



## Lincoln Capital Equity Commentary

### Issue #84 – December 2024

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#### December Changes:

Tax-Deferred				
New Additions	Complete Sales	Partial Sales	Additional Buys	% Of Account Traded
	SWK			2.1%
			UNH	1.0%

Taxable				
New Additions	Complete Sales	Partial Sales	Additional Buys	% Of Account Traded
	SWK			2.0%
			UNH	0.5%

#### Summary of Month's Action\*:

The S&P 500 ended 2024 on a subdued note, with December marked by significant market reactions to the Federal Reserve meeting. The Fed's 25-basis-point reduction to the Federal Funds rate aligned with expectations, but the updated summary of economic projections caught investors off guard. The new outlook suggested an anticipated year-end 2025 Fed Funds rate of approximately 3.9%, up from the 3.6% projected after September's meeting. Stocks fell sharply on the day of the announcement.

Interestingly, the market's response appeared disproportionate. Prior to the meeting, futures markets implied a December 2025 rate of approximately 3.85%, closely mirroring the Fed's projections. Post-meeting, futures adjusted slightly to reflect a 4% rate—an incremental shift. We believe the sharp market reaction stemmed from overexuberance leading into the meeting, where an in-line report failed to sustain elevated stock prices.

From a security standpoint, UnitedHealth Group (discussed below) and the absence of Broadcom in our portfolio detracted from performance.

**Broadcom:** The company's application-specific integrated circuits (ASICs) business, which supports hyperscalers like Google and Meta in creating custom semiconductors, was a highlight. Broadcom reported a strong quarter, but its long-term forecast stole the spotlight. Management projected AI ASIC demand for its customers growing from \$17.5 billion in 2024 to \$60–90 billion by 2027, driven by GPU cluster sizes potentially expanding from today's 100,000–200,000 units to 1 million per cluster. If we gain confidence in these projections, Broadcom (AVGO) may become a compelling candidate for future investment.

**Performance Contributors:** Alphabet, Amazon, and Apple all performed well during the month. Alphabet stood out, rallying 12% despite the broader market's 2% decline. This surge was largely attributed to a milestone from its quantum computing group, which shifted investor focus away from regulatory concerns and AI's impact on search. Quantum computing holds immense promise, though it remains a longer-term opportunity likely beyond 2030. Nevertheless, the announcement highlighted Alphabet's significant potential across its portfolio of innovative projects.



### Security Specific Comments:

**Stanley Black & Decker, Inc. (SWK)** – We chose to sell Stanley Black & Decker (SWK) to raise cash within the portfolios. The lack of margin improvement in the most recent quarter was disappointing, aligning with broader investor sentiment. During the previous Trump administration, Stanley was disproportionately affected by tariffs compared to other industrial companies. As we approach the start of the new administration this month, we anticipate heightened uncertainty and volatility, making it a prudent time to reallocate capital.

**UnitedHealth Group Incorporated (UNH)** – In mid-December, we added to our position in UNH. In hindsight, waiting until the end of the month may have been more prudent, as new negative developments hurt the shares after purchase. The most prominent news was the murder of Brian Thompson, CEO of UnitedHealthcare, the insurance division of UnitedHealth Group. To clarify, UnitedHealth Group's broader operations, including Optum, are led by CEO Andrew Witty. While a tragedy for Thompson's family and colleagues, our objective view is that the event is unlikely to have a long-term impact on the business. That said, we remain vigilant for any developments that might change our assessment.

Amid the tragedy, other developments with potential valuation impacts also occurred. A bipartisan Senate bill was introduced that would require pharmacy benefit managers (PBMs) and insurers to divest from any pharmacy-related assets. Additionally, PBMs remain under scrutiny from lawmakers and the incoming Trump administration.

UNH owns OptumRx, one of the three largest PBMs in the nation, alongside CVS Caremark and Express Scripts. While we understand the frustration and anger directed at PBMs for their role in the opaque and complex prescription drug pricing process, the data suggests their financial impact is relatively modest. For example, CVS Caremark and OptumRx operate with single-digit margins, generating \$10–\$12 billion annually, compared to the \$600 billion in total U.S. drug spending. In contrast, Pfizer's operating margin (after R&D) stands at 32%, with \$20 billion in operating income. These figures lead us to view claims that PBMs are the primary drivers of high drug prices with skepticism.

