April 17, 2023
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Todd Asset Management

Europe Still Leading

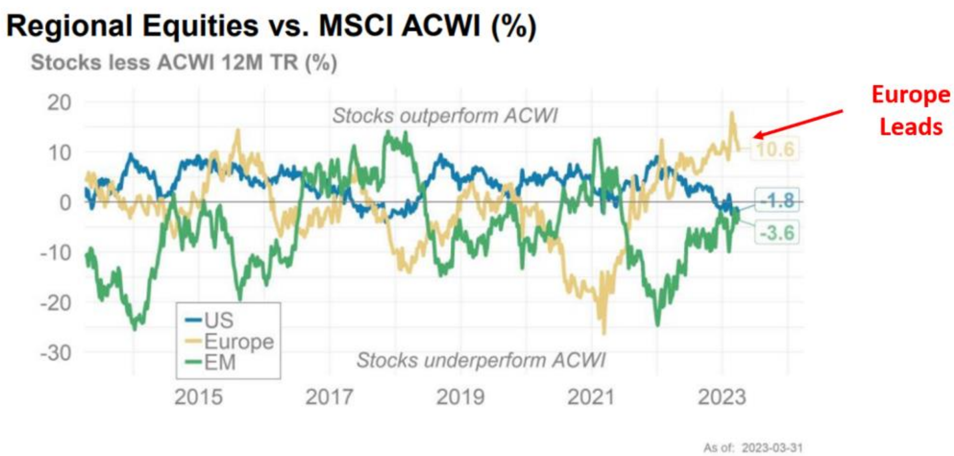
TAM International Q1 2023 Review and Outlook Chartbook

	1Q 2023	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US (Net)	6.9%	-5.1%	11.8%	2.5%	5.9%	4.2%
MSCI ACWI ex-US Value (Net)	5.2%	-4.0%	13.8%	1.3%	5.0%	3.1%
MSCI ACWI (Net)	7.3%	-7.4%	15.4%	6.9%	9.2%	8.1%
MSCI ACWI Value (Net)	1.2%	-5.5%	15.2%	4.3%	6.8%	5.9%

** Annualized Total Returns at 3/31/23*

International Markets performed well during Q1 2023 with the ACWI ex-US nearly matching the S&P surge. *Europe (+8.8% Q1/+4.5% TTM) led and outperformed the S&P 500 (+7.5% Q1/-7.8% TTM) during the quarter and trailing twelve months.* Growth rebounded to beat value. **Leadership was broader for international stocks** as the top ten performers only amounted 25% of the ACWI ex-US gain compared to 90% for the top ten in the S&P. That's an underlying sign of health that we think bodes well for investing in that region.

Europe Outperforms US and EM Recently



Source: Morgan Stanley Research. Note: MSCI ACWI and MSCI EM are in USD.

- Recent performance has favored Europe as they avoided recession and fundamentals have been firming on improved service sector outlook.
- We expect Chinese re-opening to lead to better EM performance.

Source: MS Global In the Flow 4-3-23. Data cover 01/01/14 through 3/31/23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Major points to Note.

- Investor sentiment swung dramatically in the quarter. It came into the year anticipating a hard landing but shifted to a soft landing in January (after earnings season), no landing in February and back to a hard landing by the end of March. Stocks were resilient, and rates declined.
- China is still reopening and looking to boost growth. They ended their multi-year regulatory crackdown on technology names and eased property restrictions. Consumption recovered in the beginning of the quarter, and their PMIs surged into February.
- March saw fear re-emerge (and rates decline) as several crypto and VC lending regional banks in the US and Credit Suisse in Europe failed. Sentiment has begun to recover after the failures, and investors appear to view them as contained and one-off events.
- Inflation remained elevated in the US and Europe, but it is declining from prior peaks. Investors believe the tightening cycle is almost over, though both the US (+25 BPs) and Europe (+50BPs) raised rates in March despite the bank failures.

Investor sentiment has been volatile and moved quickly between extremes. Still, markets are resilient and acting better than many of the bearish analysts had predicted. For us, this reinforces the thought that ***we are probably in a trading range*** until the tug of war between recession fears and soft-landing hopes are resolved. Don't get too bullish near the top of the trading range nor too bearish at the bottom of the range. Remember, at the bottom end of the range, a moderate recession is already priced in. ***We remain constructive on our major themes*** and are interested to see how first quarter results impact their outlooks. ***We believe a capital cycle is unfolding***, and years of underinvestment in old economy type companies needs to be fixed. There is little spare capacity in energy and other raw materials. China is re-opening and assuming the rest of the world avoids recession for now, prices are poised to work higher. Investment is needed for infrastructure spending, re-shoring manufacturing investments, new- green energy initiatives, Commodities production, and last (but not least) defense spending. This investment spending needs to be financed, so banks should benefit from that, especially if upward pressure on rates allows for higher net interest margins. Investors worry that deposit rates are likely to increase, so we will be watching the upcoming earnings reports for guidance on that front.

