January 18, 2023
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Todd Asset Management

International Investing Paying Off

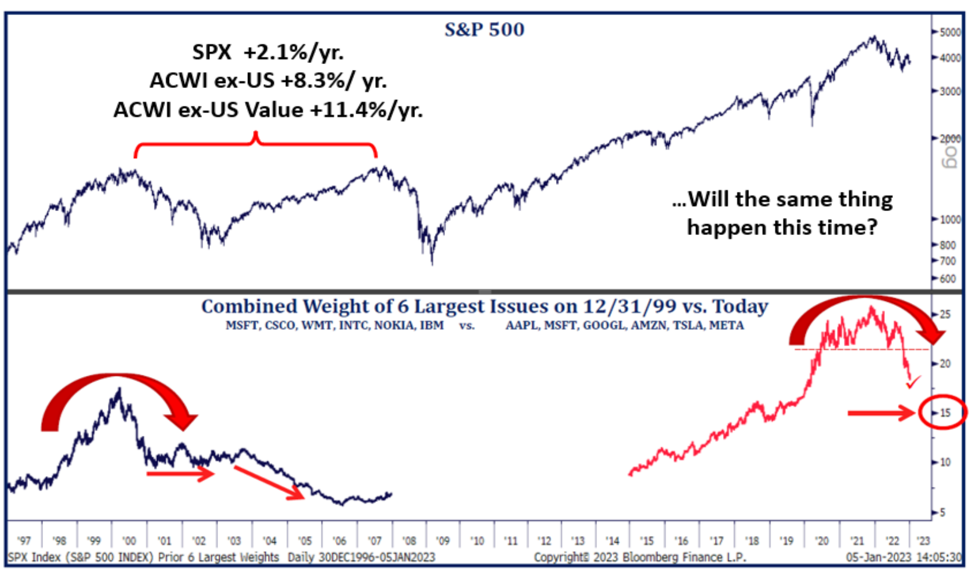
TAM International Q4 2022 Review and Outlook Chartbook

	4Q 2022	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US (Net)	14.3%	-16.0%	0.1%	0.9%	4.8%	3.8%
MSCI ACWI ex-US Value (Net)	15.7%	-8.6%	0.1%	-0.1%	4.2%	2.7%
MSCI ACWI (Net)	9.8%	-18.4%	4.0%	5.2%	8.1%	8.0%
MSCI ACWI Value (Net)	14.2%	-7.6%	3.3%	3.5%	6.7%	6.4%

* *Annualized Total Returns.*

International Markets outperformed the US S&P 500 over the last quarter and year. Factors contributing to this were the better-than-expected economic results out of Europe, China ending their year by ceasing zero-Covid policies, and Japan finally allowing interest rates to rise. The dollar weakened with these positive developments, and investors rewarded the international stocks. The era of zero interest rates is over and the largest US tech stocks have begun a multi-year period of being downsized by the market. This is allowing International and Value oriented strategies to outperform, because of larger representations in lower multiple areas. <u>This is like the process we saw after the Dot Com Bubble, and it took until 2007 for the process to be completed</u> as you can see in the chart below.

International May Be Your "Insurance" if History Repeats



Source: Strategas Research, 5 Quick Takeaways Update 1-5-23- Performance Period measured is 06-30-2000 until 06-30-2007
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.

The deflation of these large US names offers opportunities to investors, specifically in indexes that do not hold those names. When one sector gets disrupted, another one usually benefits. The most obvious beneficiaries would be International Investing, Value Indexes and Equal Weighted strategies. As an example, from mid-2000 to mid-2007, while the NASDAQ 100 declined ~ (-50%) and the S&P 500 posted minimal returns, the MSCI ACWI ex-US index posted returns of almost 75% and the MSCI ACWI ex-US Value returned over 110%.

