TODD
Asset Management

July 15, 2022
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Todd Asset Management

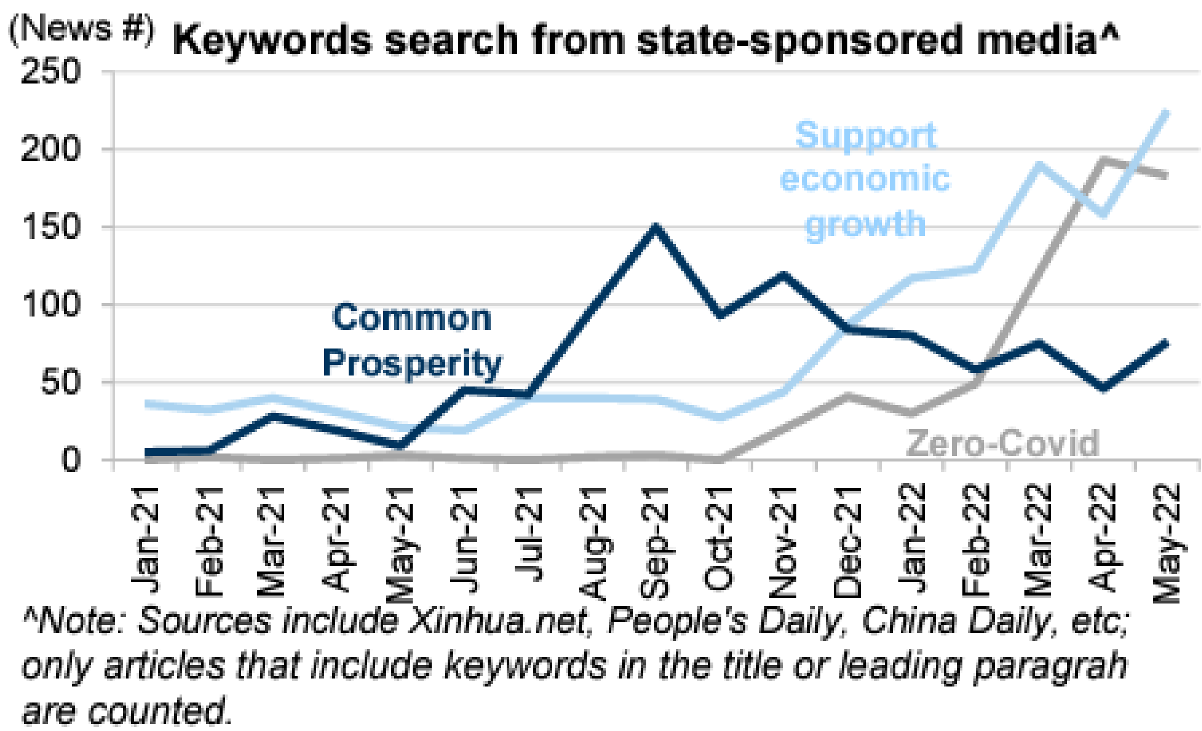
Looking for Off Ramps

Todd Asset Management International Market Review and Quarterly Chart Pack

	Q2 2022	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US Index (Net)	-13.7%	-18.4%	-19.4%	1.4%	2.5%	2.9%	4.8%
MSCI ACWI ex-US Value Index (Net)	-11.9%	-11.8%	-12.8%	0.6%	1.2%	1.7%	3.8%
MSCI ACWI Index (Net	-15.7%	-20.2%	-15.8%	6.2%	7.0%	7.0%	8.8%

** Annualized Total Returns.*

International Markets weakened in the quarter, though they outperformed the US S&P 500. War-related inflation, Central Banks being behind the curve, and zero-Covid policies impacted various regional outlooks. Our sense is there may be "off-ramps" developing for these problems that could play out over the second half. The most apparent of these off-ramps is in China, where the government is aggressively stimulating and signaling their pivot from regulation to support for better economic growth in the second half, as illustrated by the chart below.



Source: Goldman Sachs

Points from the quarter:

- The US, UK, Canada, and Latin America are "fixing" policy mistakes to address an inflation problem through higher rates and quantitative tightening. Europe is seeking to raise rates without peripheral spreads widening. Japan is not backing down from low rates. *China is easing.* As a result, the dollar is very strong, and the Euro and Yen are weaker.

