October 19, 2023
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Todd Asset Management

International Holding Its' Own

TAM International Q3 2023 Review and Outlook Chartbook

	3Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US (Net)	-3.77%	5.34%	20.39%	3.74%	2.58%	4.73%	3.35%
MSCI ACWI ex-US Value (Net)	-0.08%	8.19%	25.17%	9.56%	2.29%	4.57%	2.58%
MSCI ACWI (Net)	-3.40%	10.06%	20.80%	6.89%	6.46%	8.60%	7.56%
MSCI ACWI Value (Net)	-1.75%	2.42%	16.98%	9.72%	3.97%	6.01%	5.27%

** Annualized Total Returns as of 09/30/23*

Investors seem more accepting when we suggest it is time to consider adding allocations to international <u>if they are underinvested</u>. **Performance is probably at the heart of this** as trailing 12 month returns show the ACWI ex-US Index holding its' own against most US indexes. Between the end of Q3 last year and this year, the **ACWI ex-US Index essentially matched the S&P 500, and beat the S&P equal weighted, Dow Jones Industrial Average, and the Russell 1000 Value indexes.** Year to date, the S&P is ahead as the megacap growth stocks have stolen the show. Higher rates and more competition could be their undoing, **so International is probably poised to compare favorably** for some time.

TTM, ACWI Ex-US Outperforms All Except SPX

Index Returns 9-30-22 Through 9-30-23

Source: TAM and Bloomberg

Over the past 12 months, ACWI ex-US (white line) beat the S&P Equal Weighted, Dow Jones Industrial Average and Russell 1000 Value indexes, and matched the S&P 500.

Other trends of note we see playing out:

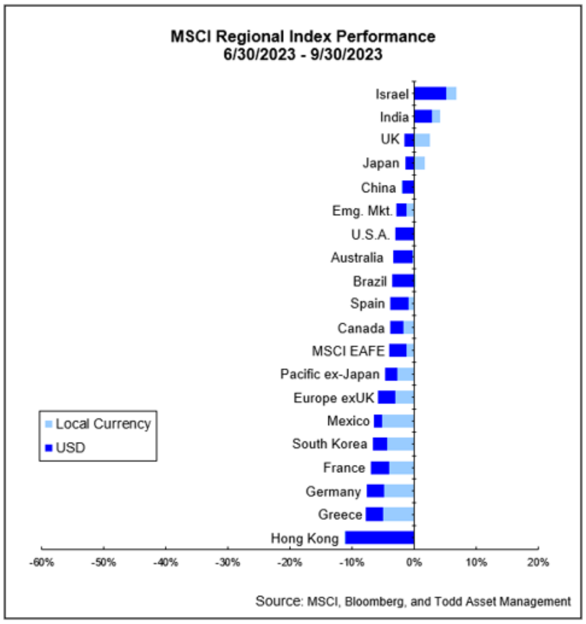
- **Higher rates allowed value stocks to outperform** as **Recession forecasts are being delayed and pushed out**. Consumers and Corporations are in good shape. Rates are rising.
- In **Europe, the continent has weaker PMIs** as destocking and export weakness occur. European labor markets remain strong. **Japan posted a 6% growth rate** in the quarter, and **the UK saw very positive revisions** to economic growth since the pandemic**. China is stimulating** and recently reduced most mortgage rates by 50 basis points. **Manufacturing looks due for a rebound**.
- **Developed central banks are likely on pause**, while **emerging markets are stimulating**. Developed markets sovereign rates are rising as it appears **bond vigilantes have woken up. We believe rates stay higher for longer**, though the recent move up seems extended.
- **A new capital investment cycle is underway**, driven by infrastructure, re-shoring, green energy initiatives, commodity/energy investment and defense spending. Recent events highlight the **cold-war peace dividend period is over and new threats require industrial policy favoring defense and investment**. *This should bolster value-oriented strategies*.

Will there be a recession? Someday, but probably not yet. We are wary of several things that could shock consumers into spending less, but they do not seem to have enough traction yet. The **geopolitical situation is a worry.** Consumer sentiment in developed markets is often a casualty of war, and energy prices also tend to rise. **There is a manufacturing slowdown**, though we think restocking probably prompts a pickup later this year. **Higher oil prices** could rekindle inflation, but that probably takes time. **Higher labor wage settlements** could play into that as well. *Still, against all of that, we see strong labor markets in Europe and Japan, good consumption, and earnings recovering.* Additionally, ***government spending is likely to pick up*** as developed markets need to promote the capital investment required to defend themselves and re-shore critical industries. This appears to be the new post-covid normal. Without a recession, markets probably stage a fourth quarter recovery from the poor third quarter showing.