We can discuss China Re-opening, ECB Terminal Rate targets and Geopolitics ad nauseum, but the most helpful thing we can do for investors is quote our friend Chris Verrone from Strategas. "***During a period like this, be different than the market".*** Most investors are too concentrated in the US. While the US Mega-caps lose ground, your best bet for making money is to be different and focus the new leaders like the International Markets, with heavier value exposure in the Energy, Financial and Industrial sectors. Our International Value based disciplines should help investors do that.

Factor Analysis

Factors – Value Leading YTD

As Of 12/31/2022

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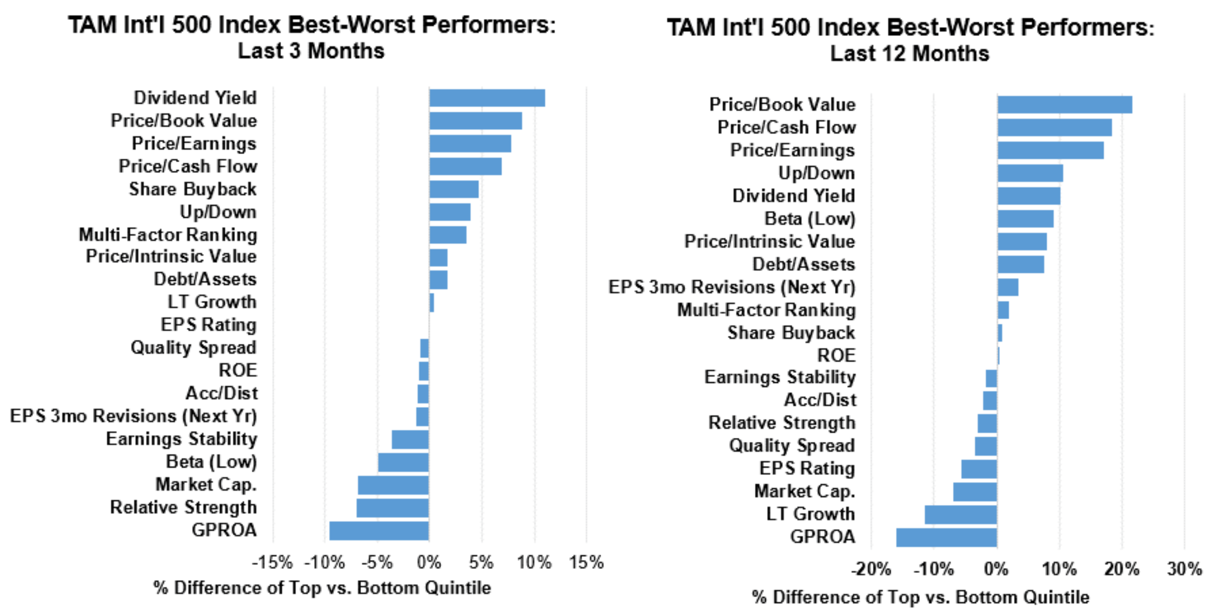

Value factors have consistently led since vaccines were introduced in November 2020. The rotation continues.

Data Source: Bloomberg, William O'Neil & 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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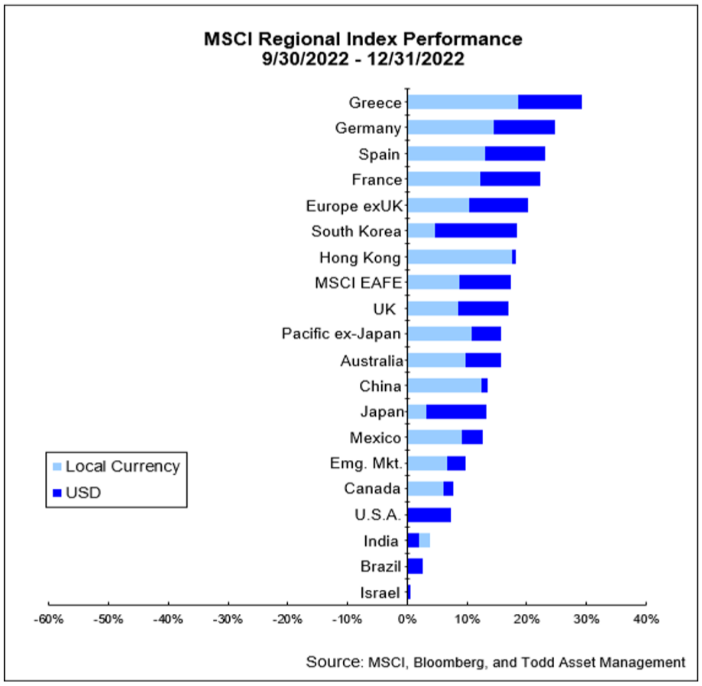