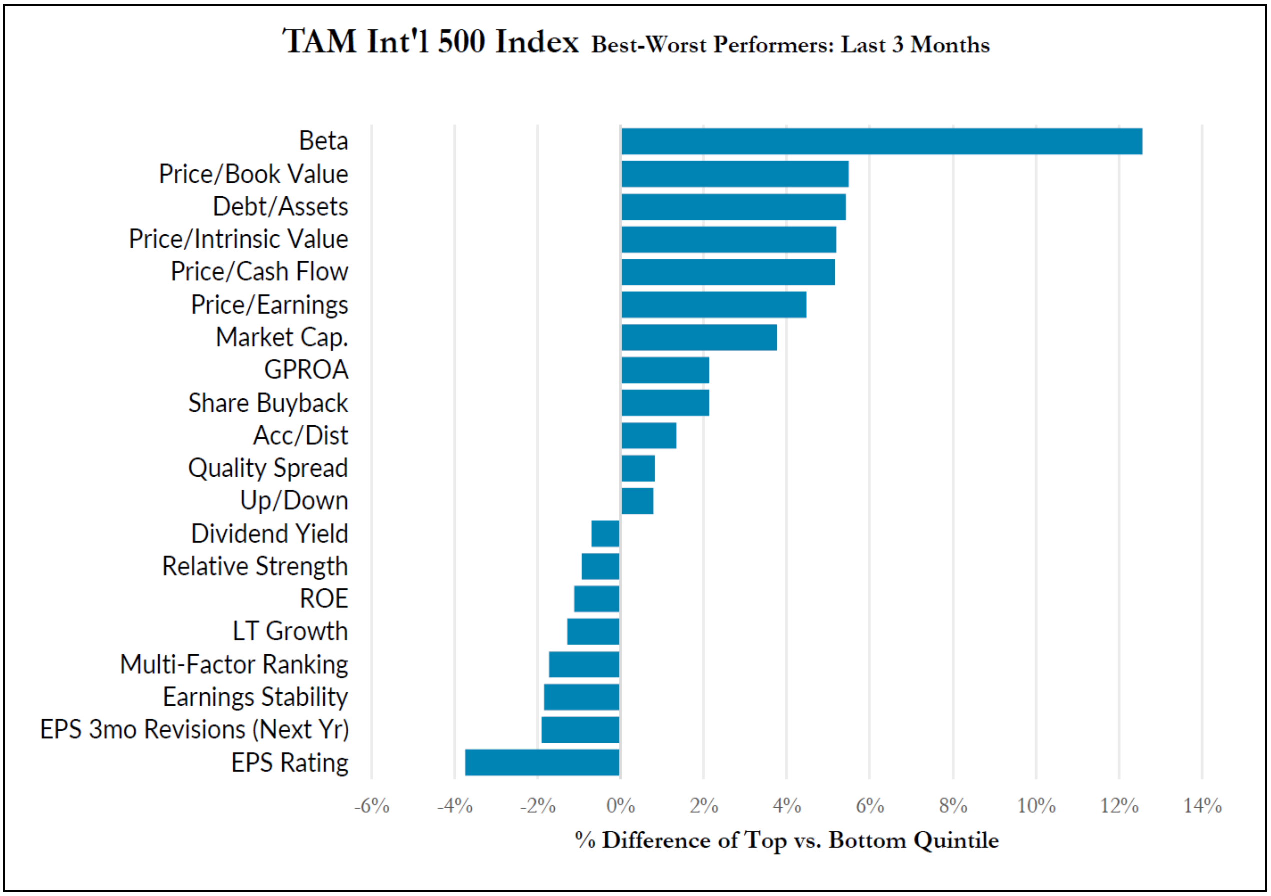
- The developed market economic outlook is weakening, though fears of severe recession seem overblown. The war dragging on and energy availability/inflation are weighing on the European outlook. *China is stimulating* and should see an acceleration. China is also trying to ease away from zero-Covid related lockdowns.

