

US Mutual Fund Performance Update

Broad-based outperformance

Best start to the year for funds in our data history

73% of large cap active funds beat their Russell 1000 benchmark in January (57bp alpha on average), the best monthly hit rate since 2007 and the best start to the year in our data history going back to 1991. By style, Value funds fared best, with 86% of funds ahead (vs. 77% and 62% for Growth and Core funds, respectively). Quant funds also posted solid results: three in four funds beat the Russell 1000 index (best hit rate since October), leading the benchmark by 56bp on average. Despite narrow market breadth this month, it was a better month for investing based on fundamental factors – 64% of factors that we track outperformed in January, up from 43% in 2023.

The stocks that mattered the most in January

Market breadth declined in January (only 34% of stocks outperformed the S&P 500 – see [Performance Monitor](#)), creating a more challenging backdrop for stock pickers. However, key positions in mega-cap stocks helped funds overcome narrow breadth. Core funds are overweight META and MSFT, two of the top three contributors to S&P 500 performance last month. Meanwhile, TSLA and AAPL, the largest two detractors from index performance (-24.6% and -4.2%, respectively), are both deeply underweight (see [fund positioning](#)). We expect the rally to broaden beyond mega-caps this year, which should give fund managers better odds of selecting winners.

86% hit rate for small cap funds; profitability bias helped

86% of small cap active funds beat their Russell 2000 benchmark in January, the highest hit rate since August. Performance was likely helped by a bias toward higher quality stocks, which outperformed within the Russell 2000 last month (top quintile ROE -0.5% vs. bottom quintile -5.8%). Managers also avoided a drag from unprofitable stocks, which were down 6.0% (vs. -3.1% for earners) and are 60% underweight by Core funds, a bias we continue to recommend (see [SMID Year Ahead](#)). Mid cap funds were the weakest size segment in January but still outperformed – 64% of funds beat their Russell Midcap benchmark, generating 26bp of alpha on average.

It's a great time to be a fundamental investor

Passive investing beat active over much of the last decade, but we may be at a turning point. Eyeballs have shifted from active fundamental investing to passive and private equity, suggesting increased public market inefficiencies and thus more alpha opportunities. Meanwhile, passive benchmarks are more skewed than ever: the S&P 500 has a record weight in expensive mega-caps while the Russell 2000 has a record proportion of non-earners. See [The tide is turning for stock picking](#) for tools to beat your benchmark, plus stock screens.

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Equity and Quant Strategy
United States

Savita Subramanian
Equity & Quant Strategist
BofAS
+1 646 855 3878
savita.subramanian@bofa.com

Victoria Roloff
Equity & Quant Strategist
BofAS
+1 646 743 6339
victoria.roloff@bofa.com

Jill Carey Hall, CFA
Equity & Quant Strategist
BofAS
jill.carey@bofa.com

Alex Makedon
Equity & Quant Strategist
BofAS
alex.makedon@bofa.com

Ohnsung Kwon, CFA
Equity & Quant Strategist
BofAS
ohnsung.kwon@bofa.com

Nicolas Woods
Equity & Quant Strategist
BofAS
nicolas.woods_barron@bofa.com

Table 1: January 2024 performance quartile

Large-cap active fund performance

	Core		Growth		Value	
Best	5.1		6.2		2.7	
Worst	-3.5		-0.8		-2.9	
Quartile	Low	High	Low	High	Low	High
Q 1	2.4	5.1	4.1	6.2	1.1	2.7
Q 2	1.8	2.4	3.2	4.1	0.8	1.1
Q 3	1.2	1.8	2.6	3.2	0.2	0.8
Q 4	-3.5	1.2	-0.8	2.6	-2.9	0.2

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

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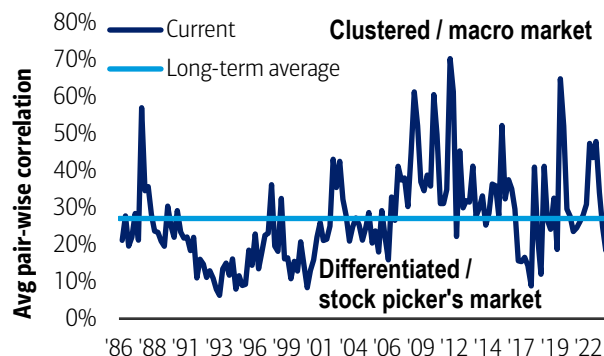
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Active opportunity set