As we look forward, we believe there are few excesses in the consumer or corporate balance sheets. You can point to some areas of speculative technology and real estate (offices and retail) as having overinvestment. Deep recessions usually are driven by a wide swath of consumers and companies over levered to housing or capital or real estate. We are not seeing that now. Higher rates have led to higher recession risk (and bank risk), but ***if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that.*** Until then, a trading range with rotation towards value is our base case, and international stocks should do well in that environment.

Factor Analysis

The first quarter saw a countertrend recovery rally in growth names early this year. Quality, growth, and expensive stocks did well during the quarter. Over the past 12 months, leading factors had more of a value flavor. ***We believe this countertrend rally is likely nearly spent, and that the value and old-economy stocks that led last year are likely to reassert themselves.*** Europe and China are likely to see expansions, which should help rates to remain higher than expected and allow the leaders of last year to re-emerge.

International Factors- Value Lags Recently, Still Good Long Term

As of 3/31/2023

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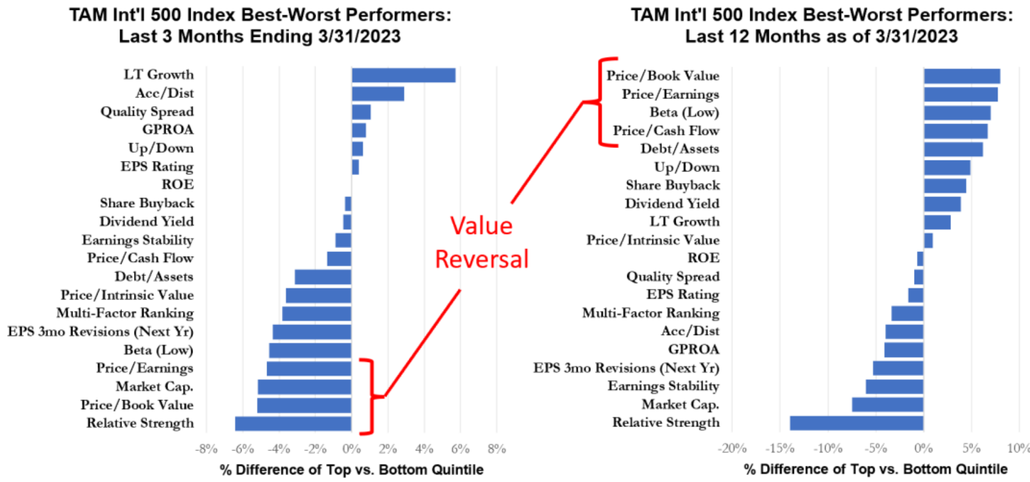

Growth rally hurt value factors in Q1. We expect them to recover during the year.

Data Source: Bloomberg, William O'Neill & Co. and TAM
This chart measures the performance of the best 100 stocks versus the least attractive 100 stocks within the largest 500 international stocks in our database, ranked by factor over the defined time frames noted in the charts.

Regional Performance Favored Europe

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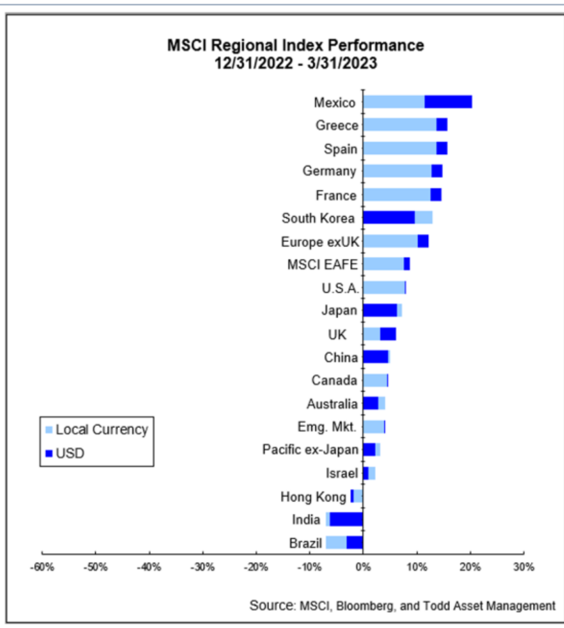