- Emerging Markets and Value indices have outperformed in the first half. Developed Markets and the US have been the worst performers. ACWI ex-US outperformed the US for the second quarter and the first half of the year.

- We believe six months from now investors should probably feel better about the inflation and economic outlook. We need central banks to embrace that to get markets on better footing.

Markets may not be finished declining yet, but our sense is that much of the damage has been done. International markets have declined significantly from their peak in June of last year, and strategists generally are not good at calling bottoms when they occur. Meanwhile, some building blocks for "off-ramps" to current problems could be developing. The outlook for the Emerging Markets (China) may be brightening. Europe's inflation concerns center on Energy and Food, which should be easing as prices recently retreated from peaks. If natural gas supplies are completely shut off to Western Europe, things can get worse, but that is not our base case. Sentiment is at or near record lows, and we believe a lot of bad news is recognized with the drawdowns that have occurred already. If any off-ramps develop, markets could act better. We are focused on our longer-term themes in our portfolios, and they are continuing to play out. We also see the rotation to value stocks remains in place and would urge investors to position to benefit from that. We believe that should aid our strategies as it continues.

Factors during Q2

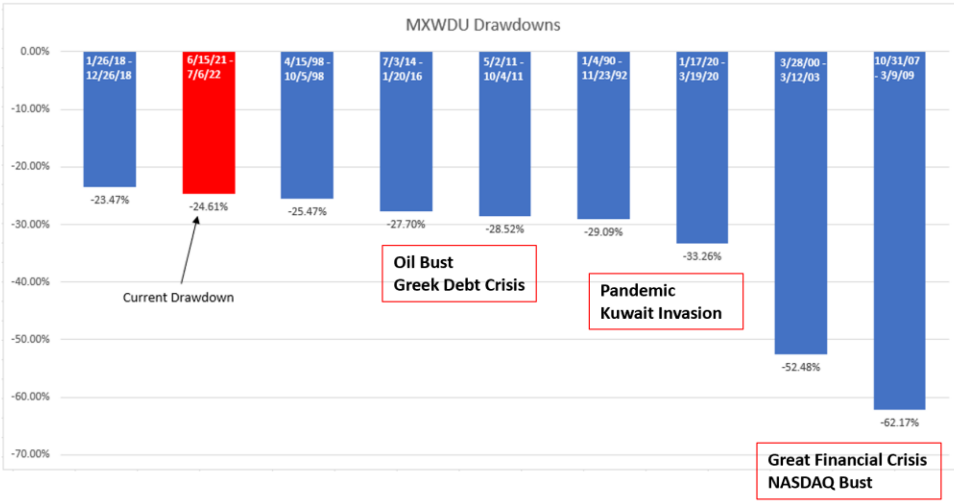


Source: Bloomberg, William O'Neill + Co. and Todd Asset Management

Our customary factor attribution for Q2 2022 is presented above. 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 past quarter. Low Beta, value support, low debt and higher quality companies have been in favor. Investors were distrustful of earnings measures and higher growth companies during the quarter. As uncertainty has risen, investors have sought the comfort of low volatility and better valuation. We find it somewhat surprising that investors did not seek out earnings stability and our multi-factor ranking during the quarter, but our disciplines have still performed well despite that.

Charts We Are Showing Our Clients:

ACWI ex-US Bear Market vs Prior Bears



Source: Todd Asset Management and Bloomberg as of 7-6-22

The Dollar has Broken Out

Fed action and other Central Bank inaction has led to a stronger dollar. This is supposed to be disinflationary. We still suspect the dollar should eventually weaken as other DM Central Banks tighten. That may take time.

