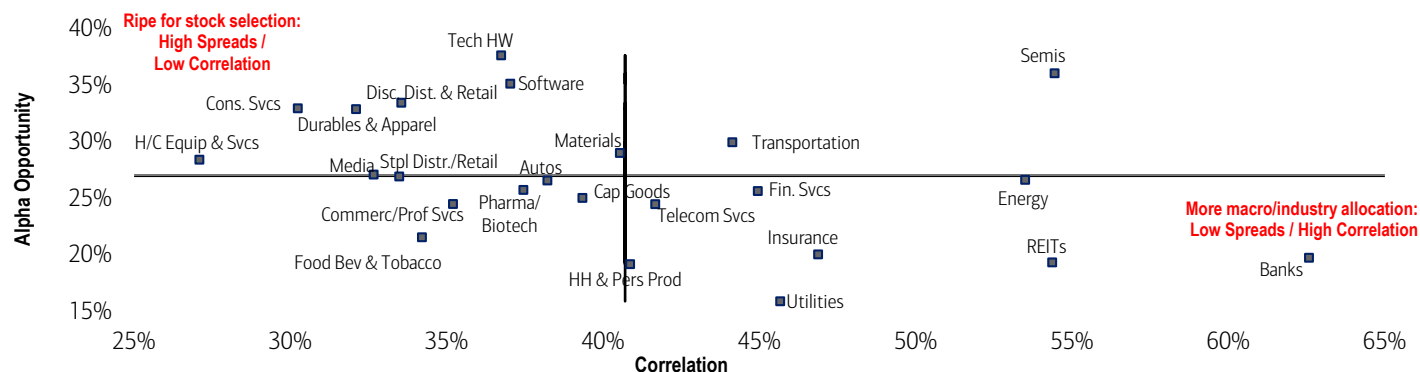
Source: BofA US Equity & Quantitative Strategy, FactSet

Small caps based on the Russell 2000. Midcaps based on the Russell Midcap.

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## Exhibit 5: Pick your battles: correlations vs. dispersion by sector

Historical Intra-stock correlation vs. performance spread (3Q86 to 4Q23)



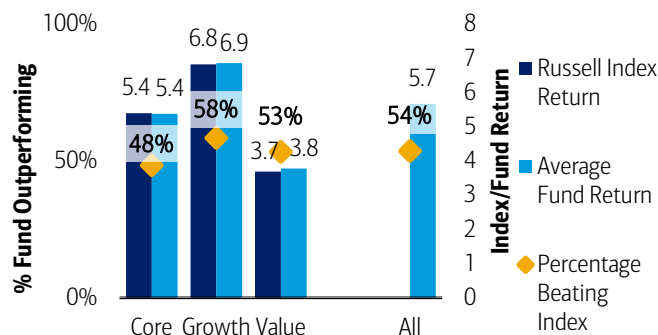
Source: FactSet, BofA US Equity & US Quant Strategy

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# Large-cap active manager vs Russell 1000

## Exhibit 6: February 2024 Performance – 54% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

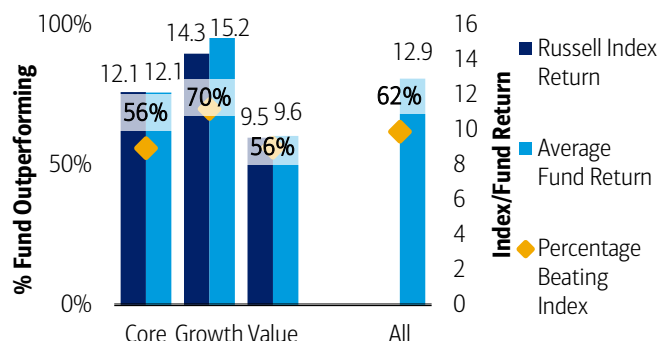


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 7: Last 3 Months Performance – 62% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

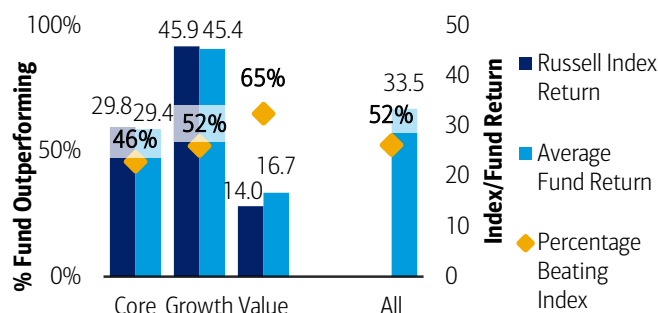


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 8: Last 12 months performance – 52% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