Charts We are Sharing with Our Clients

Regional Returns- Favoring Rebounding Outlooks

TODD Asset Management



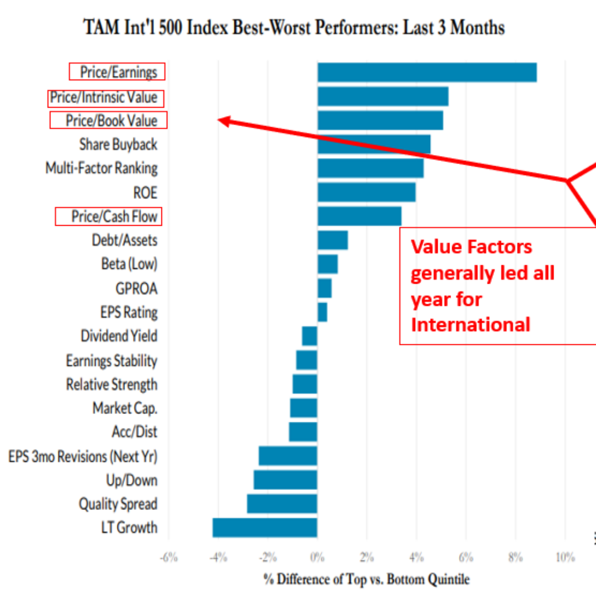
- **<u>All markets saw better local returns.</u>** Dollar strength hurt results for US Investors. Expect eventual weakness, but rate differentials and politics keep it stronger for now.
- **<u>The common theme among the winners was better economic expectations</u>**, as Israel, India and Japan surprised to the upside. China may be bottoming, and the UK saw prior periods revised up.
- **<u>Laggards tended to be victims of weaker exports</u>**, higher inflation, and rising interest rates.

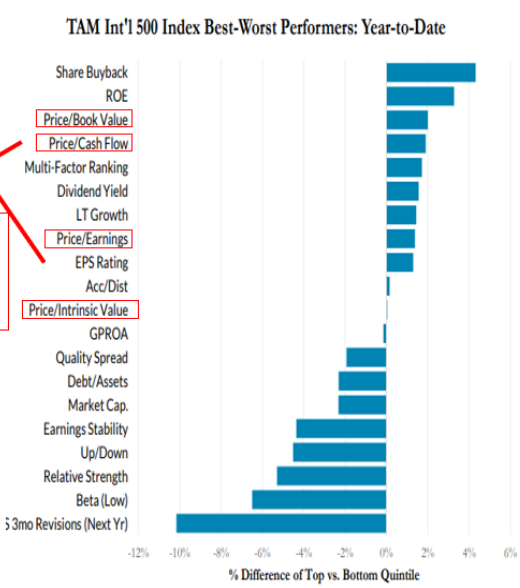
Commentary may contain subjective judgements and assumptions subject to change without notice. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast.