- Europe outperformed as they avoided recession, inflation probably peaked, natural gas prices eased, and the dollar weakened.
- Emerging Markets lagged
  - Brazil had policy uncertainty
  - India posted mixed macro-economic results
  - Israel saw inflation uptick
  - Hong Kong weakened as their currency softened

Source: Todd Asset Management, Bloomberg, MSCI. Commentary is based on information as of the date of this presentation.
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Charts we are sharing with Clients.

Post Bank Failures- Are Central Banks Almost Done?

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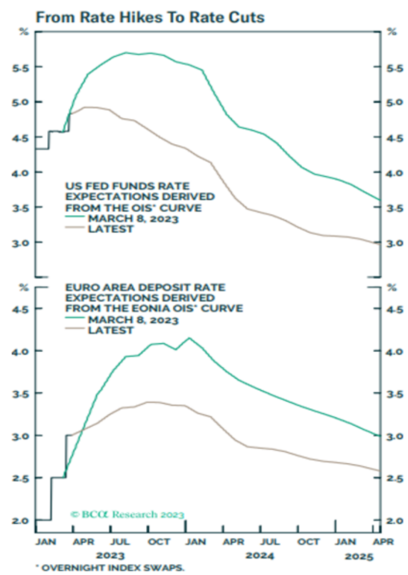

- Central banks speak hawkishly, but investors think tightening cycles are over following crypto and speculative bank failures.
- Chart shows expected short rates from the Fed (top panel) and ECB (bottom panel). Green line- before the bank failures. Grey line- after failures at 3/30/23
- Expectations shifted much lower post failures. Consensus is further modest tightening to be followed quickly by rate reductions.
- Markets worry about recession. Earnings season should offer updated guidance.

Source: BCA Second Quarter 23 Strategy Outlook: 1998 or 2008? 3-30-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

European Economic Forecasts are Rising

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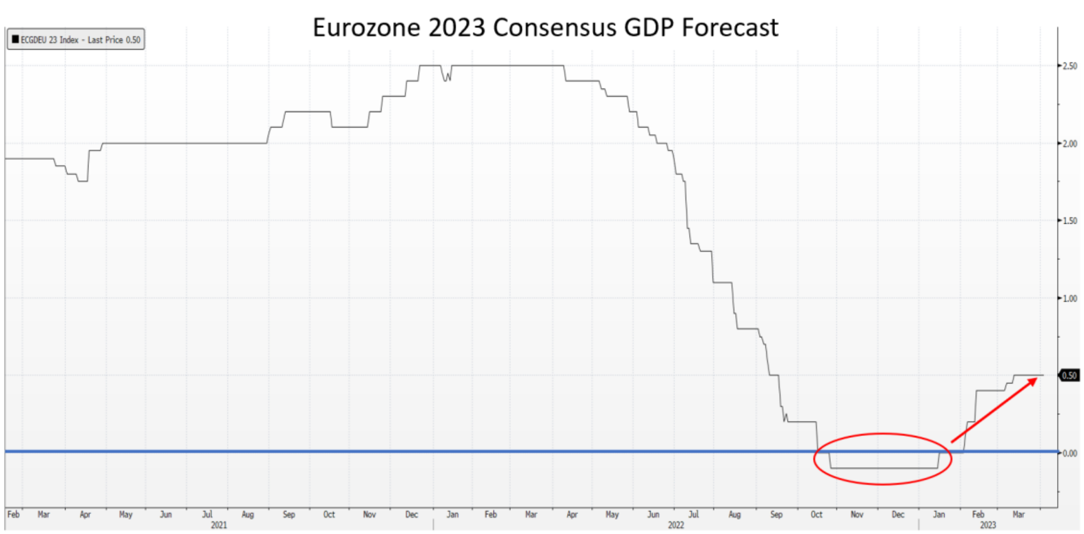
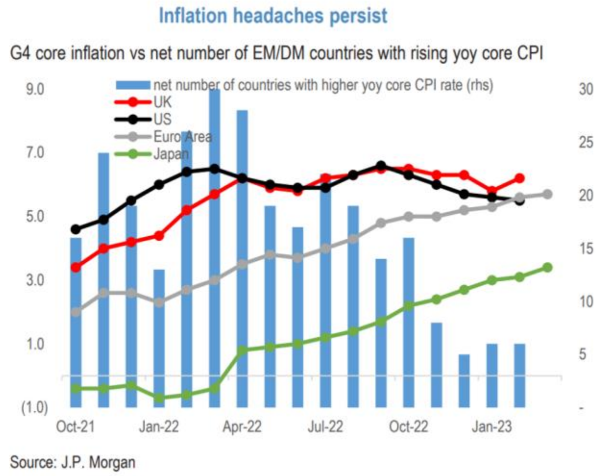


