The International Value Cycle Has Begun

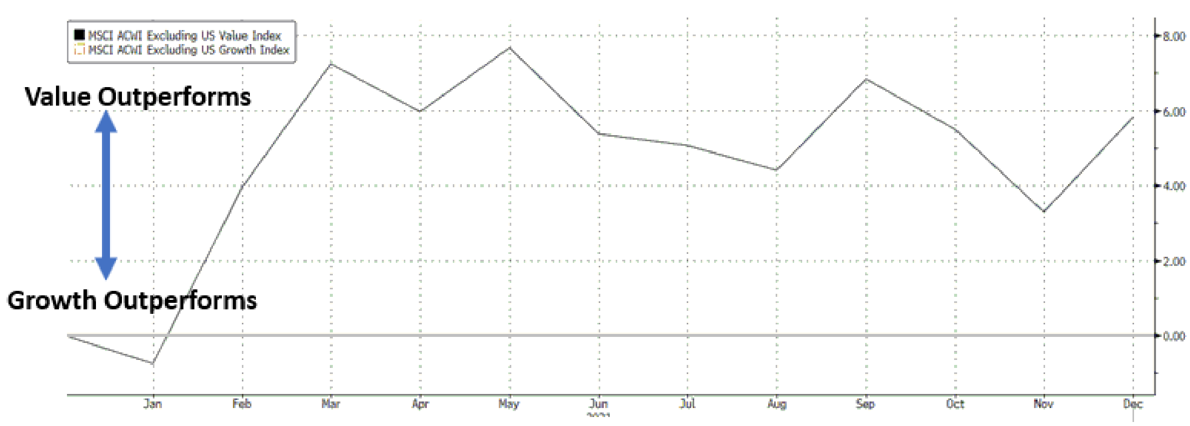
Todd Asset Management Q4 2021 International Market Review and Outlook

	4Q 2021	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US (Net)	1.8%	7.8%	13.2%	9.6%	6.6%	7.3%
MSCI ACWI (Net)	6.7%	18.5%	20.4%	14.4%	10.9%	11.9%
MSCI ACWI ex-US Value (Net)	1.2%	10.5%	8.2%	6.0%	3.9%	5.3%

* *Annualized Total Returns.*

International stocks lagged the US again last year, as supply chain disruptions and resurgent Covid led investors to worry about economic growth after the first quarter. In 2021, the ACWI ex-US returned 7.8% compared to a 28.7% return for the S&P. Much of the difference between these indexes resulted from the strength of US Growth stocks. In contrast to that, International Value outperformed International Growth. By a lot. The ACWI ex-US Value index outperformed the ACWI ex-US Growth index by over 5% last year, returning 10.5% vs 5.3%. As the chart below shows, Value outperformed during the first quarter re-opening trade, and then went into a holding pattern for the rest of the year as new pandemic waves and re-opening concerns hit. The world is now learning to live with Covid, and we believe the Value cycle that started last year should continue with further reopening in 2022. This would favor our style (Intrinsic Value), and international managers in general.

ACWI ex-US Value minus ACWI ex-US Growth 2021 Returns



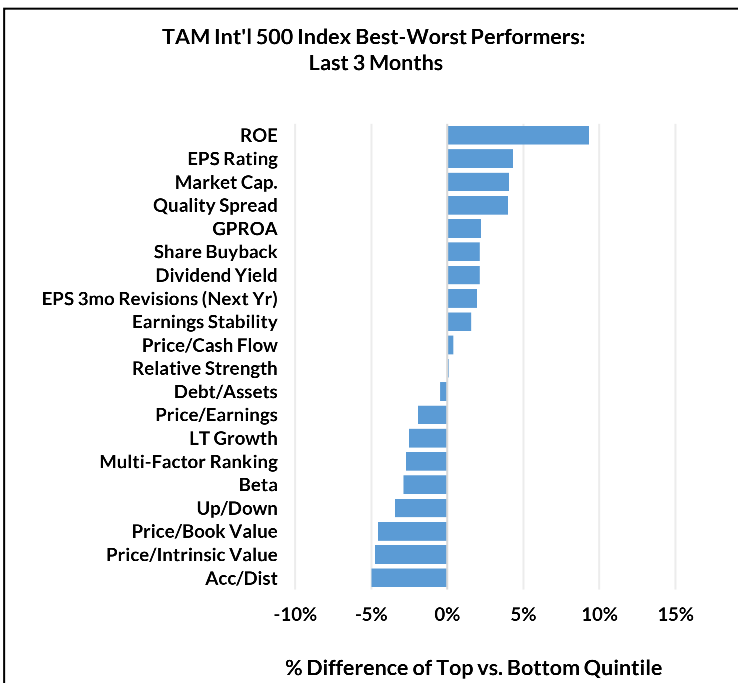
Source: Bloomberg, Todd Asset Management