Int'l Factor Analysis- Value Working Internationally

As of 09/30/2023

TODD Asset Management

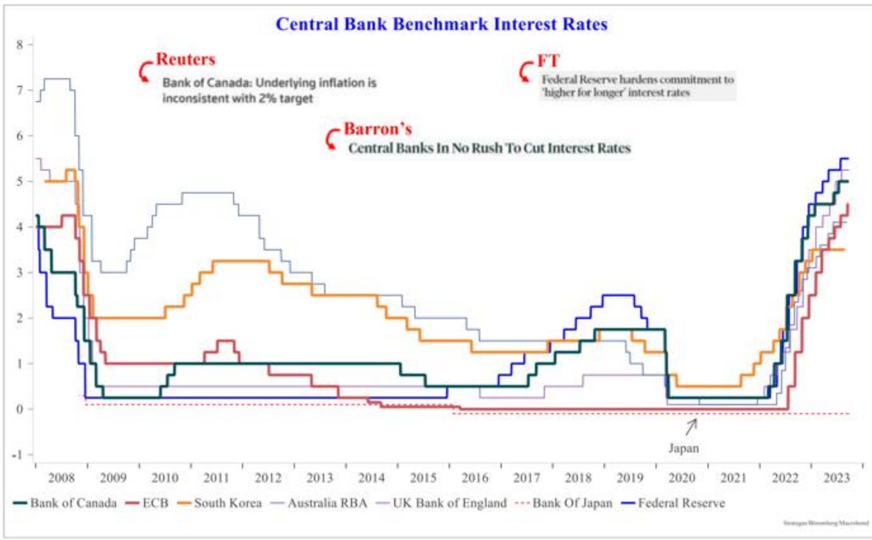




Data Source: Bloomberg, William O'Neill & Co. and TAM.
TAM Int'l 500 Index is a list of the 500 largest US listed international companies by market cap. This list is used for factor analysis where the index is ranked/sorted by a certain factor then divided into quintiles. Returns are then calculated on a monthly basis for each quintile. The noted index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

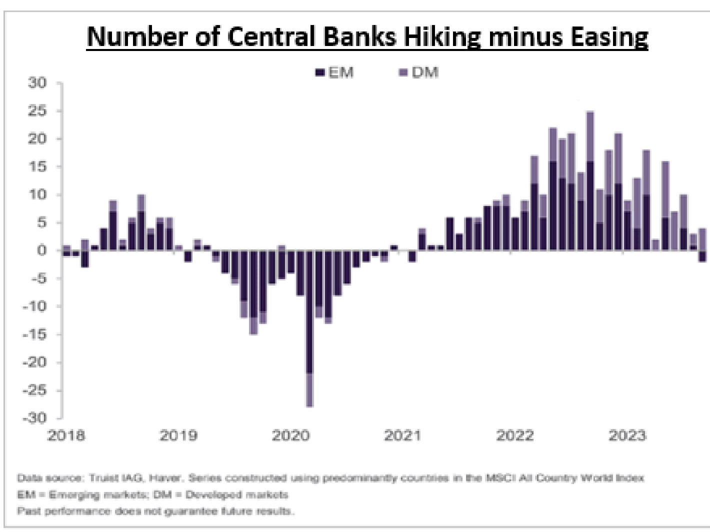
Higher for Longer is Finally Being Embraced

DESPITE NUMEROUS CENTRAL BANKS HINTING AT A PAUSE, "HIGHER FOR LONGER" IS THE NEW MANTRA



Source: Strategas Weekly Recap in Charts 9-22-23

Central Banks Are Almost Finished Raising Rates



- Higher rates are usually headwinds for stocks, so some relief may be coming
- A concern: higher rates can prompt economic weakness or financial accidents.
- Stay alert! We still favor a soft landing for now.

Good News- European and Japanese Earnings Estimates Bottomed and Heading Higher

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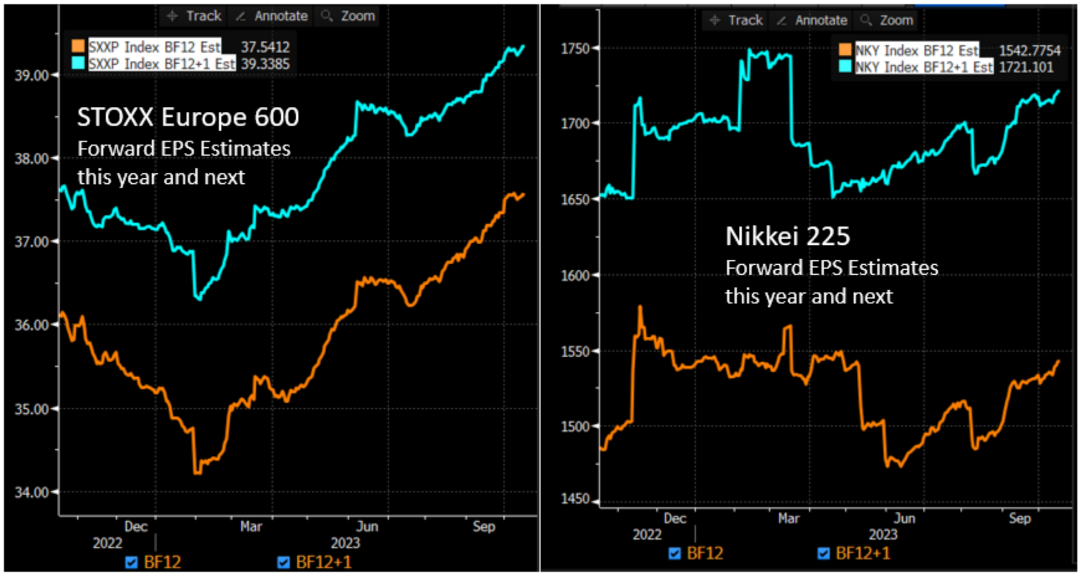

Source: TAM, Bloomberg- Data through 10-16-23 Lines measure Local Indexes and Currencies earnings estimates for the next 12 months (orange) and the same measure for next year (blue)

<u>Earnings estimates bottomed earlier this year</u> and have recovered since then.