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

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

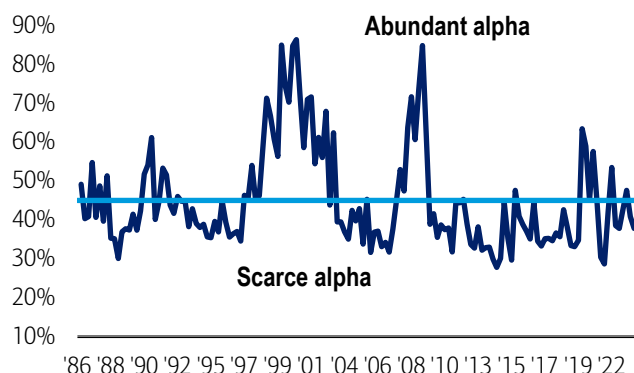


Source: BofA US Equity & Quantitative Strategy, FactSet

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Exhibit 2: Performance dispersion within the S&P 500 is roughly in line with avg.

Large cap dispersion in returns by top/bottom quintile

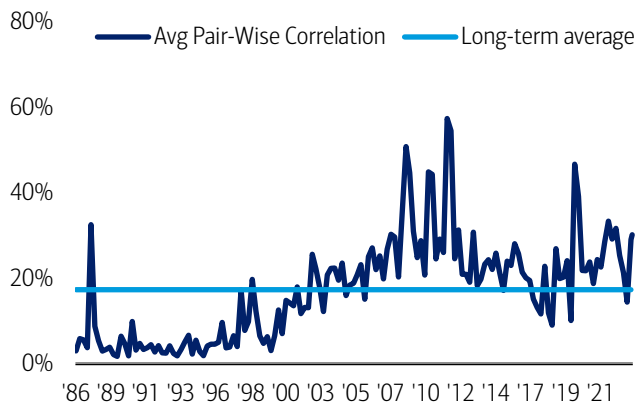


Source: BofA US Equity & Quantitative Strategy, FactSet

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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

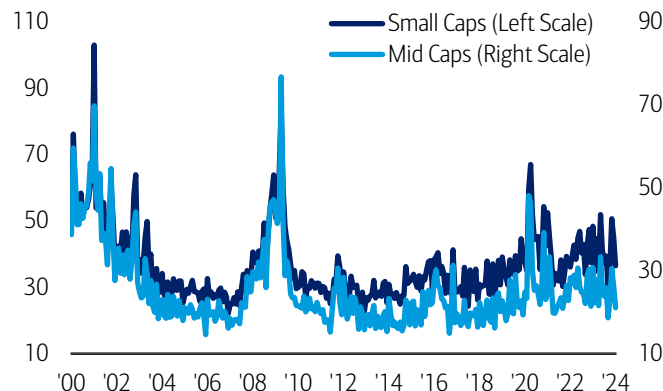


Source: BofA US Equity & Quant Strategy, FactSet. Based on the Russell 2000 Universe.

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Exhibit 4: Performance dispersion within the Russell 2000 is roughly in line with avg.