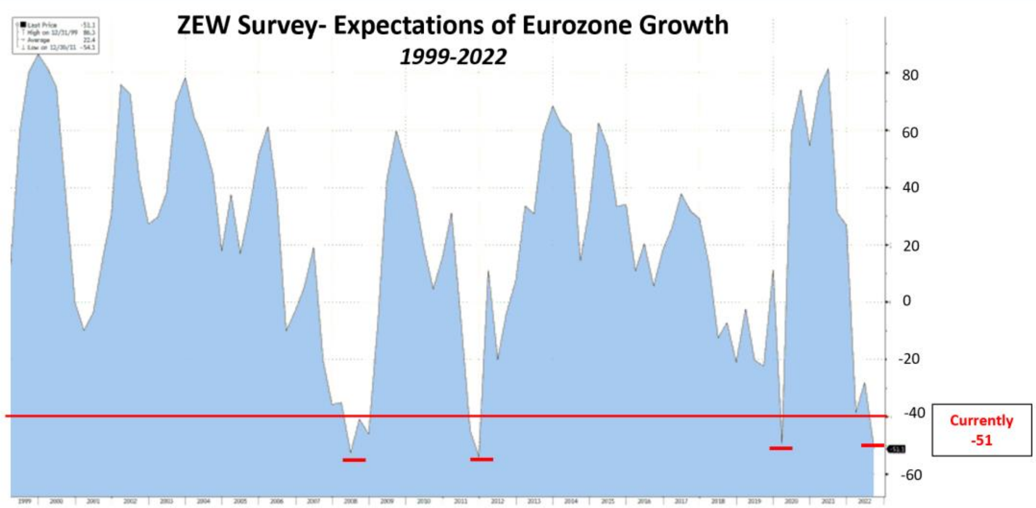
Source: Evercore ISI 7-5-22 Targets are Evercore ISI estimates

The Problem: Leading Indicators Preview a Slowdown

Global Leading Economic Indicators are weakening. Tighter financial conditions are causing this. US Yield Curve Inversions usually precede recessions by 6 to 18 months. The Fed appears to be deliberately inverting the yield curve (a la Volcker in 1982) to control inflation, just as market-based indicators indicate inflation fears are easing.

Source: Strategas

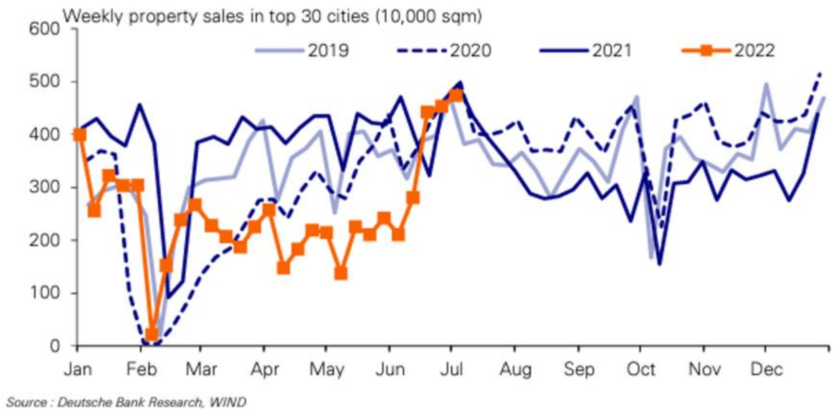
Opportunity or Problem? Extremely Poor Sentiment in Europe



Sentiment at near lows reached in 2008, 2011 and 2020. In prior cases, after the index recovered to above -40 (red line), ACWI ex-US returns were +42.3%, +17.3% and +50.2% over the following year.

Source: Bloomberg as of 7-11-22

China- Property Sales Respond to Stimulus.



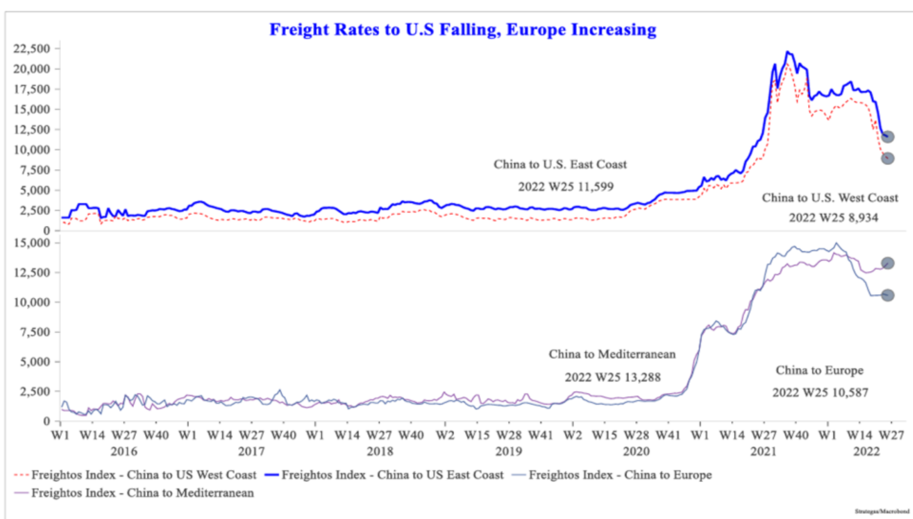
China's weekly property sales have roughly doubled from late May through late June. Policy support played into it with favorable Mortgage rates and reduced down-payments. This could be indicative of a more durable recovery.