Recession expectations (circle on chart) have receded as energy concerns ease and government supported consumer spending remains resilient

Source: Todd Asset Management, Bloomberg Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

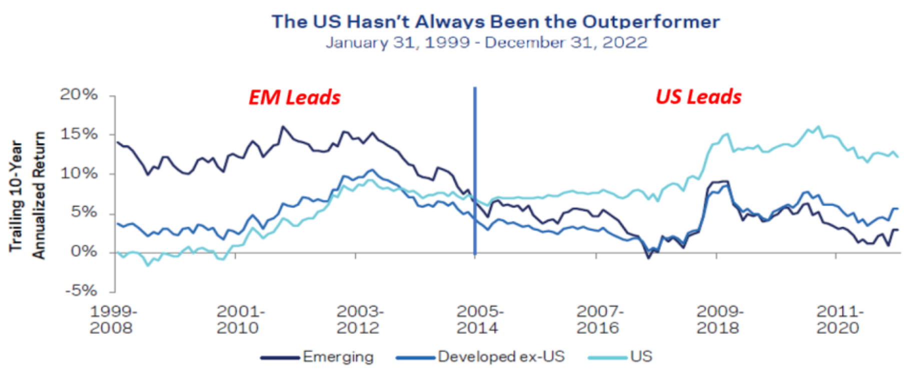
Concern- Inflation Remains Sticky



Inflation remains persistent in most developed markets. This needs to change for central banks to be finished raising rates.

Source: JP Morgan Global Markets Strategy 4-3-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Cycle Change? US Is Not Always the Leader



Source: MSCI, AQR. "Emerging" is the MSCI Emerging Net Total Return USD Index, "Developed ex-US" is the MSCI Daily TR Net World Ex USA USD, and "US" is the MSCI USA Net Total Return USD Index.

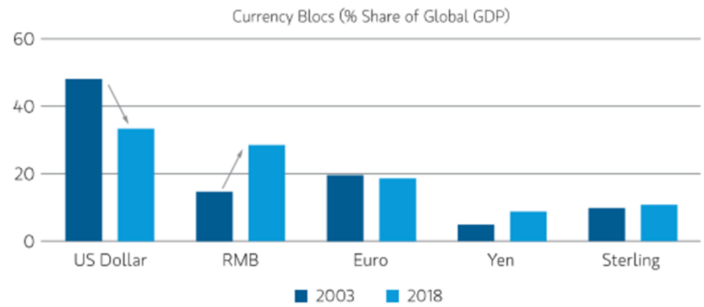
- Since 1999, the US has led world markets about half the time, when measured by rolling 10-year returns (chart above).
- Pre- GFC, Emerging Markets led as their growth was robust.
- Cyclically, we believe a change is at hand, and the US is likely to lag international markets for some time. Call us for details.

Source: AQR Re-Emerging Equities March 2023. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Dollar Outlook- New Currency Blocks Developing

Currency Blocs Reflect Declining US Dollar Dominance

US Dollar bloc loses and RMB bloc gains



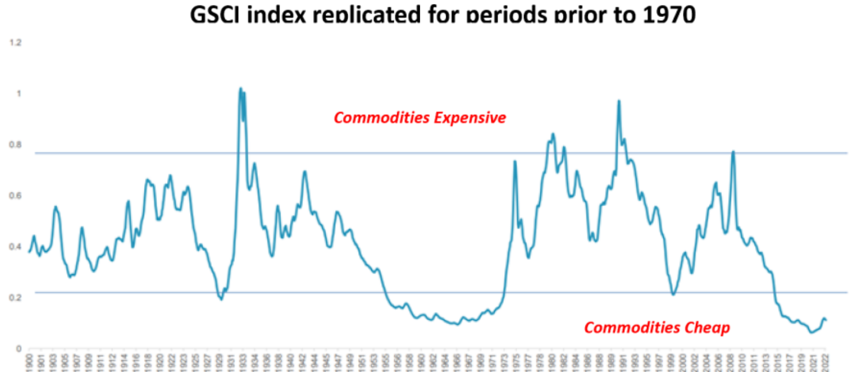
Source: MSIM EM Research, Silk Road Briefing, MS Research, Bloomberg.