- Europe outperformed as they avoided recession, inflation probably peaked, natural gas prices eased, and the dollar weakened.

- The lagging markets still posted positive returns:
  - US saw Mega-cap weakness
  - Brazil had policy uncertainty
  - India posted mixed macro-economic results
  - Israel saw inflation uptick

Source: Todd Asset Management, Bloomberg, MSCI. 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.

Europe Starting to Outperform as Anxieties Ease

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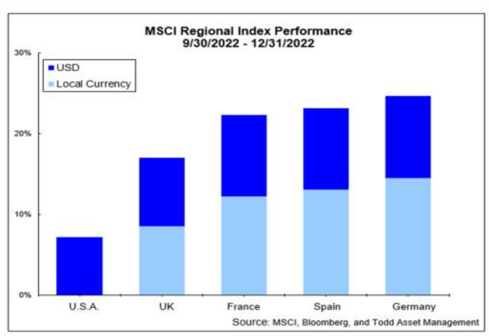
THE WALL STREET JOURNAL.

WEDNESDAY, JANUARY 11, 2023 - VOL. CCLXXXI NO. 8 WSJ.com $5.00

European Stocks Outshine Indexes In U.S.

Rebound stems from easing energy crisis, slowing inflation, less drag from tech sector

By Caitlin McCabe



Investors are starting to notice the tailwinds for Europe.

Source: WSJ 1-11-23 see https://www.wsj.com/public/resources/documents/reprints-wsj-terms.html for details, TAM, MSCI, 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.

Charts we are sharing with our clients

Source of our Current Problem: QE, War and Stimulus prompted an Inflation Tipping Point

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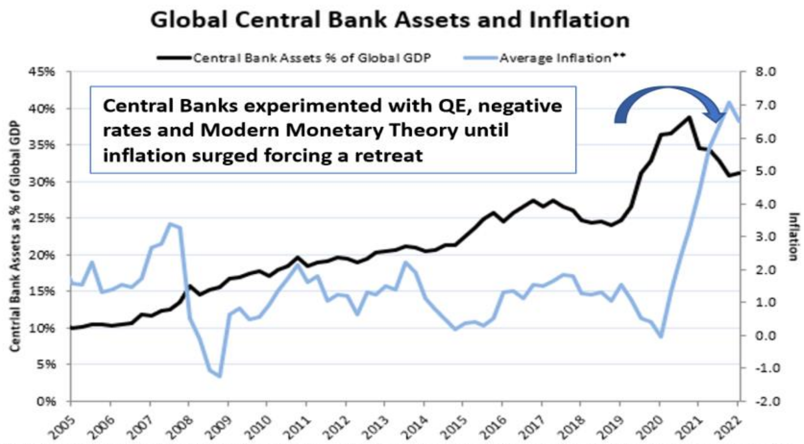

*Aggregate Assets of the US Fed, Bank of Canada, ECB, BOE, BOJ, SNB, People's Bank of China and Reserve Bank of Australia
BOE stopped reporting Total Assets in September of 2014. We have kept the BOE Total Asset figure static from that point on.
**Average Year-over-Year change in CPI of the US, Japan and Germany.
Data as of 12/31/2022
Source: Bloomberg and Todd Asset Management

