T. Rowe Price U.S. Blue Chip Growth Fund

Fund Commentary

Relative Performance Drivers

- Security selection in the information technology sector contributed.
- Communication services added value due to stock picks and an overweight allocation.
- Adverse stock choices and an underweight position in financials hurt relative returns.

Additional Portfolio Highlights

- Our (T. Rowe Price) view is that the path of least resistance for markets is to grind higher as we approach the election, given the Federal Reserve's (Fed) dovish assurances and the high likelihood of a supportive earnings backdrop. The primary risk to that scenario is a string of hotter-than-expected inflation prints that force the Fed to dial back the current expectations for rate cuts.
- From a positioning standpoint, we continue to refrain from trying to forecast macro events and remain focused on idiosyncratic growth narratives that we think can play out regardless of the environment at large.

Performance Review

U.S. stocks produced strong first-quarter gains that lifted several broad indexes to all-time highs. The market was driven by investors' optimism about the corporate profit potential stemming from advances in artificial intelligence (AI). Investors were also encouraged by the outcome of the Fed's most recent monetary policy meeting. Although the central bank kept short-term interest rates steady throughout the quarter, in mid-March policymakers maintained their year-end 2023 "dot plot" projections for three quarter-point interest rate cuts by the end of 2024 despite recent upticks in inflation readings.

Security Selection in the Information Technology Sector Contributed

- The portfolio's position in NVIDIA contributed. Shares traded higher in the first quarter, supported by the company's fourth consecutive beat-and-raise earnings release-despite high expectations. While production has expanded, demand for leading-edge graphics processing units (GPUs) continues to outpace supply as large-scale cloud computing providers race to build out their AI infrastructure. NVIDIA's strong product cadence featuring next-generation GPUs and operating system software should support additional growth in the near term. The chipmaker's dominant position in state-of-the-art GPUs, combined with its embedded software, has created an expanding moat behind which it should be able to continue to innovate and grow earnings.
- ASML Holding is a semiconductor capital equipment supplier and the predominant supplier of extreme ultraviolet (EUV) lithography technology to semiconductor manufacturers. Our out-of-benchmark position added value as the company reported a substantial increase in EUV tool orders in the fourth quarter, suggesting that order trends are improving, and demand is benefiting more than expected from the current AI investment cycle. After years of investment, we believe ASML has reached an inflection point as it deploys its EUV lithography technology for high-volume semiconductor manufacturing. ASML is the sole provider of this unique technology, and we expect EUV to fuel highly visible, durable, long-term organic growth and margin expansion as adoption rates grow.

Communication Services Added Value Due to Stock Picks and an Overweight Allocation

- Shares of Meta Platforms continued their run of outperformance during the period as strong return on advertising spending drove demand, while forward-looking guidance suggested continued acceleration in the months ahead supported by improving engagement

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and monetization trends-particularly in short-form video-along with AI-enabled advertising campaign tools. The company also instituted a dividend and expanded its share repurchase program, which was well received. Meta is one of two leading platforms that we expect to benefit from a multi-decade transition from offline to online advertising and offers investors a rare combination of scale, growth and profitability at an attractive valuation with multiple catalysts that include a collection of under-monetized surfaces and social commerce initiatives.

Favourable Security Choices and an Underweight Position in Utilities Assisted

- Constellation Energy is the United States' largest producer of clean, carbon-free energy, as well as a leader in nuclear power and a predominant supplier of energy products and services to homes, businesses and the public sector. Shares rose in response to the company's constructive outlook for future earnings growth, driven by sustainable pricing power amid a growing structural supply/demand imbalance for electricity and increasing AI-related demand for reliable clean power due to growing data center needs.