- China's Renminbi (RMB above) has grown to nearly match the US as they push trade partners to settle in RMB.
- Recent Dollar strength resulted from geopolitical shocks. Absent those, the dollar probably declines moving forward. This would support our call for International Markets to become leadership.

Source: Morgan Stanley Investment Management- Themes for 2023 . Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Commodities- Recovering from Historic Lows vs Stocks

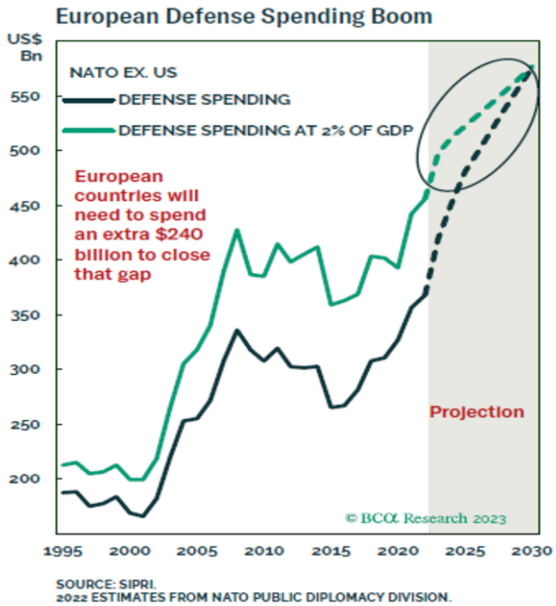
Dow Industrials Index/(GSCI Commodity Index*10)
GSCI index replicated for periods prior to 1970



- We like commodities as their 2008-2020 bear market has left them near 120-year lows compared to stocks. Their recovery should last years.
- A new capital spending cycle is needed, but not occurring yet. That means prices are likely to rise over time.

Source: Goehring & Rozencwajg Conference Presentation . Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

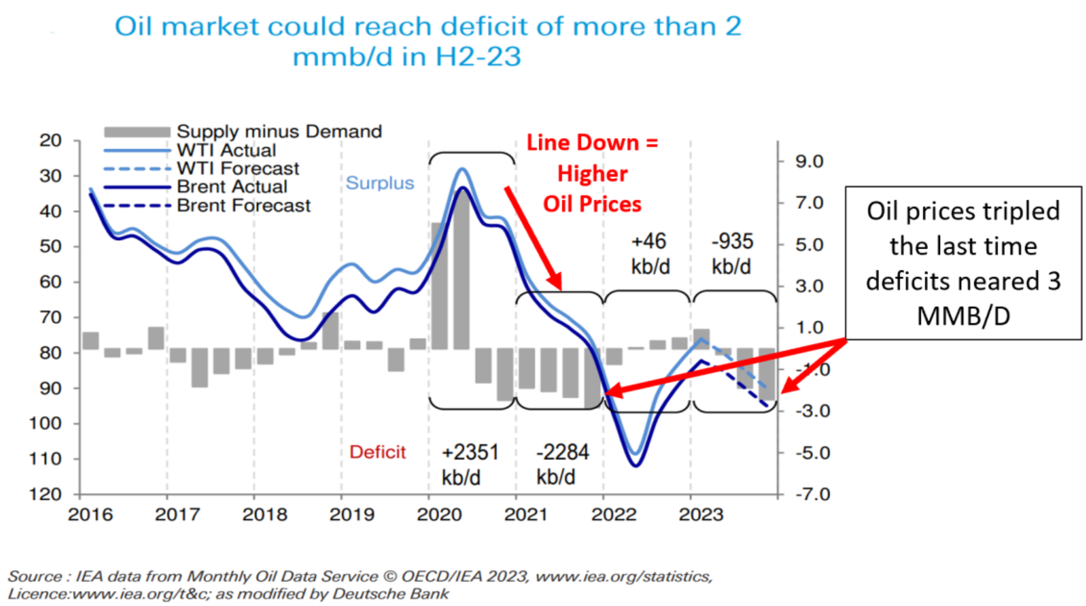
Defense Spending Set to Surge



- War in Europe has prompted a swift ramp in defense spending.
- Europe has fallen short of NATO's 2% of GDP annual target spending. Catching up will cost $240B annually.
- As Europe, Japan, South Korea, Taiwan and others evaluate defense needs, they should dramatically rise.