Source: Bloomberg and Todd Asset Management.
Data as of 12/31/2022. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast.
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New Regime- Negative Yielding Debt Finally Eliminated

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Source: Bloomberg Finance LP, Deutsche Bank

Source: Deutsche Bank
Location : 2022 Review: A year for the history books 1/4/23 pg. 7

European Inflation is Tilted Towards Energy

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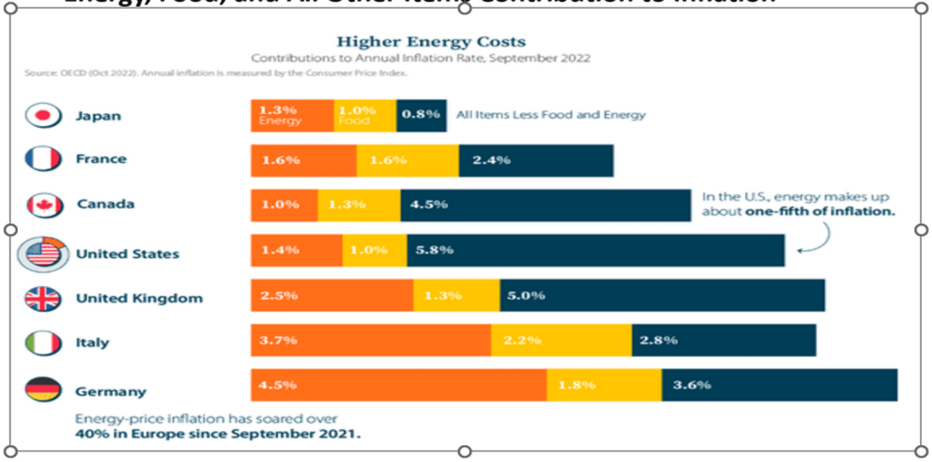
Energy, Food, and All Other Items Contribution to Inflation



Composition of inflation has been different between regions, with Germany and Italy more impacted. Lower energy prices should help their outlooks.

Source: The Daily Shot 12-27-22, OECD October 22

China- Inventories Low, Look for Rebuilding on Reopening

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Inventory building during the Re-opening should give and added pop to growth.

Source: Deutsche Bank- "China Chartbook" 10-31-22

The Dollar has Weakened Recently

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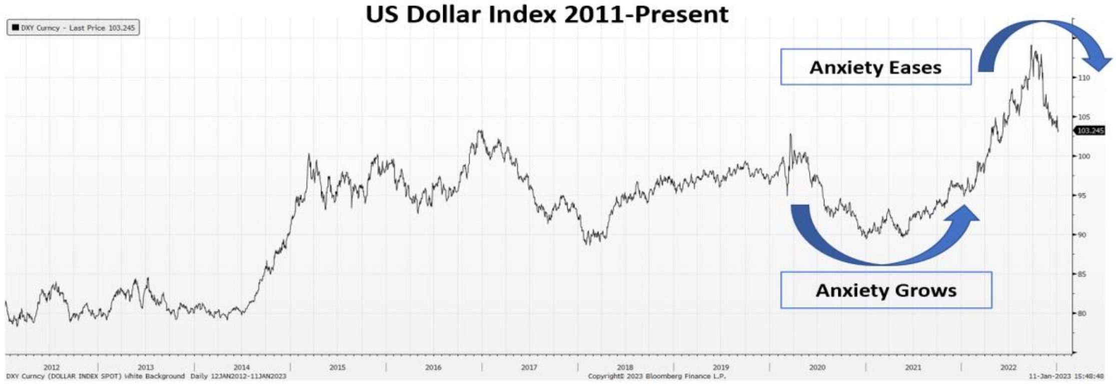
US Dollar Index 2011-Present



Anxiety about war, inflation, and the US Fed raising rates more aggressively than other central banks drove the Dollar up in 2022. Those forces look like they are reversing now.

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.

