

MARKETS | Q&A

This Winning Fund Pro Likes J&J, Lowe's, and Utility Stocks

Susan Bao's large-cap JPMorgan fund has outperformed the S&P 500 over many years. She's bullish on stocks, focused on bargains.

BY DEBBIE CARLSON

Rare is the active equity manager who can beat the S&P 500 index. Even rarer is one who has done it consistently over many years.

Meet Susan Bao, manager of the \$3.6 billion JPMorgan US Large Cap Core Plus fund, which has outperformed the S&P 500 over a three-, five-, and 10-year period. The fund boasts an annualized 10-year return of 16.3%, net of fees, compared with the index's 10-year return of 15.8%.

That showing has earned Bao's fund four stars and a bronze medal from Morningstar, and recognition in the industry.

Bao holds long and short positions, betting on many stocks to rise and a smaller number to fall. She created and launched the strategy in 2005, and just celebrated her 20th year as manager of the fund. She joined JPMorgan Chase in 1997 as an analyst.

Barron's recently spoke with Bao about her upbeat market outlook and the appeal of utility and healthcare

stocks, and Lowe's. An edited version of the conversation follows.

***Barron's:* How does your investment strategy work?**

Susan Bao: I work with 20 sector analysts who rank stocks in each sector across five quintiles, with cheap stocks in the top quintile and expensive ones at the bottom. The fund is known as a 130/30 fund, and the concept is that if you give me \$100, I buy attractive names, then sell short \$30 worth of stocks we think will underperform. With the proceeds I buy more attractive names, so now you have \$160 working for you. It's an efficient way of using our capital. The net exposure stays at 100%, and we're largely sector neutral.

You're using leverage. How do you control for risk?

We have more than 260 stocks, so it's a diversified fund. We spread risk into many small short positions, keeping the risk management tight on the short side. Even if there is some idiosyncratic risk—say, a stock doubles in price—we aren't forced to buy it back. We review things daily.

What is your investment outlook for 2026?

The economic backdrop will remain pretty healthy. We expect mid-single digit nominal growth in gross domestic product. There will be stimulus for consumers from the One Big Beautiful Bill Act. When the big banks reported earnings recently, they said the consumer is still resilient. Credit markets are still healthy, and at this point, we still expect two interest-rate cuts from the Federal Reserve this year. There still could be deregulation, too.

With valuations high, earnings growth will have to do the heavy lifting to drive the market. Our team expects earnings growth will be around 13% to 14%, but when you peel back the onion, the Magnificent Seven stocks will deliver about 20%-plus earnings growth. That is great, but not as good as the last two years. The other 493 names in the S&P 500 are going to deliver about 11% earnings growth, so we are expecting a broadening of the market this year.

Are you concerned that geopolitics will affect the market negatively?

When valuations are high, people are going to be a little more sensitive

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Susan Bao manages the JPMorgan US Large Cap Core Plus fund.

PHOTOGRAPH BY CLARK HODGIN

to geopolitics, and you're going to have volatility as a result. At the end of the day, you want to focus on earnings. If companies continue to have strong earnings and positive revisions, you might want to use the opportunity to lean into stocks you like. Don't focus on the noise; focus on the fundamentals.

Last year, the fund underperformed the market with a 14.5% return, versus 18% for the S&P 500. That's a rare occurrence. What happened?

Last year we saw two extremes. At the beginning of the year, there was a lot of fear. In the selloff after "Liberation Day," when the White House announced its tariffs, peak to trough the market was down 19%. Then we had a sharp rally. Fear and a little greed

made for an emotional market. Shares of low-quality, unprofitable companies and low return-on-equity stocks did well. That is a headwind for our process, which is based on discounted long-term earnings and cash flow.

You were an analyst during the dot-com bubble, and after. Are we in an artificial-intelligence bubble now?

We don't think it's a bubble. During the dot-com bubble, companies laid a lot of unused fiberoptic cables, or dark fiber, in anticipation of demand, and 95% of those stayed dark when the bubble burst. They were speculating. Today, AI is supply-constrained. It is increasingly a power constraint rather than an advanced chip constraint. Other constraints include data-center

construction permitting, cooling, and water availability, and access to specialized labor. That is a key difference.