Source: Bloomberg, Todd Asset Management as of 10/16/2023
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G 20 Leading Indicators Predict Firmer Global Growth

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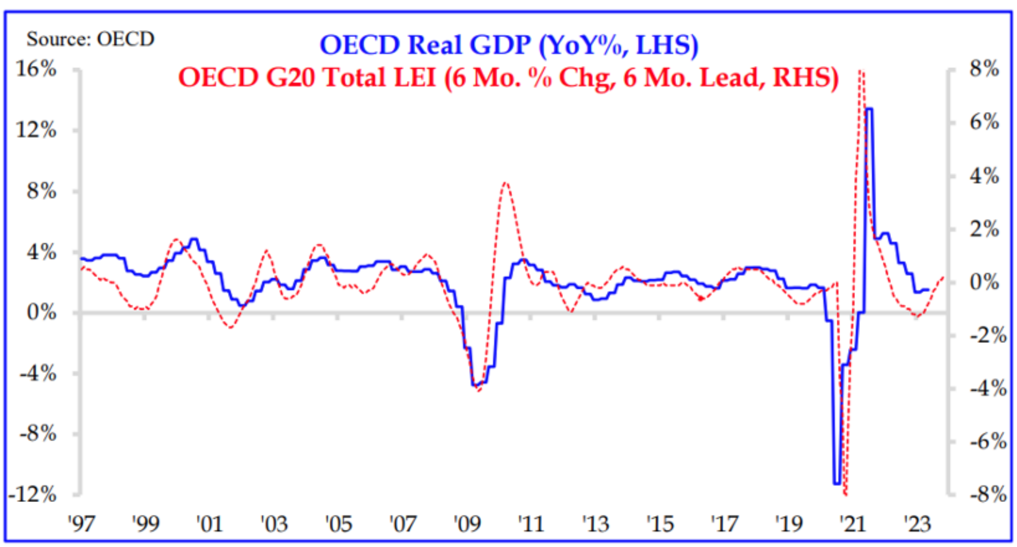

Source: Strategas

Leading Indicators for the G 20 nations recently hooked up. Markets have noticed this and are anticipating a soft landing (for now…)

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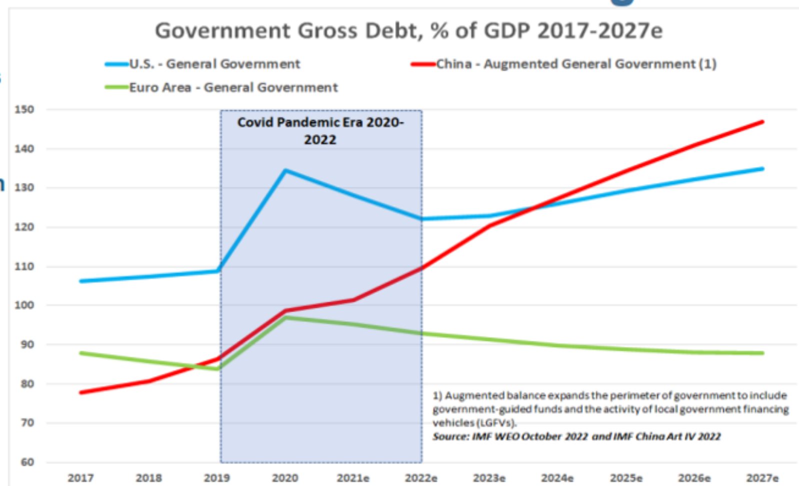
EU Has More Budget Flexibility than US or China