Forward Earnings- Divergent paths

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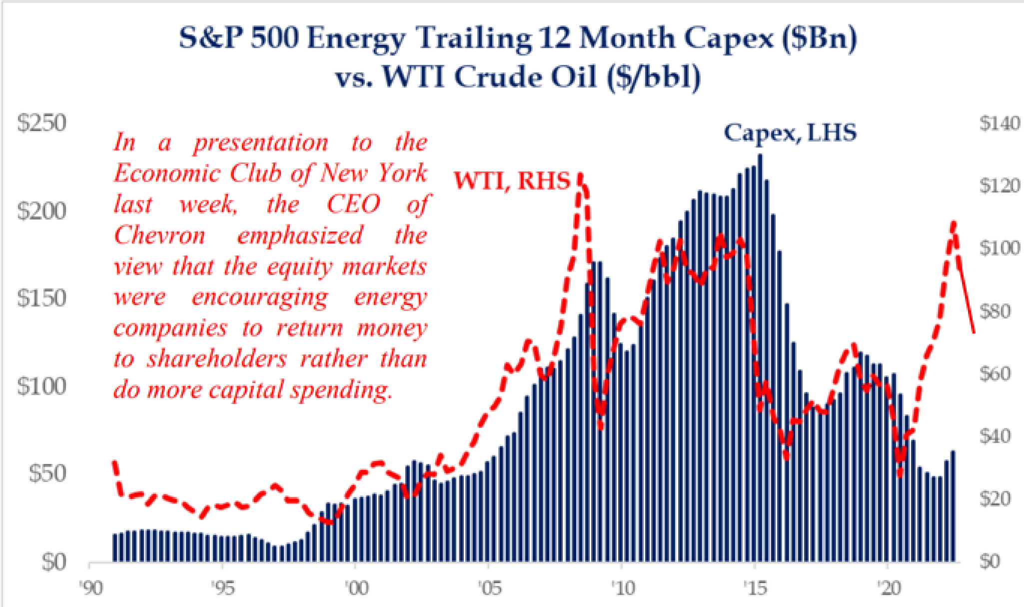
US Forward EPS Est's Have Rolled Over

European Forward EPS Est's (in $) Have Increased

Forward 12 Month Earnings Estimates (in $) have been declining for the S&P 500 since June, while the Stoxx 600 Estimates (in $) are up since September.

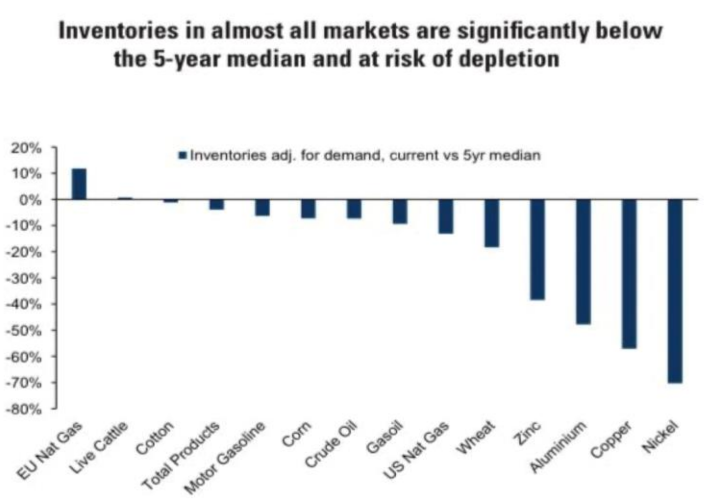
Source: Todd Asset Management, Bloomberg. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed.