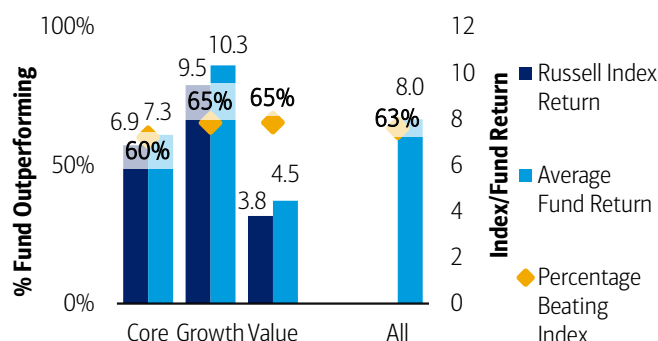


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 9: Year-to-date Performance – 63% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

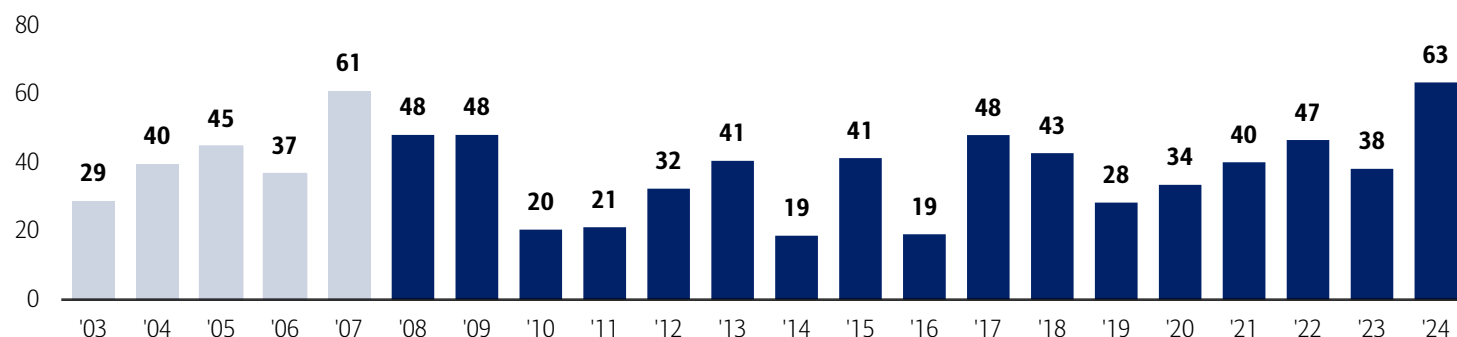


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 10: 37% of funds outperform the Russell benchmark on average (backtested)

% of large cap active funds outperforming the Russell benchmark\* (2024 YTD as of 2/2024)



**Source:** BofA US Equity & US Quant Strategy, Lipper. \*% of funds outperforming the benchmark is based on Russell 1000 benchmark for all funds prior to 2015 and the fund's respective benchmark (R1000 for Core funds, R1000 Value for Value funds and R1000 Growth for Growth funds) in 2015 and onward. Gray bars are the result of a backtest and subject to a survivorship bias.

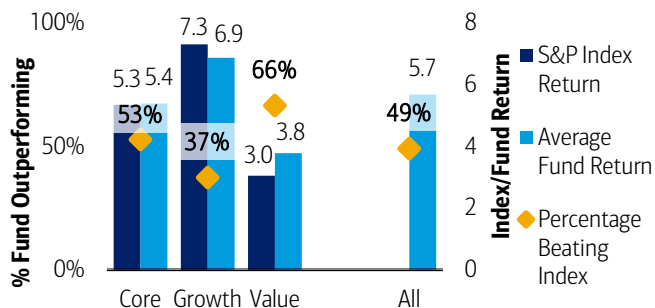
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# Large-cap active manager vs S&P 500