Adverse Stock Choices and an Underweight Position in Financials Hurt Relative Returns

- Our significant position in Visa modestly detracted. Despite posting gains, the payments company lagged the broader financials sector, which was one of the top-performing segments in the benchmark. Shares faced some downward pressure during the period due to multiple factors, including news that Discover Financial Services agreed to be acquired by Capital One, as well as Visa's announcement of a settlement with U.S. merchants regarding credit card swipe fees. We view both developments as having a negligible impact on our thesis and maintain our belief that Visa, supported by the strong secular tailwinds of electronic payments, can provide durable earnings growth, thanks to high margins, continued pricing power and strong free cash flow conversion.

Positioning and Activity

Keeping in line with recent trends, fundamentally driven trading activity (trading focused on company fundamentals and/or valuation as opposed to trades made for cash generating or rebalancing purposes) continued to be light; however, we did add some exposure to a handful of attractive opportunities on the margins. There were no fundamentally driven sales during the period.

Information Technology

Information technology remains our largest weight. Within the sector, we focus on innovative business models that we believe can take advantage of transformational change. We favour companies with durable business models that address large and growing markets, including semiconductors and semiconductor equipment, public cloud computing, software and consumer technology.

- We added shares of TE Connectivity, a market-leading provider of connectors and sensors. We viewed the company as attractively valued, and we appreciate its leverage to the proliferation of both AI and electric vehicles over the coming years, which should be supportive of structurally higher growth over the long term.

Consumer Discretionary

We remain constructive on stock-specific opportunities within the consumer discretionary sector. We are focused on businesses benefiting from the secular shift of consumer spending to online retail, as well as select companies that stand to gain from growing demand for electric vehicles. Additionally, within the sector, we have select exposure to off-price retail and fast-casual dining, as well as businesses that we feel are positioned to take advantage of the long-term growth in online travel services.

- We added to our stake in Carvana, a disruptor in used autos. While we remain cautious around Carvana's recovery path, concerns regarding its liquidity profile have moved to the rear view, and recent execution by company management—as Carvana turns its focus toward profitable growth—has instilled more confidence.

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Energy

Our limited exposure to the energy sector generally consists of high-quality exploration, production and services companies that demonstrate an ability to generate cash flow and effectively allocate capital.

- Schlumberger is a global leader in oil field services with a revenue mix that primarily skews international. We added to our position in the company, which is widely regarded as a technology leader in oil field services, as we expect Schlumberger to be a primary beneficiary of the international and offshore capital expenditure upcycle on the back of decreasing oil drilling productivity and a steepening cost curve onshore.

Utilities

Our minimal exposure to the utilities sector is focused on businesses that we believe are well positioned to benefit from structural tailwinds that should drive meaningful growth in free cash flow and earnings. In general, the deregulation of the sector, as well as increased environmental restrictions, has dampened the opportunity for companies to achieve sustainable, long-term growth. As technology and regulation evolve, we will continue to monitor utilities in search of firms with the potential to generate sustainable long-term growth.

- We continued to add to our stake in Constellation Energy, which is the United States' largest producer of clean, carbon-free energy, as well as a leader in nuclear power and a predominant supplier of energy products and services to homes, businesses and the public sector. We believe Constellation will likely benefit from margin expansion given our expectations that overall energy prices are likely to rise, while the input costs for nuclear remain unchanged. In addition, increasing AI-related demand for reliable clean power due to growing data center needs represents a significant tailwind for the company.

Outlook

Our view is that the path of least resistance for markets is to grind higher as we approach the election, given the Fed's dovish assurances and the high likelihood of a supportive earnings backdrop. The primary risk to that scenario is a string of hotter-than-expected inflation prints that force the Fed to dial back the current expectations for rate cuts. That said, from a positioning standpoint, we continue to refrain from trying to forecast macro events and remain focused on idiosyncratic growth narratives that we think can play out regardless of the environment at large.

About T. Rowe Price

T. Rowe Price is an independent global asset management firm focused on client success. The firm uses an active management approach called strategic investing, driven by independent thinking, diversification and rigorous fundamental research. Passion for exploration and understanding has helped inform better decision-making and prudent risk management for clients since the company was founded in 1937.

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