Small/midcaps dispersion in returns by top/bottom quintile



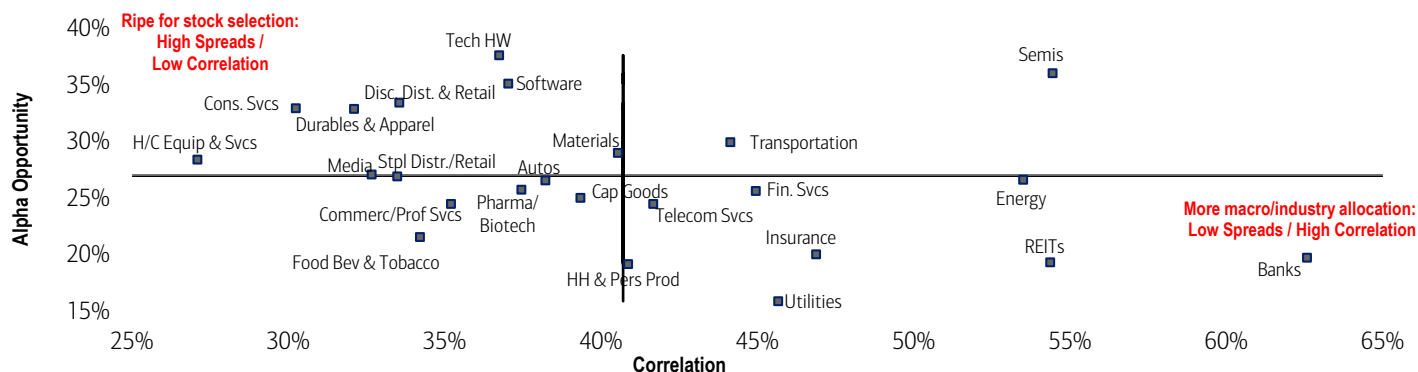
Source: BofA US Equity & Quantitative Strategy, FactSet

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)



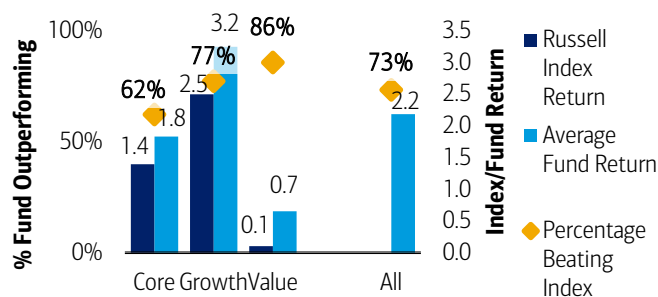
Source: FactSet, BofA US Equity & US Quant Strategy

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Large-cap active manager vs Russell 1000

Exhibit 6: January 2024 Performance - 73% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

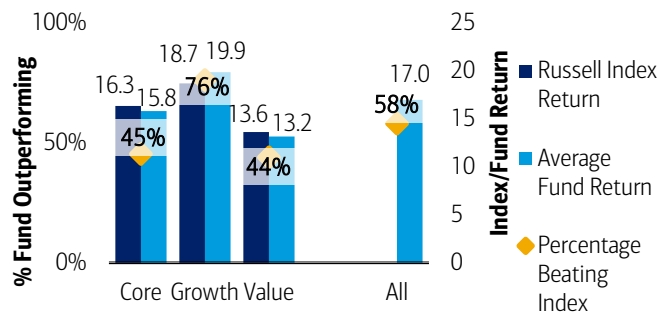


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 7: Last 3 Months Performance - 58% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

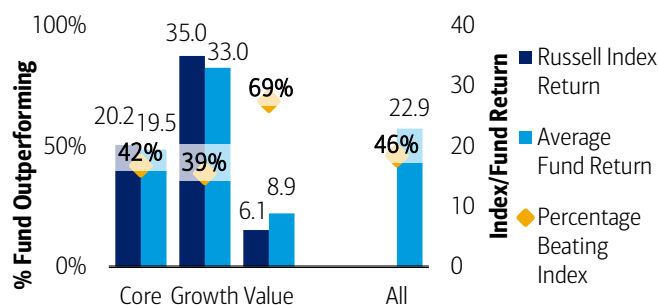


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 8: Last 12 months performance - 46% of funds outperformed

Large-cap active managers' performance vs Russell 1000 benchmarks

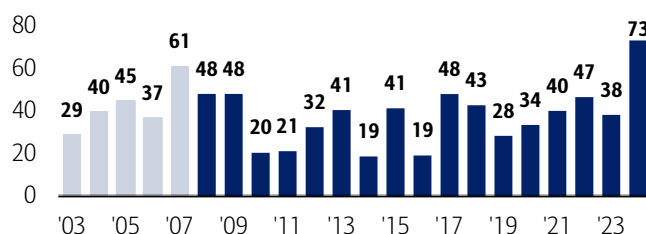


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 9: 37% of funds outperform the Russell benchmark on average (backtested)