## Exhibit 11: February 2024 performance – 49% of funds outperformed

Large-cap active managers' performance vs S&P 500 benchmarks

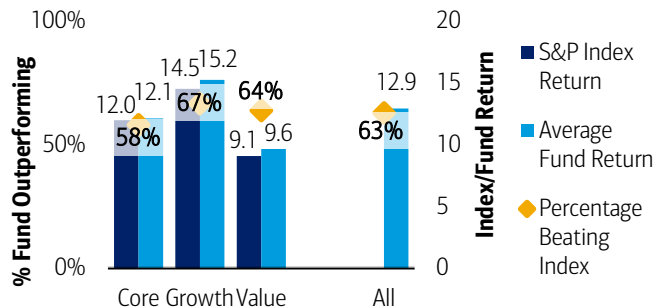


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 12: Last 3-month performance – 63% of funds outperformed

Large-cap active managers' performance vs S&P 500 benchmarks

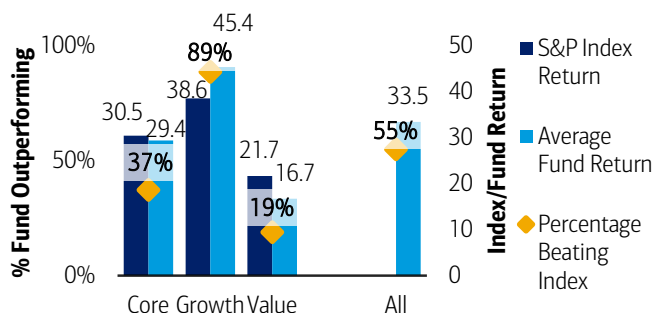


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 13: Last 12-month performance – 55% of funds outperformed

Large-cap active managers' performance vs S&P 500 benchmarks

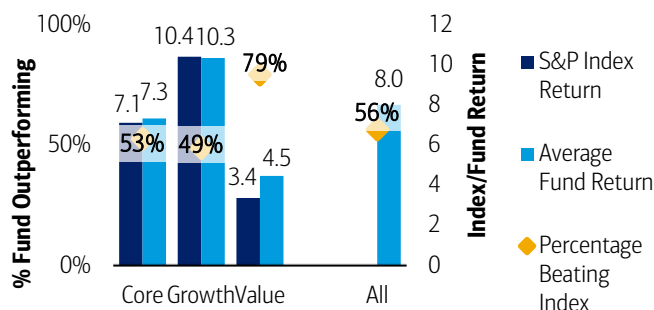


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 14: Year-to-date Performance – 56% of funds outperformed

Large-cap active managers' performance vs S&P 500 benchmarks

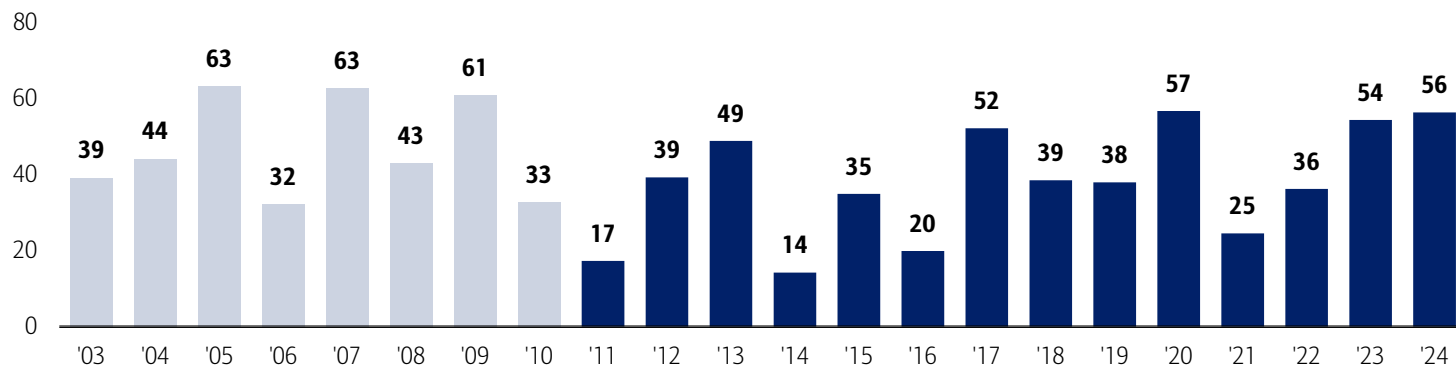


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Exhibit 15: 41% of funds outperform the S&P benchmark on average (backtested)

% of large cap active funds outperforming the S&P benchmark (2024 YTD as of 2/2024)