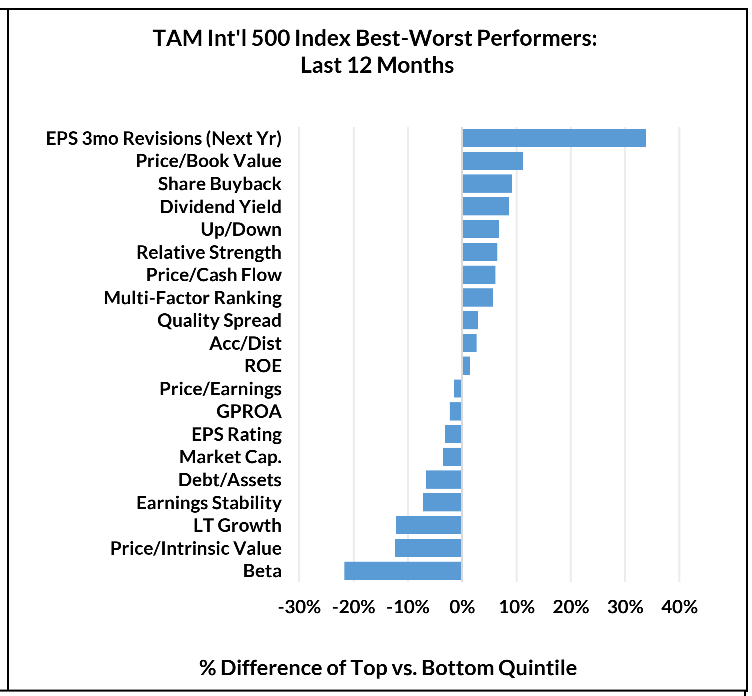
- Dollar Strength, Omicron lockdown concerns, higher rates in Brazil/Russia and a Chinese slowdown have led to a lowering of expected growth in Emerging Markets. They lagged during the quarter and lost -1.4% versus the ACWI ex-US return of

1.8%. China's economy has slowed enough that they are now easing to spur growth. We expect lower rates and fiscal stimulus from them as the year progresses. China is the only major central bank on the planet lowering rates.

- The new Covid wave, Omicron, may pass faster than prior variants. This strain appears more contagious and less deadly than prior versions. It probably depresses GDP figures this quarter, and we will likely see a rebound next.
- Europe and Asia are expected to see better GDP growth and lower inflation than the US in each quarter of 2022. To us, this means their central banks will have less urgency to raise rates than the Federal Reserve.
- Inflation has been a worry, but much of the recent European increase has been a surge in energy prices due to a cold winter. Inflation rates are expected to be lower for Europe and Asia than the US over the coming year.