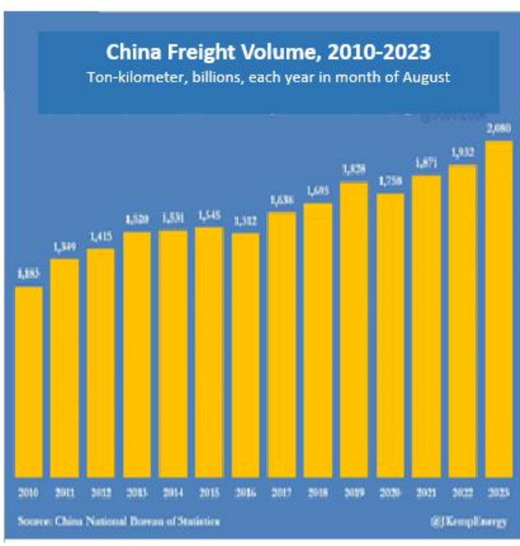
EU Had a Good Post-Pandemic Starting Point

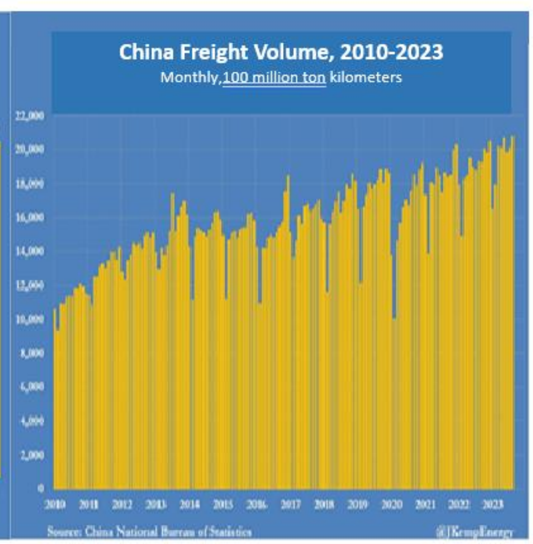
- The EU27 came through the Covid-19 pandemic as arguably "best in class"
- "Wage subsidization model" proved superior in facilitating immaculate reopening
- No lasting "long-Covid labor market effects"
- Fiscal outlays were in hindsight of an appropriate scale



Source: Peterson Institute for International Economics

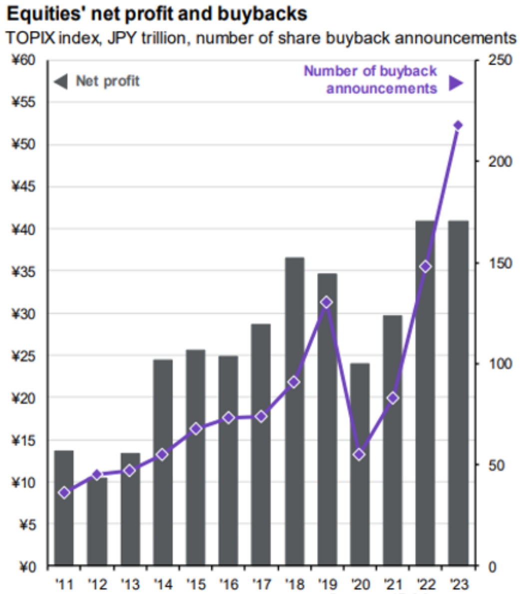
Chinese Freight Volumes Continue to Expand





Chinese freight volumes increased almost 8% year over year in August, (chart left), continuing the expansion illustrated by the monthly volumes chart on the right. This doesn't jibe with the consensus view of China's economy weakening.