Theme- Energy Capex Down- Should Support Prices



Source: Strategas Research Partners "Self Funding, A key to outperformance" 12-5-22

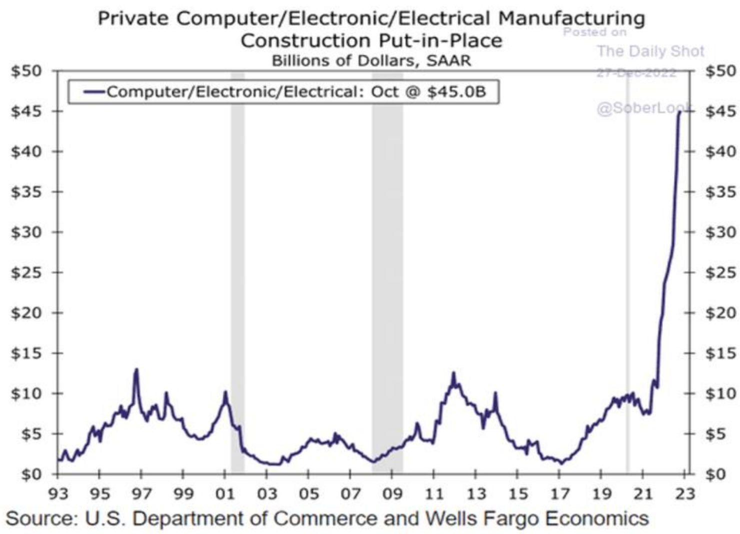
Theme- Low Commodity Inventories - Overweight Materials