Source: Deutsche Bank

Freight Rates Are Off Their Peaks- Supply Chains Repairing

7/1/22

FREIGHT RATES TO U.S. FALLING, EUROPE INCREASING

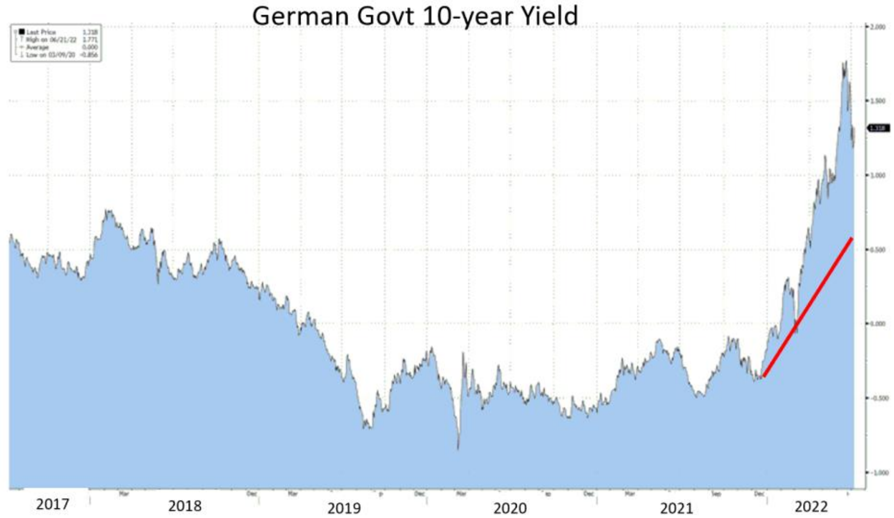


Freight rates from China to the US and Europe have declined. US rates have declined more precipitously, probably as a result of the over-inventory issues.

Source: Strategas

Theme: European Rates Remain in an Uptrend

German Govt 10-year Yield

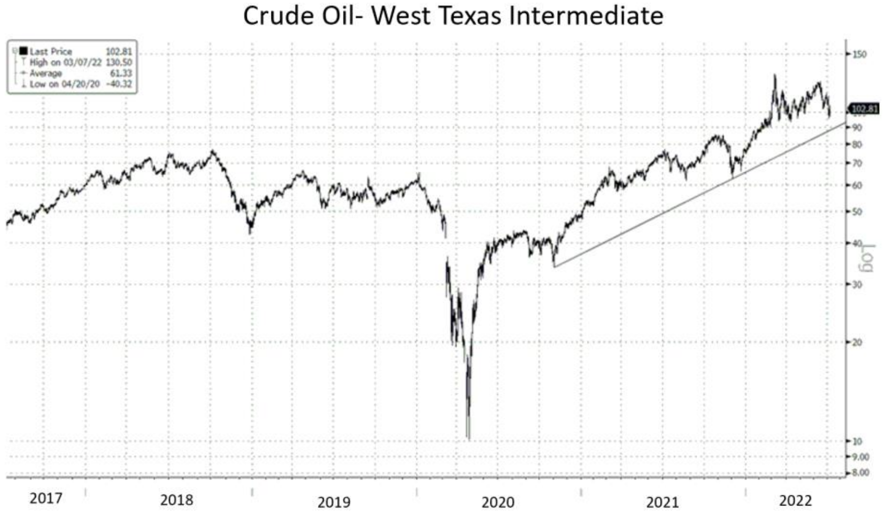


Despite being off the recent highs, European rates remain in an uptrend. We favor Financials for higher rates.