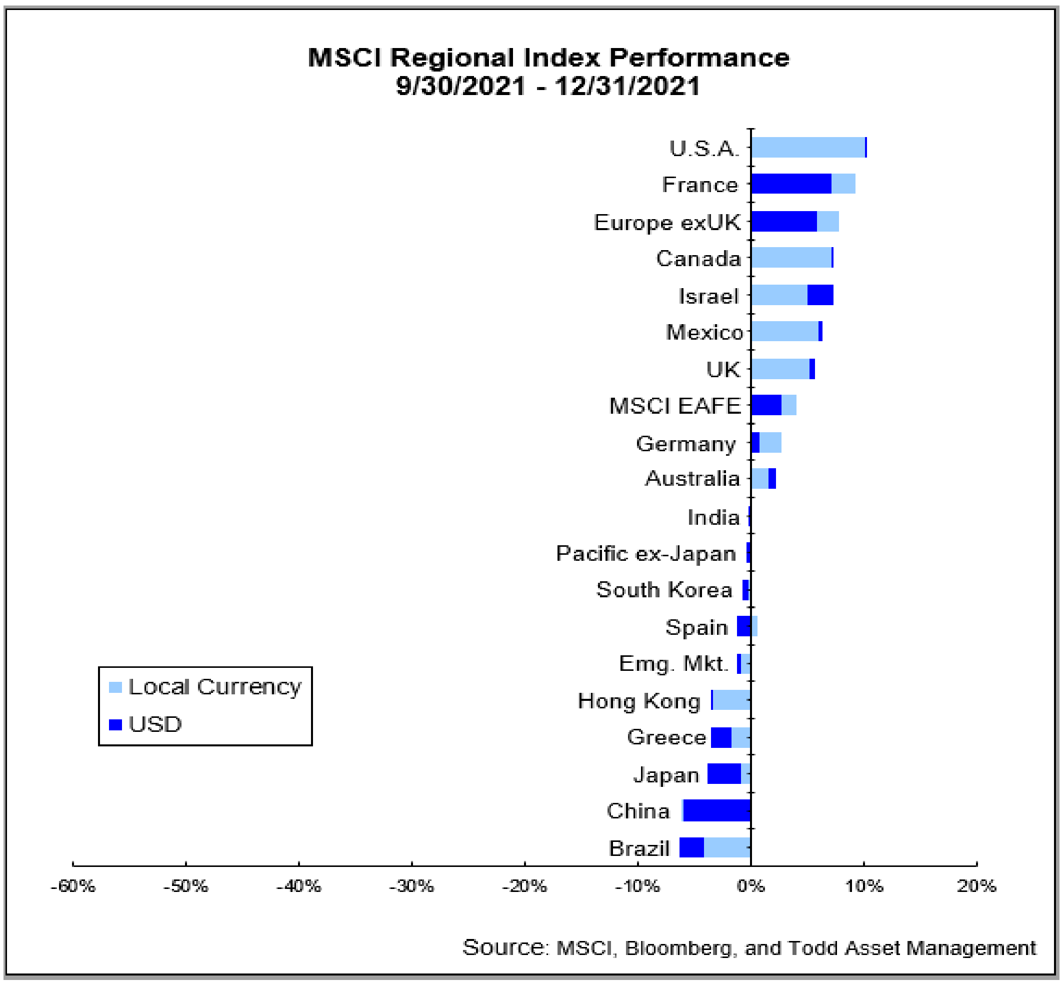
Supply chain bottlenecks continue to plague the worldwide economy. With China pursuing a zero-Covid policy (enacting lockdowns) it may take longer than we had previously thought to fully clear those bottlenecks, despite production being strong. Demand remains robust as fresh stimulus is being undertaken by Japan and the US, while Europe introduces their recovery fund as well. Overall, our sense is that the worldwide economy remains in an expansion. As developed markets Central Banks seek to raise rates, it may cause volatility in markets, but should also be seen as confirmation that economies are in solid expansions. Geopolitics could cause concerns, and we are watching developments closely on that front. Rising real yields generally signal better performance ahead for Value stocks as confidence improves and valuations matter again. The markets internal action suggests that, as the international Value cycle appears to have begun.