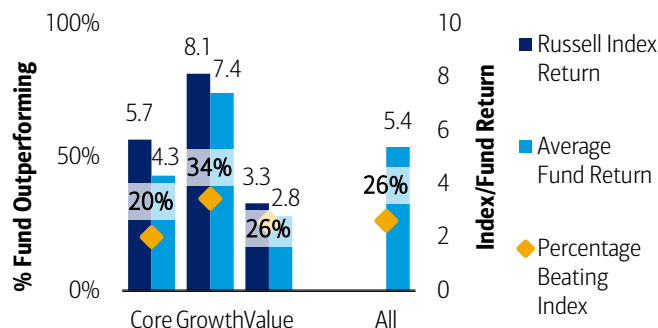
**Source:** BofA US Equity & US Quant Strategy, Lipper. Gray bars are the result of a backtest and subject to a survivorship bias

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## Small cap active manager vs Russell 2000

### Exhibit 16: February 2024 performance – 26% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks

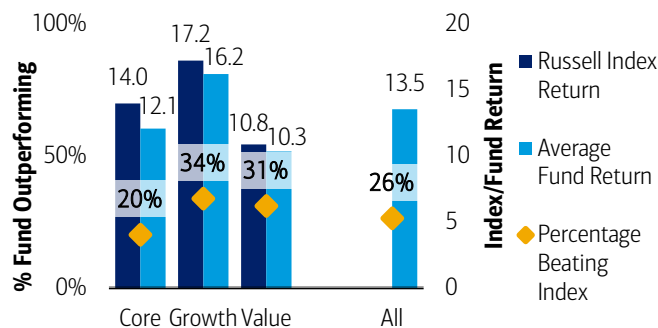


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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### Exhibit 17: Last 3-month performance – 26% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks

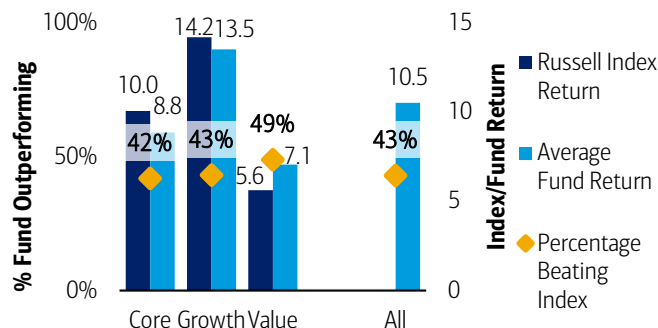


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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### Exhibit 18: Last 12-month performance – 43% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks

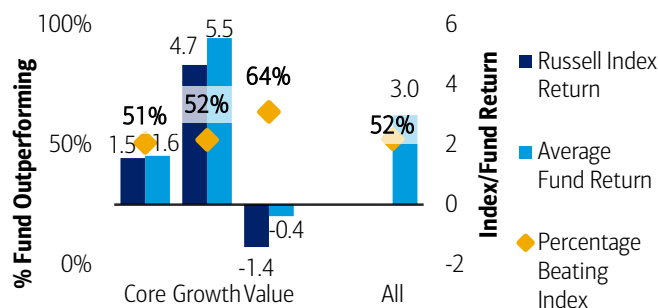


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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### Exhibit 19: Year-to-date Performance – 52% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks



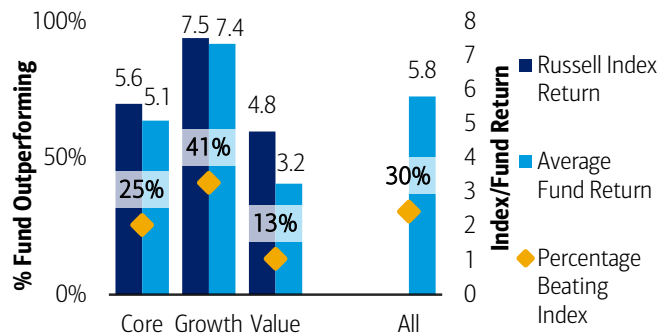
Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Mid-cap active manager vs Russell Midcap

### Exhibit 20: February 2024 performance – 30% of funds outperformed

Mid-cap active managers' performance vs Russell Midcap benchmarks

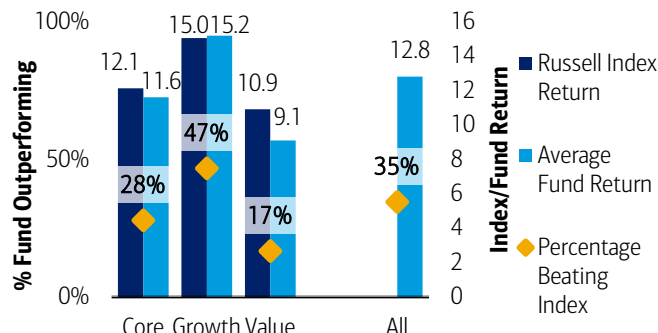


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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### Exhibit 21: Last 3-month performance – 35% of funds outperformed