Second, during the dot-com bubble, a lot of capacity was built using debt. Up until now, the hyperscalers were using balance-sheet cash, so they weren't leveraged.

That's changing. Circular financing, or companies funding one another to grow, is coming under scrutiny. What do you make of this development?

We're watching it, but I don't think it is a big issue. It isn't systemic. At some point, we are going to see a correction, but at this point, I am not concerned. We aren't oversupplied.

Rising electricity rates are generating pushbacks on data-center growth. What is your view on the utility sector?

AI data-center demands on power have structurally changed the industry. Affordability is a top political issue, especially with the 2026 midterms [approaching], and political risk on the rise. We are generally cautious on utilities facing major rate cases in swing states. A rate case, in regulated utilities, is a formal process whereby a utility company seeks approval from a regulatory body to adjust its rates so it can recover prudently incurred costs and earn an authorized return. Outcomes are set through commission orders or negotiated settlements and occur every few years.

We're looking at companies that have regulators and lawmakers who are more open to data centers and are helping their utility companies to meet that demand. We like companies that have clear growth, a good execution record, and fully supportive regulatory environments.

What are some of your top picks?

NextEra Energy and Southern Co. have solid records of settling rate cases in a constructive way that controls customer bill impacts while still making sure they can invest and support economic growth in their states.

NextEra's growth drivers are more robust than the market realizes. NextEra is positioned to deliver above-industry earnings-per-share growth of more than 8% annually through 2035. It has strategic investments in renewables and major data-center contracts with companies such as [Alphabet's] Google and Meta Platforms. NextEra is expected to achieve a 20% compound annual growth rate in its regulatory capital employed through 2032. The recommissioning of the Duane Arnold nuclear plant [in Iowa] is projected to contribute up to \$0.16 of annual earnings per share over its first 10 years of operation.

Southern struck a deal to keep base rates steady through 2028, while maintaining its current regulatory setup, which has a return-on-equity range of 9.5% to 11.9%. Southern's contracts for large load demand and data-center growth in the Southeast should drive above-trend revenue and margin expansion. Its current capital plan of \$76 billion should rise as it incorporates new commitments, supporting continued above-consensus earnings-per-share growth.

What else do you like?

Entergy is moving quickly to build three new gas-fired plants in Louisiana, thanks to state regulators streamlining the approval process. Entergy has a clear and ambitious growth plan, with a \$41 billion capital plan and 19 gigawatts of secured capacity, with eight gigawatts available for additional growth. It aligns with the company's growing data-center pipeline. We expect a compound annual growth rate in earnings per share of 13% from 2025 to 2029, and believe the market has yet to fully grasp the upside to the company's capital plan as it secures more binding commitments from hyperscalers.

What other sectors interest you?

My team just came back from the J.P. Morgan Healthcare Conference, the biggest annual healthcare conference. Sentiment is a little bit better than a few years ago, when everyone was worried about regulatory overhang and most-favored-nations drug pricing [a

U.S. policy to lower prescription costs by lowering them to the lowest prices in other developed countries]. That is mostly behind us. The healthcare sector is attractive relative to its own history and the S&P 500. We are adding to some names we already own.

Which ones?

Thermo Fisher Scientific makes the picks and shovels of the healthcare industry. It helps customers in healthcare, life sciences, and research with tools and solutions for everything from diagnostics to drug development. It is benefiting from a pickup in biopharma spending, and adding more products and services. Biopharma research and discovery spending is a secular growth driver, and we expect Thermo Fisher will be a primary beneficiary. We met with the management team, and they are seeing pretty strong return potential in 2026. They feel pretty constructive on the funding environment.

Then, Boston Scientific is a leading medical-device company with best-in-class management. Its strategic focus on fast-growing areas of medical technology, combined with continued investments in innovation, make it one of the fastest-growing medtech businesses. Those growth drivers are stronger than the market appreciates.

What do you think of the company's recent acquisition?