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

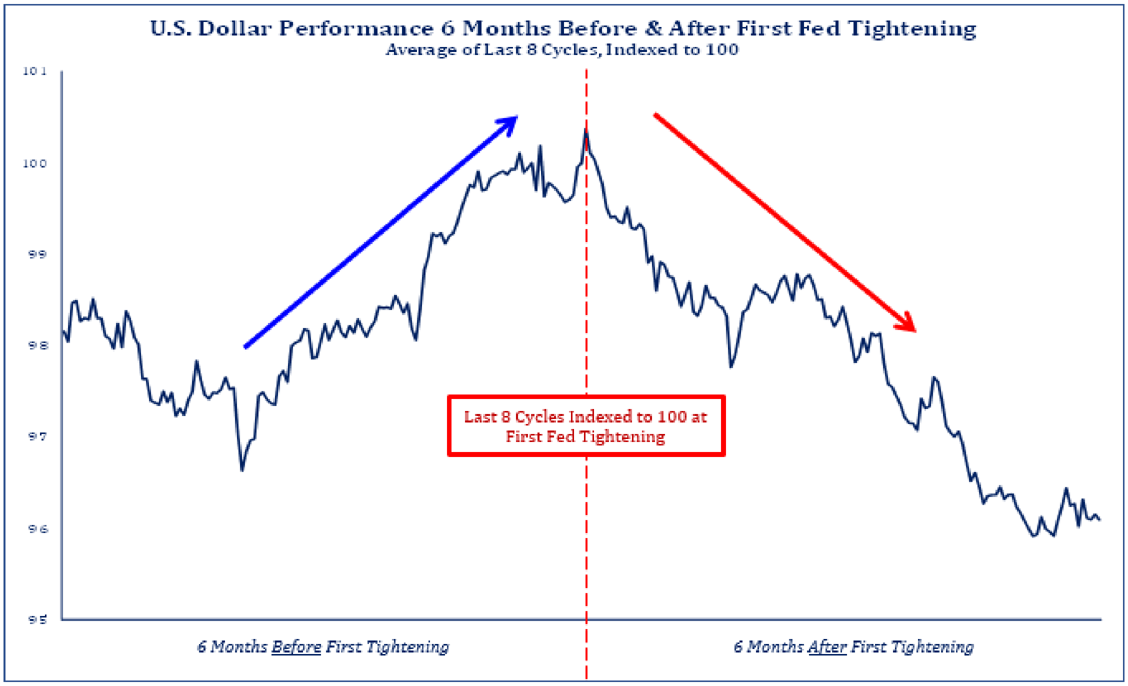
Factor analysis for the Q4 2021 (left chart) highlights the concerns about a growth scare. Quality and Visibility factors led in our work, as valuation was pressured due to Omicron uncertainty. For the full year 2021 (right chart) Value was in the mix of the best factors along with Visibility and Quality. Our sense is after the first quarter surge in Value, investors spent the rest of the year concerned about supply chains, Delta, Omicron and other issues, despite strong economic numbers being posted. We believe as Covid concerns ease, and economic growth remains visible, that quality and valuation should remain strong for some time to come.



Regional performance favored the Developed Markets, and they showed stronger performance as Central Banks assured investors that economic growth was OK, and hawkish comments about rates were not a worry at that time. We can't help but wonder if Jerome Powell campaigning for re-appointment resulted in a more dovish message than current economics may warrant. The Emerging Markets had a more difficult time, as Brazil and Russia raised rates, and Chinese regulatory actions led those markets to underperform.

<u>Interesting Charts We've Seen Recently</u>

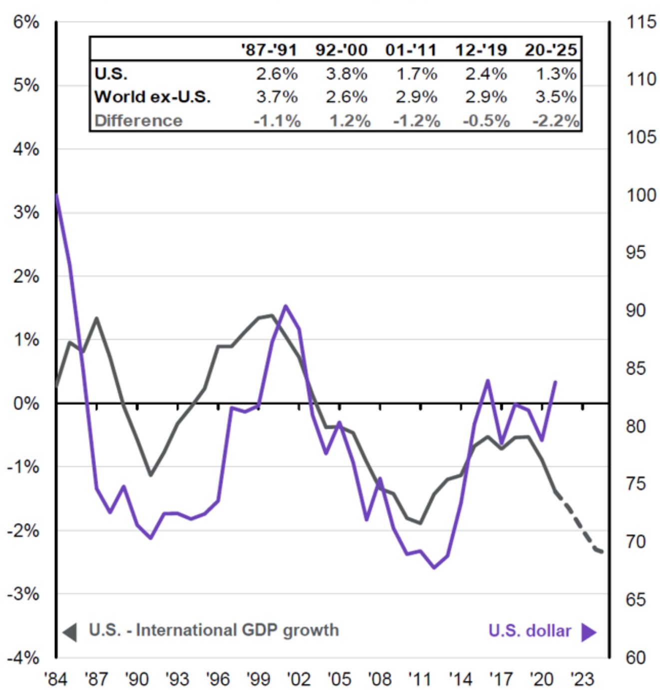
DOLLAR OFTEN PEAKS AS FED BEGINS TO CHANGE COURSE…