% of large cap active funds outperforming the Russell benchmark* (2024 YTD as of 1/2024)



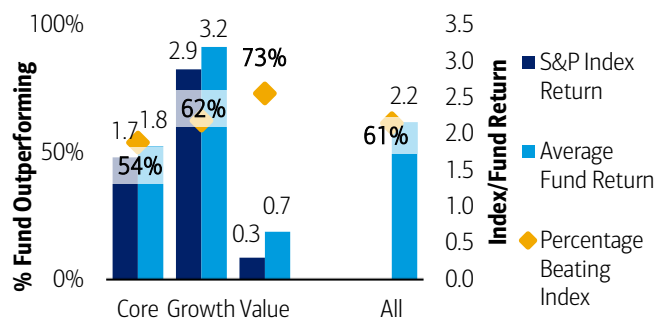
Source: BofA US Equity & US Quant Strategy, Lipper. *% of funds outperforming the benchmark is based on Russell 1000 benchmark for all funds prior to 2015 and the fund's respective benchmark (R1000 for Core funds, R1000 Value for Value funds and R1000 Growth for Growth funds) in 2015 and onward. Gray 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 10: January 2024 performance - 61% of funds outperformed

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

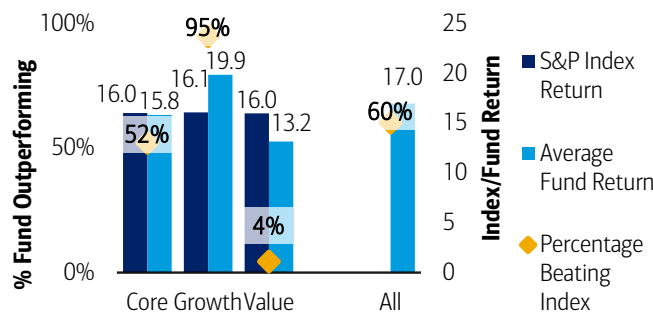


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 11: Last 3-month performance - 60% of funds outperformed

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

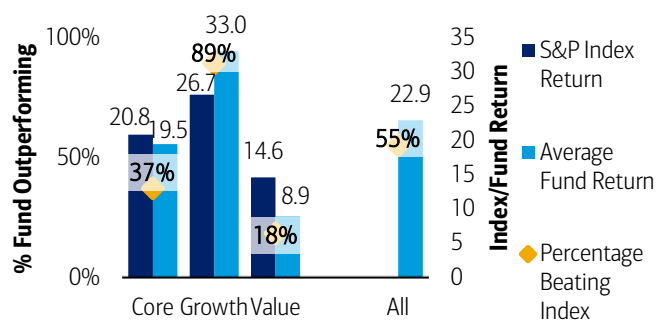


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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

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

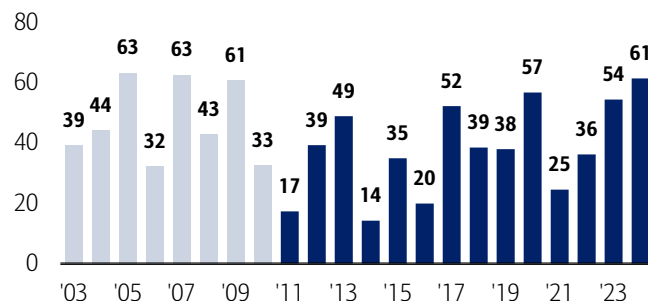


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 13: 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 1/2024)