The recently announced Penumbra acquisition for \$15 billion gives Boston a leading position in the mechanical thrombectomy market [a procedure to remove blood clots], which is nascent and fast-growing today. Its electrophysiology business [diagnosing and treating heart rhythm disorders] is expected to sustain above-market growth, with projected growth rates in the 20% to 25% range. The Watchman device for stroke prevention is also anticipated to continue its double-digit growth, driven by coming clinical data and expanded indications.

What else do you like in healthcare?

Johnson & Johnson is a resilient, long-term growth story, based on the

strength of its portfolio and pipeline, with more than 50 new product expansions by 2030. The company expects double-digit revenue growth by the end of the decade, above the Street's current expectations of around 6%.

J&J plans to spin off the lagging orthopedics business, which improves the business mix toward higher-growth areas. We believe that will result in a higher multiple. Revenue growth is expected to reach \$100 billion in 2026, with earnings-per-share growth of 7%, to \$11.53. Margins could increase by a projected 0.50%, at least, in 2026.

As you mentioned, the consumer is resilient. How are you playing that?

Elevated interest rates and low affordability have pushed housing turnover to near all-time lows and pressured home-improvement spending. Existing housing stock is more than 40 years old, a record high, and home equity has grown tremendously. At the same time, the Trump administration is focused on housing affordability and lower interest rates, and tax refunds from OBBBA should benefit homeowners and home centers. There is fundamental pent-up demand for home improvement that should uncoil as housing turnover improves. Lowe's has a high do-it-yourself clientele, and this segment historically leads the home-improvement cycle.

We are about 3% ahead of consensus estimates on our earnings estimate, and our same-store-sales estimates are 50% higher than consensus for the next 12 months.

You have been managing the fund for 20 years through some big market moves. What are some lessons you learned?

You have to figure out your niche and your process. Ours is to focus on long-term earnings and cash flows. We lean into secular trends. It isn't going to be right all the time, but it is right most of the time. So, when you underperform, don't panic.

Thanks, Susan.

JPMorgan U.S. Large Cap Core Plus Fund

A shares – JLCAX

Annual operating expenses

Gross expenses:	1.94%
Net expenses:	1.64%

The Fund’s adviser and/or its affiliates have contractually agreed to waive fees and/or reimburse expenses to the extent Total Annual Fund Operating Expenses (excluding acquired fund fees and expenses, dividend and interest expenses related to short sales, interest, taxes, expenses related to litigation and potential litigation and extraordinary expenses) exceed 0.950% of the average daily net assets. The Fund may invest in one or more money market funds advised by the adviser or its affiliates (affiliated money market funds). The Fund’s adviser has contractually agreed to waive fees and/or reimburse expenses in an amount sufficient to offset the fees and expenses of the affiliated money market funds incurred by the Fund because of the Fund’s investment in such money market funds. This waiver is in effect through 10/31/2026, at which time the adviser and/or its affiliates will determine whether to renew or revise it. The difference between net and gross fees includes all applicable fee waivers and expense reimbursements.

Performance as of 12/31/2025

	1 Year	3 Years	5 Years	10 Years	15 Years	Since Inception*
At NAV	14.53%	24.02%	14.86%	14.87%	13.85%	12.24%
With 5.25% maximum sales charge	8.53%	21.81%	13.63%	14.25%	13.44%	11.94%
S&P 500 Index	17.88%	23.01%	14.42%	14.82%	14.06%	11.13%

*Fund performance inception: 11/1/2005

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Returns are calculated from the first day of month which is the Fund’s performance inception date. The JPMorgan U.S. Large Cap Core Fund has the longest performance record in this Lipper Average. **The performance quoted is past performance and is not a guarantee of future results**

Mutual funds have fees that reduce their performance; indexes do not. you cannot invest directly in an index.

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Mutual funds have fees that reduce their performance: indexes do not. You cannot invest directly in an index. The S&P 500 Index is an unmanaged index generally representative of the performance of large companies in the U.S. stock market. Index levels are in total return USD.

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Performance quoted is past performance and is no guarantee of future results. Investment returns and principal value will fluctuate, so shares, when sold, may be worth more or less than original cost. Current performance may be higher or lower than returns shown. Call 1-800-480-4111 for most recent month-end performance.

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