Source: Bloomberg and TAM 7-6-22

Theme: Oil Remains in an Uptrend

Crude Oil- West Texas Intermediate



Despite being off the recent highs, oil remains supply constrained, and the price is in an uptrend. We still like the sector on this pullback.

Source: Bloomberg and TAM 7-6-22

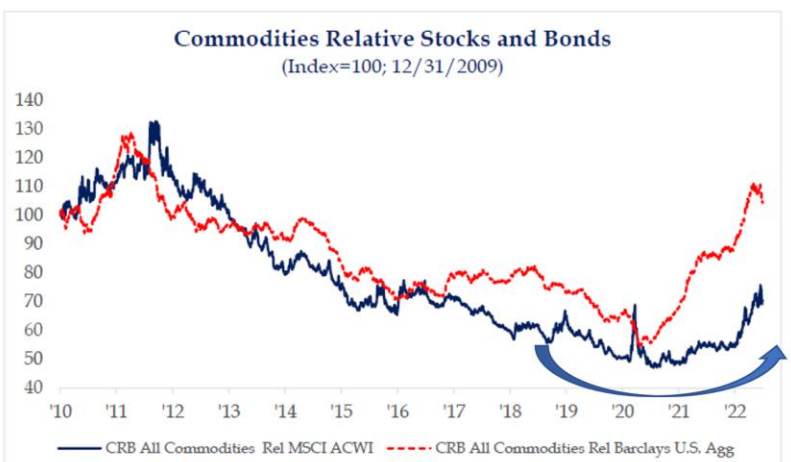
Theme: Healthcare is Acting Better After Tough times

*ACWI ex-US Healthcare **Relative** to ACWI ex-US Index*
2012-2022

After the post Covid letdown, we are seeing the International Healthcare sector start to outperform again. We are favorable towards this sector.

Source: Bloomberg, Todd Asset Management as of 7-12-22

Theme: Commodities Cycle Appears to Have Begun



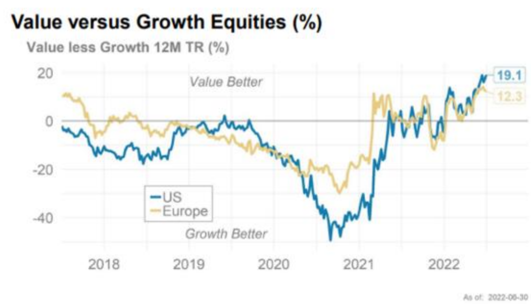
We favor commodities. They have begun to structurally outperform as years of underinvestment are meeting with reopening demand and supply curtailments.

Source: Strategas

Summary

Bear markets are difficult in ordinary times, like when an excess is clearly visible, and economies are working it off. This bear market is more difficult than most as investors are anticipating a stagflation environment where a recession is accompanied by significantly tighter policies. Inflation is running hot, which has most Developed Market central banks on edge and seeking to normalize rates. We believe inflation could be peaking and could decline in the second half, which would lessen the urgency of those rate moves and could lead to some better sentiment for the markets. For now, investors seem to be waiting to see if a recession develops or inflation remains high. Bond markets have already done a lot of the heavy lifting for the central banks though and if off-ramps develop for the war-related inflation concerns, Central Bank anxiety, or zero-Covid shutdowns, markets could be in for a better second half. Until then, the pressure remains on stocks to prove they can work through the current issues. We believe investors should make sure they are positioned in the new market leadership, which is the value stocks. Macro trends favor rates remaining higher post Covid, which has pressured the more expensive growth stocks and caused a cycle change. When markets eventually recover, we believe the Value style should be the leadership for the next several years.

Value Style Seeing Resurgence Worldwide



Source: Bloomberg, Morgan Stanley Research

Value stocks have begun to outperform their growth counterparts. Shifts like this usually last years.

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

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7/15/22

ACWI ex-US Index- 267, ACWI ex-US Value Index 147, ACWI Index 589

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.

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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.

The 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.

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