Furthermore, although the PBM market is dominated by the top three providers, viable alternatives do exist. Organizations like Kaiser Permanente, Elevance and Humana operate their own PBMs or partner with third parties, while others, such as Molina Healthcare and Centene, rely on CVS Caremark and Express Scripts, respectively. If PBMs were consistently extracting excessive profits, it stands to reason that more large health plans would transition to alternative models. However, this trend has yet to materialize.

We remain confident in the strong investment case for UNH shares.

*\*All data sourced from Bloomberg*

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### Disclosures

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Additional information, including management fees and expenses, is provided on our Form ADV Part 2 available upon request or at the SEC's Investment Adviser Public Disclosure website: <https://adviserinfo.sec.gov/firm/summary/109922>. Please note that due to rounding differences, certain data presented may not sum to 100%. Past performance is not a guarantee of future results.

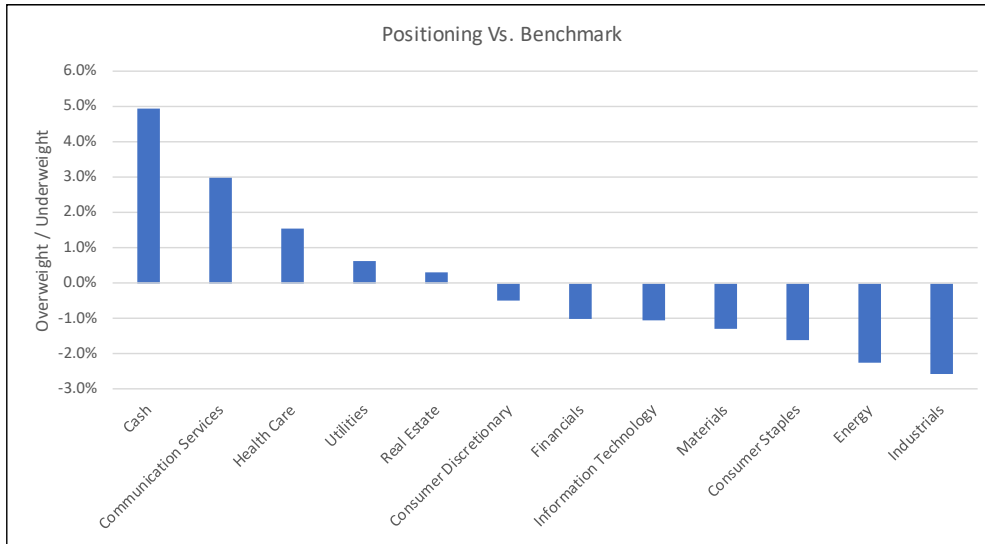
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## Tax-Exempt Models

### Sector Weights Relative to the S&P 500:



	Portfolio	S&P 500
Dividend Yield	1.3%	1.5%
Company Market Cap (Billion)	1,362	1,121
P/E - Forecast 12-Month	22.3	21.6