Source: BCA European Investment Strategy 3-20-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Oil Market Deficits Point to Higher Prices

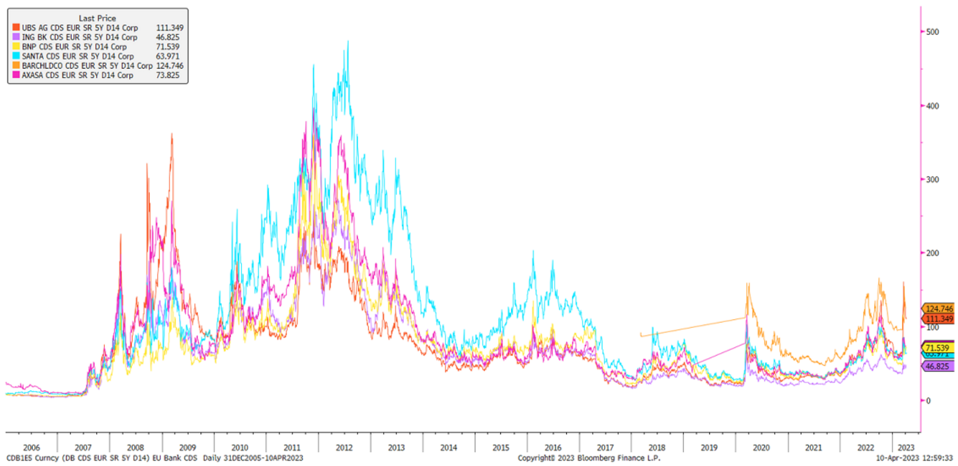


Source: Deutsche Bank Oil Outlook 4-4-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Bank Credit Default Swaps: Elevated but Contained

As of 4/10/23

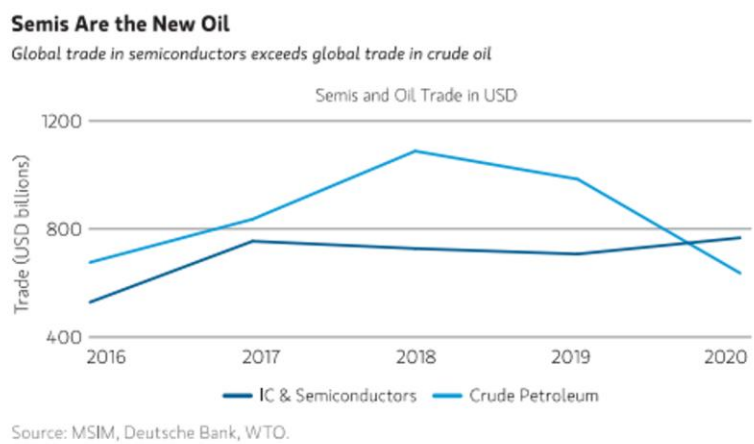
Credit Default Swap Prices for Major International Banks



Credit Default Swap prices gauge risk levels for banks. Prices have increased but are not at records. We expect them to decline as concerns lessen.

Source: Bloomberg- CDS prices for UBS, ING, BNP Paribas, Santander, Barclays and AXA.. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Commentary may contain subjective judgements and assumptions subject to change without notice. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Technology- Are Semis the New Oil?



- Global Trade in Semis overtook Oil for the first time in 2020.
- Chips are subject to trade restrictions and industrial policy from major developed market governments, as they wish to retain dominance.

Source: Morgan Stanley Investment Management- Themes for 2023 . Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

<u>Current Situation:</u>

Investors seem to be warming up to international investing, something that we think makes sense. We believe the recent reprieve that growth stocks have seen is a rally within a secular bear market. Earnings season will probably give us a good read on fundamental trends within the market. Europe is expected to have better earnings trend than the US and Asia, something that should increase investor interest in those markets. Many strategists are very bearish on economic prospects globally. **We believe economic growth in international markets is probably poised to improve as China reopens** their economy. Until the US and European recession questions are resolved, markets probably track sideways in a range. Higher rates have led to higher recession risk (and bank risk), but ***if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that.*** Until then, a trading range with rotation towards value is our base case, and international stocks should do well in that environment.

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

04/17/2023
MSCI ACWI ex-US (Net) – 305
MSCI ACWI (Net) – 345
MSCI ACWI ex-US Value (Net) – 297
MSCI ACWI Value (Net) - 169

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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.

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