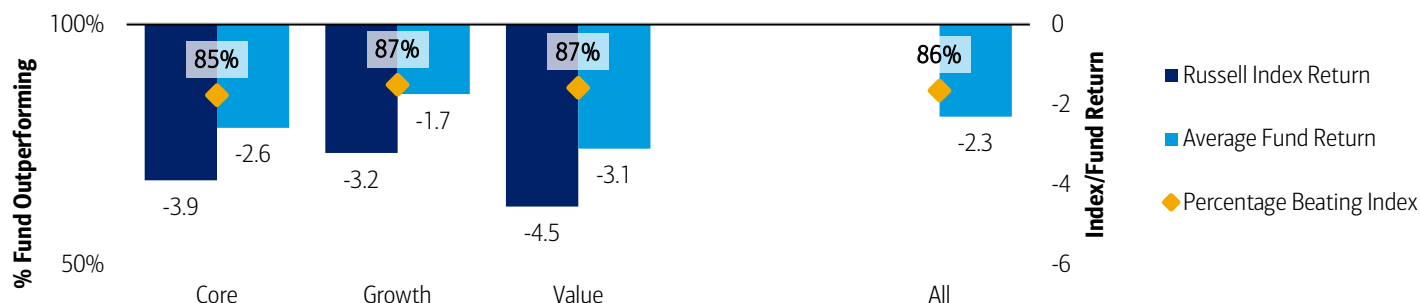


Source: BofA US Equity & US Quant Strategy, Lipper. Gray bars are the result of a backtest and subject to a survivorship bias

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Small cap active manager vs Russell 2000**Exhibit 14: January 2024 performance – 86% of funds outperformed**

Small-cap active managers' performance vs Russell 2000 benchmarks

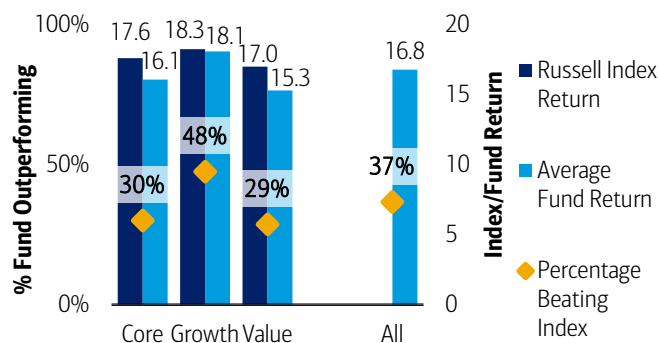


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 15: Last 3-month performance – 37% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks

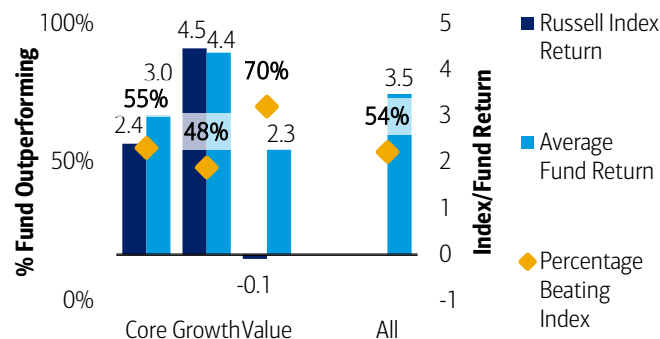


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 16: Last 12-month performance – 54% of funds outperformed

Small-cap active managers' performance vs Russell 2000 benchmarks



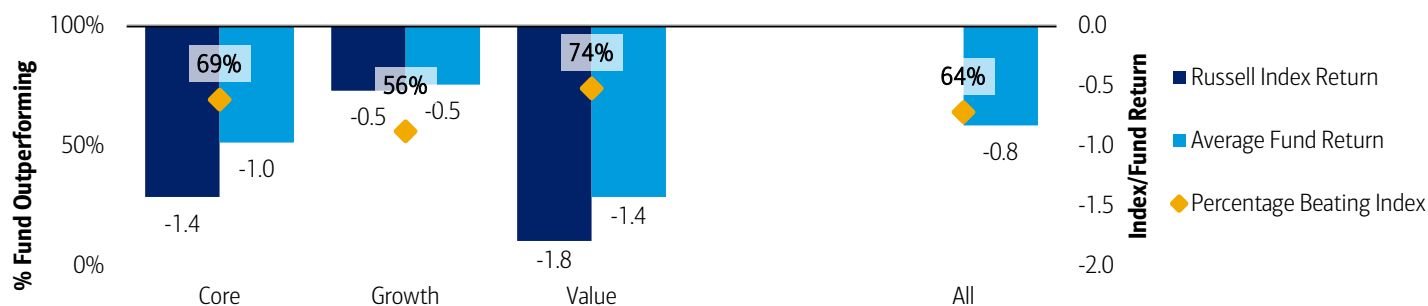
Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Mid-cap active manager vs Russell Midcap