Source: Strategas

U.S. dollar and international GDP growth

Real GDP growth: U.S.-intl. (5-year moving avg.); USD: 100=1984

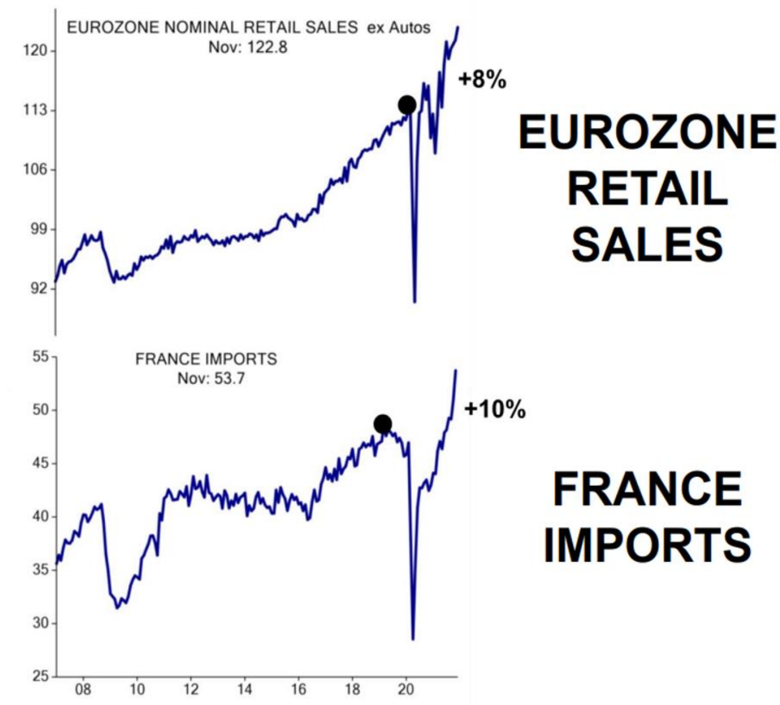


	'87-'91	92-'00	01-'11	12-'19	20-'25
U.S.	2.6%	3.8%	1.7%	2.4%	1.3%
World ex-U.S.	3.7%	2.6%	2.9%	2.9%	3.5%
Difference	-1.1%	1.2%	-1.2%	-0.5%	-2.2%

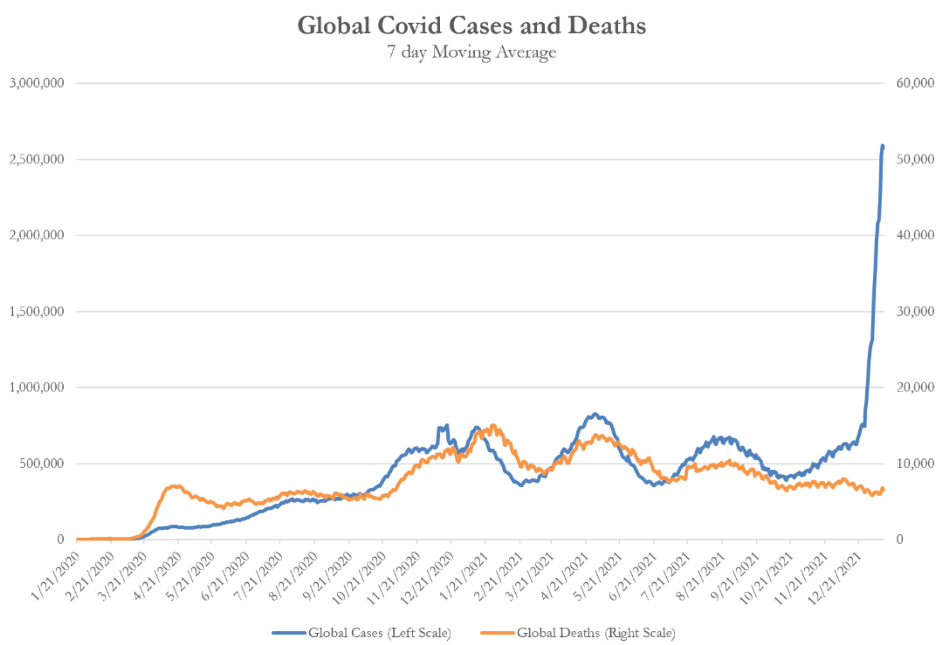
Source: JP Morgan

Dollar action impacts investors attitudes to international exposures. A weaker dollar helps international performance. The first hike of a Fed tightening cycle generally coincides with a turn lower in the dollar (chart above). Dollar performance is also related to the growth differentials between the US and the Rest of the World, as seen in the chart to the left. According to JP Morgan, US economic growth is expected to decelerate over the coming few years, while international GDP growth is expected to accelerate. We believe the dollar is likely to decline as this plays out.

Worldwide economies are continuing to recover from the Covid lockdowns, as can be seen by European Retail Sales and French Imports in this chart. Despite the growth scare in the second half of last year, their recoveries from the pandemic lows are impressive. We do believe that services should recover later in the year. That recovery, coupled with restocking of supply chains, capital spending and pent-up demand should make for a long-lasting economic expansion.