### Portfolio Holdings (12/31/2024)

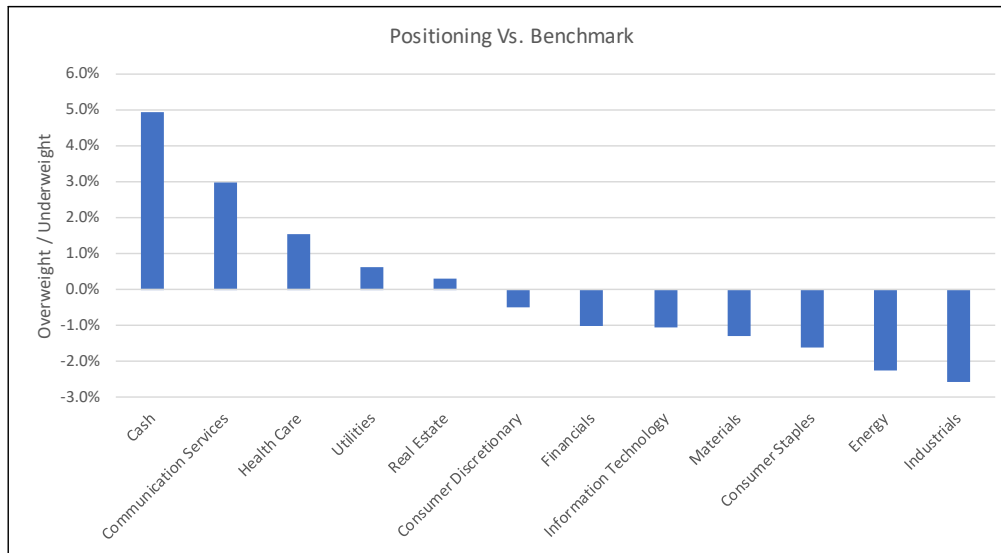
Name	Weight	Forward P/E	Sector
Fidelity Enhanced Large Cap Co	9.5%		
Goldman Sachs ActiveBeta U.S.	9.5%		
Microsoft Corp	9.1%	29.5	Information Technology
iShares MSCI USA Quality Facto	8.1%		
Apple Inc	8.0%	32.1	Information Technology
Amazon.com Inc	6.1%	31.3	Consumer Discretionary
T-Mobile US Inc	5.0%	20.5	Communication Services
UnitedHealth Group Inc	4.9%	16.9	Health Care
Alphabet Inc	4.6%	20.6	Communication Services
Charles Schwab Corp/The	4.0%	18.8	Financials
iShares 0-3 Month Treasury Bon	4.0%		
Vanguard US Momentum Factor ET	4.0%		
Cencora Inc	3.6%	14.6	Health Care
NVIDIA Corp	3.6%	31.8	Information Technology
DTE Energy Co	2.5%	16.8	Utilities
General Electric Co	2.3%	31.9	Industrials
Tyson Foods Inc	2.3%	15.9	Consumer Staples
Mastercard Inc	2.0%	31.9	Financials
Mid-America Apartment Communit	2.0%	37.7	Real Estate
Rocket Cos Inc	1.6%	16.7	Financials
QUALCOMM Inc	1.4%	13.4	Information Technology
Smith Douglas Homes Corp	1.2%	13.6	Consumer Discretionary
Cash	0.9%		
Total	100.0%		

(Source Bloomberg)



## Taxable Models

### Sector Weights Relative to the S&P 500:



	Portfolio	S&P 500
Dividend Yield	1.3%	1.5%
Company Market Cap (Billion)	1,277	1,121
P/E - Forecast 12-Month	21.7	21.6

### Portfolio Holdings (12/31/2024)

Name	Weight	Forward P/E	Sector
Goldman Sachs ActiveBeta U.S.	17.7%		
Microsoft Corp	12.3%	29.5	Information Technology
Apple Inc	6.5%	32.1	Information Technology
iShares MSCI USA Quality Facto	6.4%		
Amazon.com Inc	5.7%	31.3	Consumer Discretionary
iShares 0-3 Month Treasury Bon	5.1%		
Vanguard US Momentum Factor ET	5.1%		
T-Mobile US Inc	4.7%	20.5	Communication Services
UnitedHealth Group Inc	4.5%	16.9	Health Care
Charles Schwab Corp/The	4.1%	18.8	Financials
Cencora Inc	3.9%	14.6	Health Care
Alphabet Inc	3.4%	20.6	Communication Services
DTE Energy Co	2.5%	16.8	Utilities
Mid-America Apartment Communit	2.4%	37.7	Real Estate
Tyson Foods Inc	2.3%	15.9	Consumer Staples
Textron Inc	2.3%	11.5	Industrials
QUALCOMM Inc	2.1%	13.4	Information Technology
Mastercard Inc	2.1%	31.9	Financials
NVIDIA Corp	1.9%	31.8	Information Technology
Rocket Cos Inc	1.6%	16.7	Financials
Advanced Micro Devices Inc	1.2%	23.7	Information Technology
Smith Douglas Homes Corp	1.2%	13.6	Consumer Discretionary
Cash	1.0%		

Total	100.0%
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(Source Bloomberg)