Mid-cap active managers' performance vs Russell Midcap benchmarks

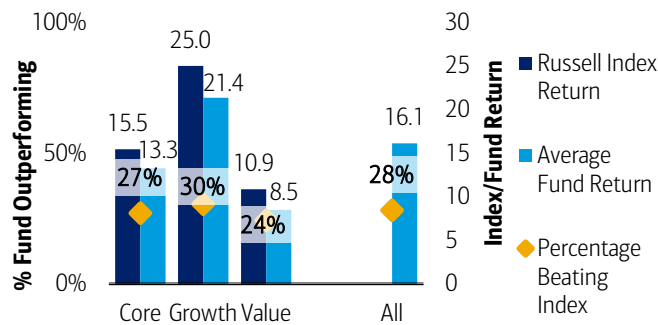


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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**Exhibit 22: Last 12 months performance – 28% of funds outperformed**

Mid-cap active managers' performance vs Russell Midcap benchmarks

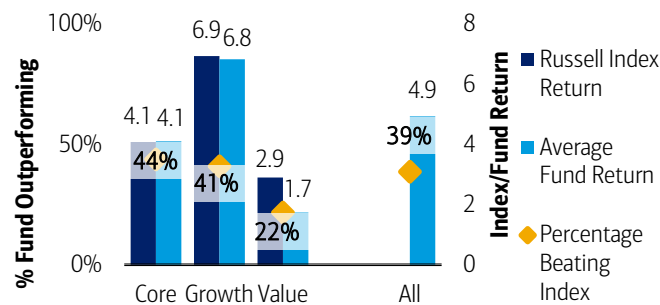


Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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**Exhibit 23: Year-to-date Performance – 39% of funds outperformed**

Mid-cap active managers' performance vs Russell Midcap benchmarks



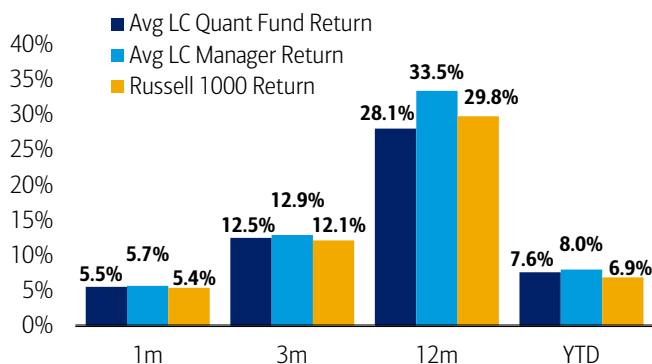
Note: Manager data and index returns are through February 29, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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## Quant fund manager performance

**Exhibit 24: Large-cap quant funds are +7.6% YTD, leading the Russell 1000**

Large-cap quant funds' performance vs Russell 1000 benchmarks (as of February 2024)

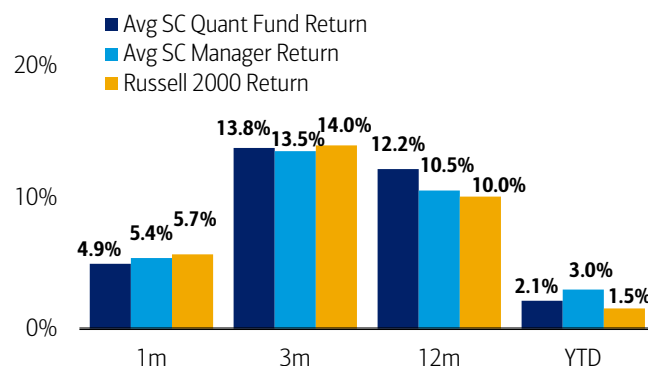


**Source:** Lipper, BofA US Equity & US Quant Strategy. Past performance is not necessarily a guide to future performance.

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**Exhibit 25: Small-cap quant funds are +2.1% YTD, leading the Russell 2000**

Small-cap quant funds' performance vs Russell 2000 benchmarks (as of February 2024)



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