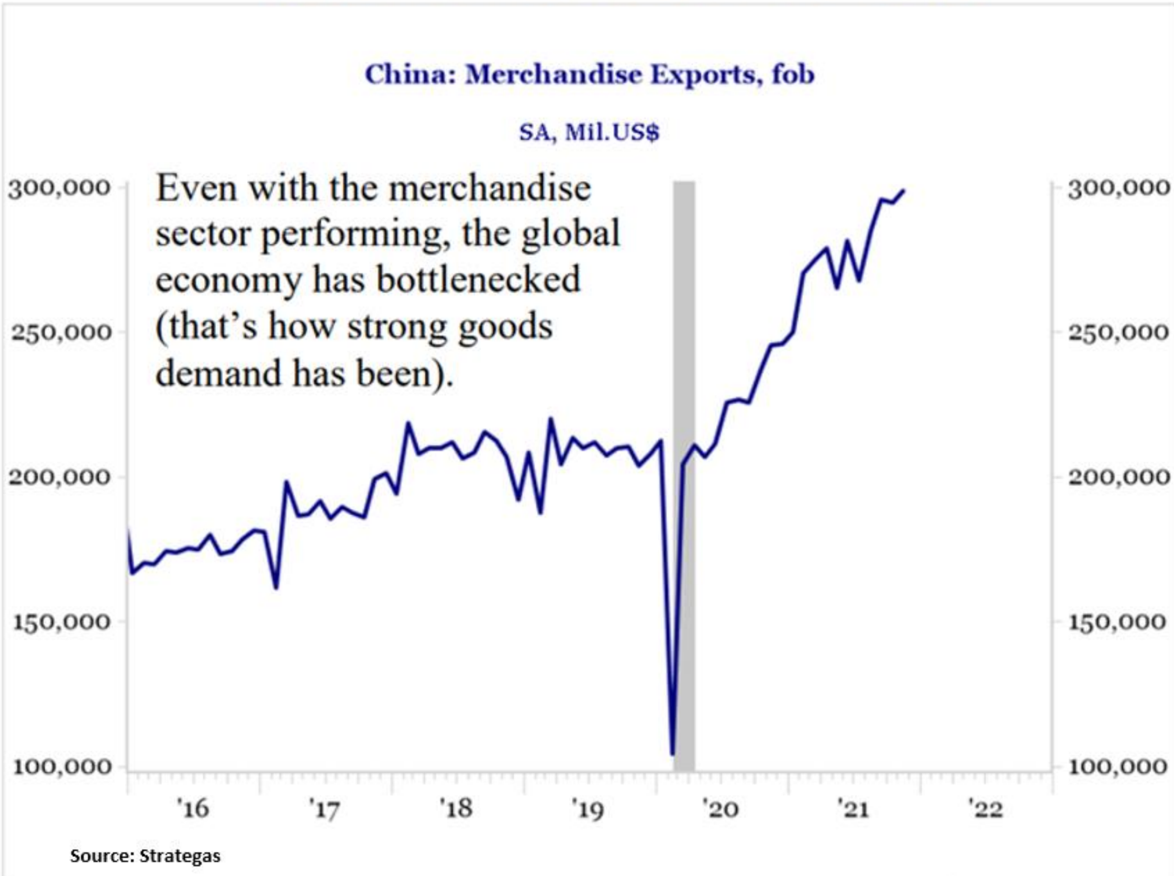
Source: Evercore ISI



Source: Bloomberg as of 1/12/2022

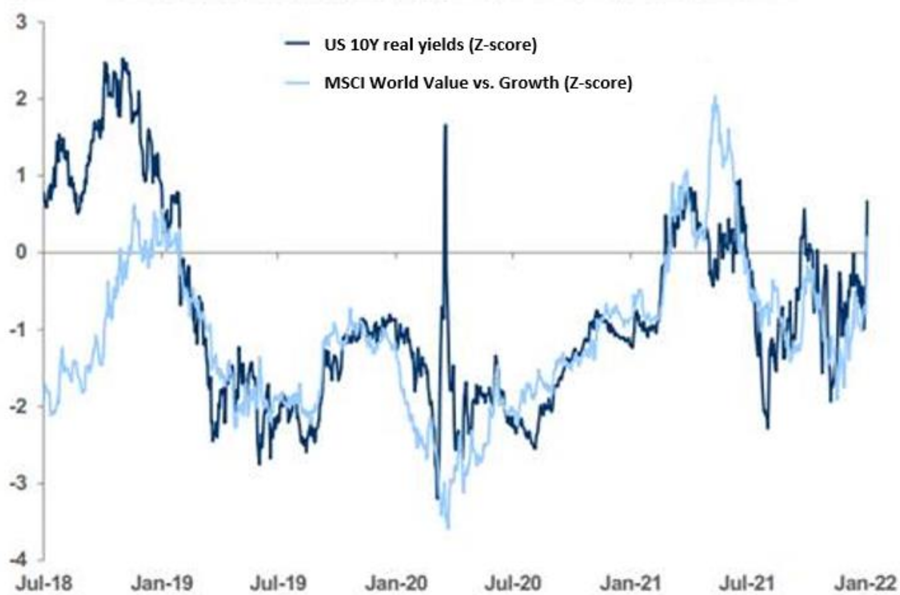
Global Covid cases (blue line) have skyrocketed, as seen in the chart above. The silver lining is that the death rate (yellow line) appears far lower for this variant. Some experts suggest this variant could be the final wave due to the sheer number of infections it caused. Time will tell.

CHINA EXPORTS RISING



Supply chain bottlenecks are in the news. When you consider that the value of Chinese exports has risen approximately 50% from 2019 levels, you realize just how strong worldwide demand has been. This increase in exports is despite the surge in shipping costs that occurred last year. Strength in exports should continue to be a tailwind for China as they work to improve the consumption side of their economy over the next year.

Higher Real Yields Generally Lead to Value Outperformance

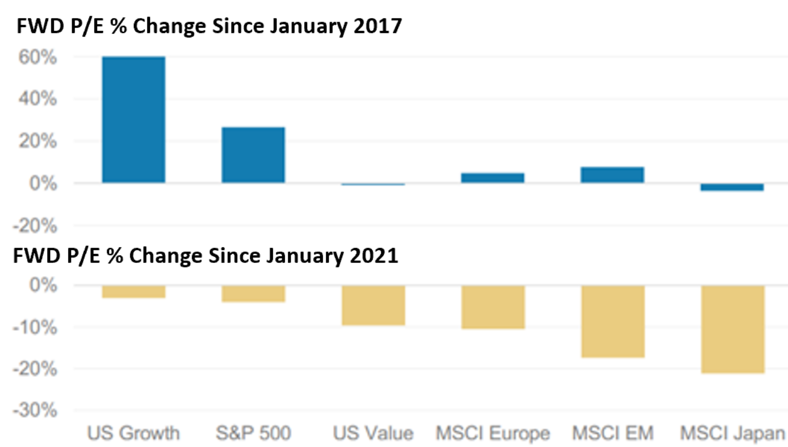


Source: MSCI, Refinitiv, Morgan Stanley Research

Real yields (dark blue line) are increasing as the Fed intends to raise rates (chart above). Over the past few years, when real rates rise, worldwide Value stocks tend to outperform Growth (light blue line). We believe rates rise as economic confidence grows, and the first increases in rates should reinforce that confidence.

Since 2017, low rates allowed US Growth stocks to see multiple expansion (chart below), while other world markets were unchanged. Multiple compression usually accompanies higher rates and occurred in non-US markets last year while US Growth stocks avoided that. As the Fed raises rates, that multiple compression probably hurts US Growth stocks more than Value and International.

US Growth Stocks Have Not Seen Multiple Compression Yet



Source: Morgan Stanley Research

The International Value Cycle that started last year is young. The economic recovery is also young. We believe both trends should continue. There will be bumps along the way, and we would not be surprised to see market weakness surrounding the first rate hike from the Fed. We would suggest the Fed is raising rates because they believe the economic momentum is sustainable and it is likely to wring some speculation out of the markets. Once that speculation is wrung out, we believe markets will be on solid footing to improve on the back of an improving economy driven by rebuilding of inventories, capital spending, improvement in employment and rebound in services.

Please feel free to contact any of us for more details.

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

01/18/2022
MSCI ACWI ex-US (Net) – 301
MSCI ACWI (Net) – 384
MSCI ACWI ex-US Value (Net) – 189

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.

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.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or crediting any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

The TAM International 500 consists of the largest 500 securities by market capitalization within the universe of securities we consider for investment.