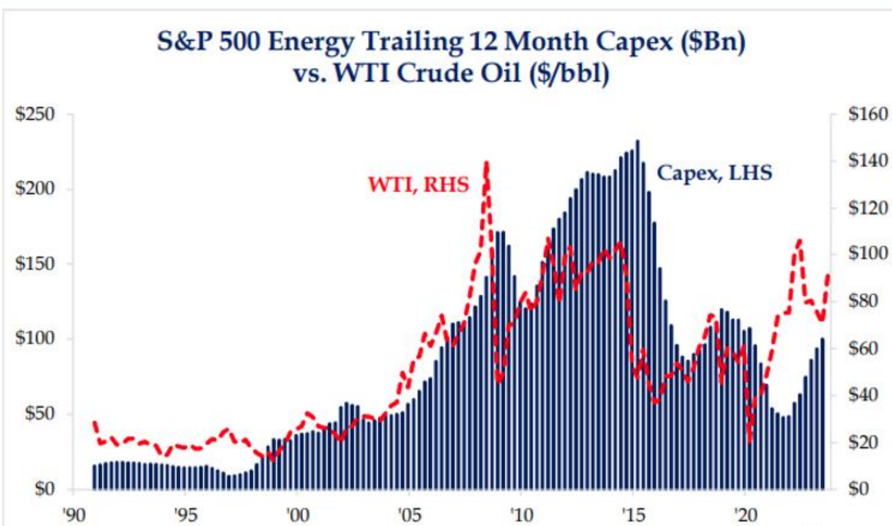
Japan Becomes Shareholder Oriented



Source: JP Morgan

- **Japan was the best performing market** year to date, with the TOPIX index rising over 25% through 9-30-23.
- Many factors are at work here. This slide illustrated net profits and the number of buyback announcements for members of that index. **Buyback announcements have more than tripled over the past 10 years.**
- This illustrates **that Japanese companies are changing management practices** and working to be more shareholder friendly.

Oil Prices Remain Firm as Capital Discipline Continues



Source: Strategas

Oil companies slashed investment in drilling after the Saudis price war in 2015. Companies are **unwilling to increase drilling budgets** now.

Defense Spending Targets Spike

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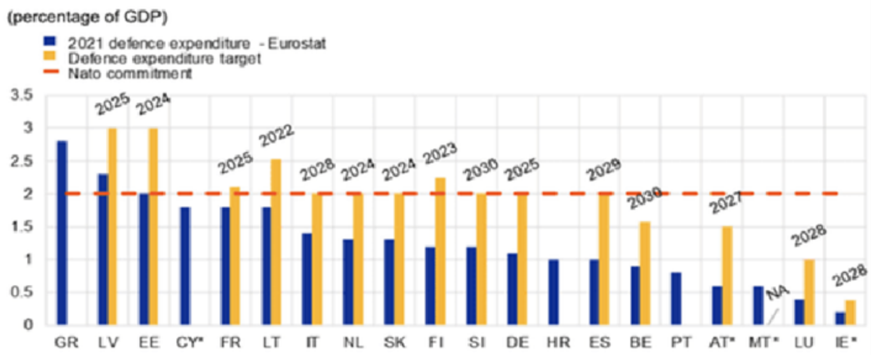
Defence expenditure in 2021 and announced spending targets



Sources: Category 2 in COFOG data (Eurostat, OECD, IMF).

Notes: *denotes countries that are not members of NATO. Announced spending targets are based on media reports from October 2022. Spending targets can be subject to frequent revisions.

Source: Daily Shot

The "Peace-Dividend" Era is over and defense budgets are rising. Given the direction of geopolitics, the targets for spending may prove low.

Summary

Strategists are still angry that they have missed the no-recession call. We think several factors have aided the economy and delayed the traditional onset of a recession, maybe for years. The US market **fascination with the largest 7 stocks is a result of recession anticipation**, as they are viewed as recession proof. We believe **the new capital cycle is likely to keep the economy afloat** and bolster the case for global investing. If it can allow for better productivity, it could delay the onset of recession for quite some time. That **should allow for a rotation** from the recent US Tech winners **into a more value and globally oriented leadership.**

As always, if you need any additional information, please feel free to contact any of us.

Curt Scott, CFA
Jack White, CFA
Jack Holden CFA
Shaun Siers, CFA

10/18/2023
MSCI ACWI ex-US (Net) – 261
MSCI ACWI (Net) – 349
MSCI ACWI ex-US Value (Net) – 1,198
MSCI ACWI Value (Net) – 295

Refer to the following page for more information on the commentary presented. This is pertinent to this letter and should not be reproduced or duplicated without this disclosure.

The indexes are unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs.

MSCI ACWI ex-U.S. (net) Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. The ACWI ex-U.S. includes both developed and emerging markets. For investors who benchmark their U.S. and international stocks separately, this index provides a way to monitor international exposure apart from U.S. investments. The Net Index takes into account the impact of foreign tax withholdings on dividend income.

MSCI ACWI (net) Index is a float-adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.

MSCI ACWI ex-U.S. Value (net) Index captures large and mid-cap securities exhibiting overall value style characteristics across 22 Developed and 26 Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI ACWI Value (net) Index is a float-adjusted index of securities exhibiting overall value style characteristics across both developed and emerging markets. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The net index considers the impact of tax withholdings on dividend income.