Exhibit 17: January 2024 performance – 64% of funds outperformed

Mid-cap active managers' performance vs Russell Midcap benchmarks

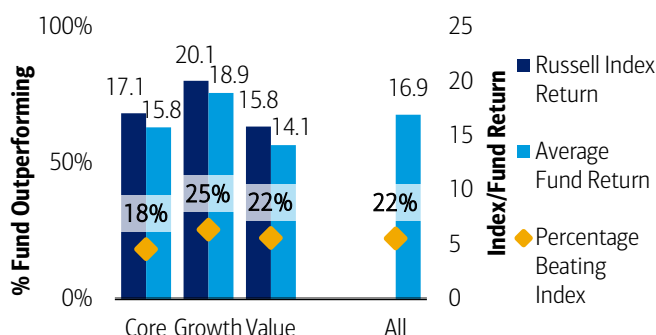


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 18: Last 3-month performance – 22% of funds outperformed

Mid-cap active managers' performance vs Russell Midcap benchmarks

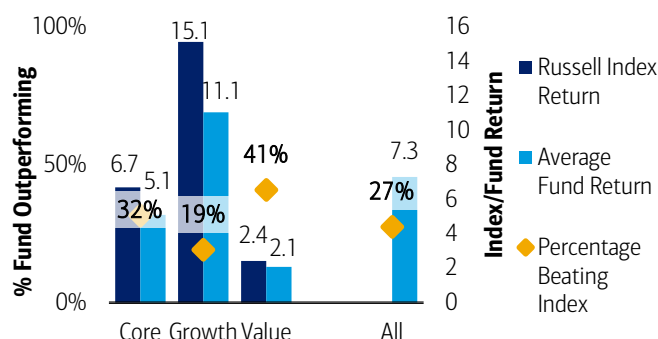


Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 19: Last 12 months performance – 27% of funds outperformed

Mid-cap active managers' performance vs Russell Midcap benchmarks



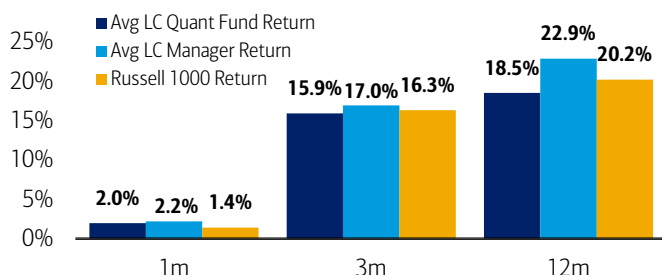
Note: Manager data and index returns are through January 31, 2024. **Source:** Lipper Analytical Services; BofA US Equity & Quant Strategy. Past performance is not necessarily a guide to future performance.

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Quant fund manager performance

Exhibit 20: Large-cap quant funds were +2.0% in Jan., leading the Russell 1000

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

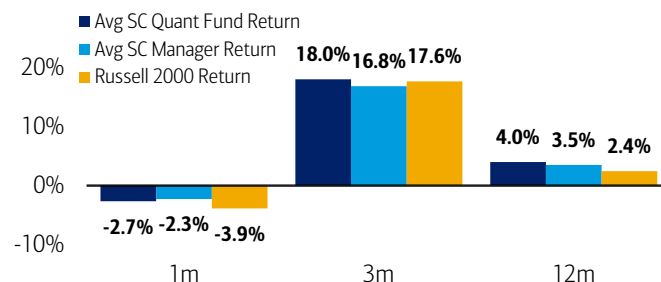


Source: Lipper, BofA US Equity & US Quant Strategy. Past performance is not necessarily a guide to future performance.

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Exhibit 21: Small-cap quant funds were -2.7% in Jan., leading the Russell 2000

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



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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