Source: Bloomberg, USDA, EIA, Wind, Goldman Sachs Global Investment Research

Re-Shoring Drives Tech Capex Globally

The CHIPS Act Has Started a Multi-year Capital Spending Cycle

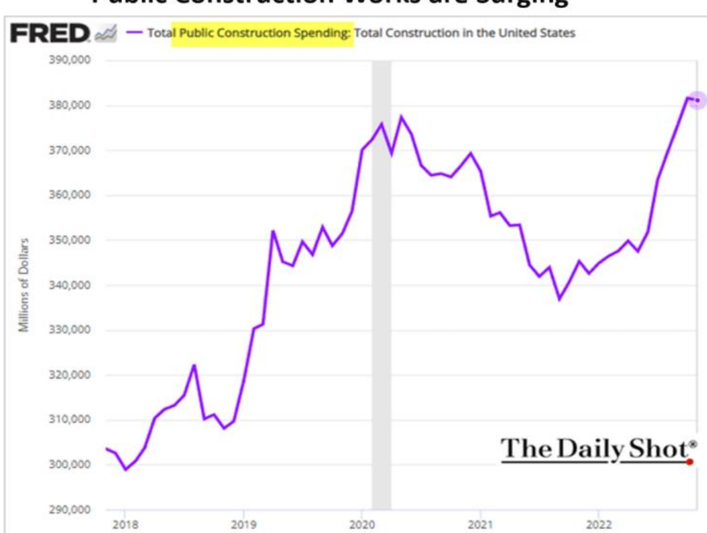


Source: U.S. Department of Commerce and Wells Fargo Economics

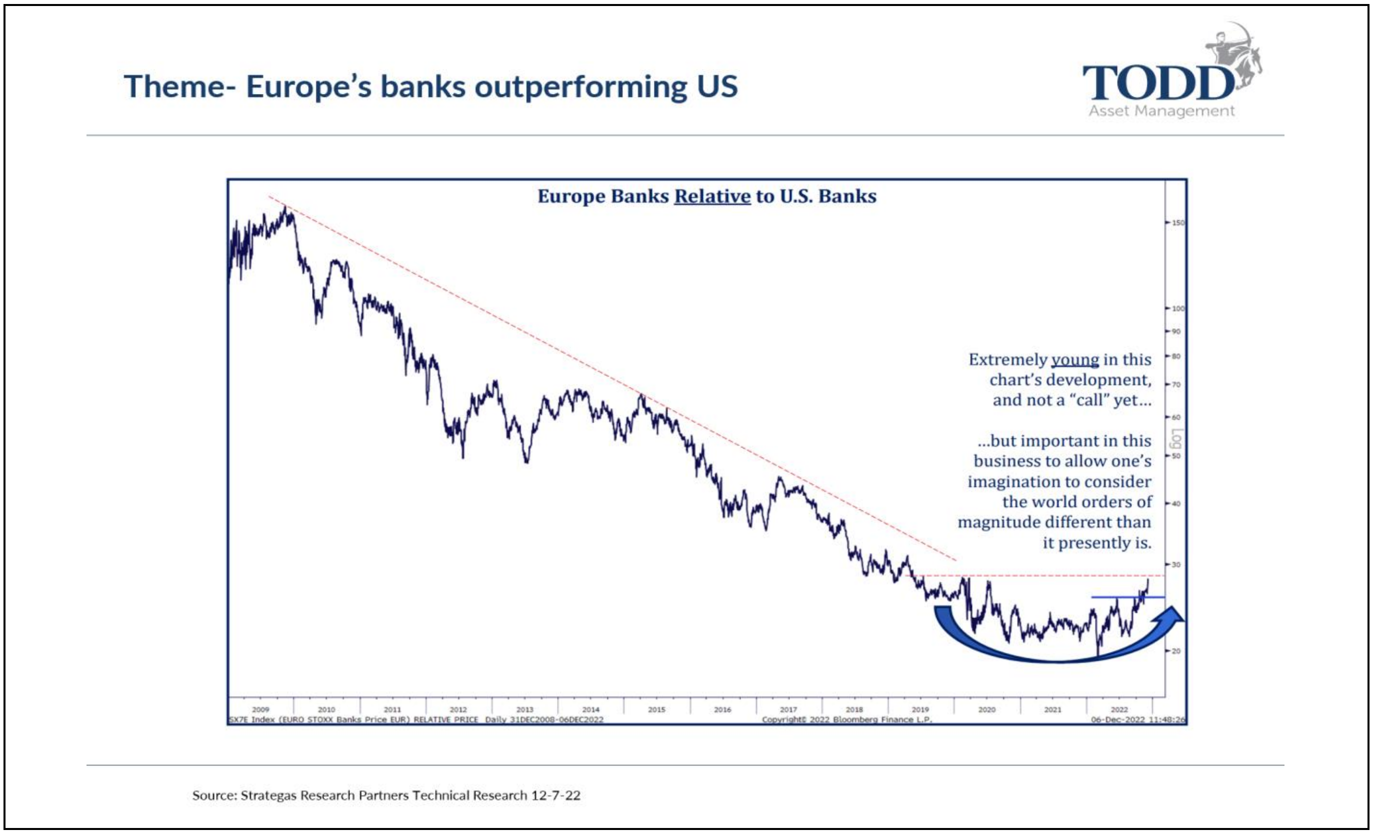
Source: Daily Shot, Wells Fargo 12-28-22

Theme- Capital Spending Remains Strong

Public Construction Works are Surging



Source: Daily Shot 1-4-23



Current Situation:

Markets priced in a recession last year and Investors had good reason to expect one (even though they never occur when economists are forecasting them). China's covid surge, European and US Inverted Yield Curves, and weak global Leading Indicators suggest a recession. Still, **there are reasons to hope for a soft landing**. China's reopening, weakening inflation, and potential for Central Banks pausing rate hikes support that argument. Developed Market (DM) Central Banks will need to see softening inflation/ weakening economies to put the pause in place. Until then, **the DM central banks intend to raise interest rates** a few more times. As China re-opens, their next move is likely monetary and fiscal stimulus. China is ahead of the curve on this and has already begun some stimulus measures. The **tug of war between recession and soft landing probably plays out as a trading range** until we get better clarity about the outcome. In October, the market sagged to the low end of the range, and the market looked to be pricing in a moderate recession. For the market to reach much lower than that, investors would need to be expect a severe recession or financial crisis.

There are better things you can do than try to predict a recession. **Recognize that the investing environment has shifted.** Inflation should come down, but there are structural forces post Covid that leave the economy more prone to inflation than before. Re-shoring supply chains, a decline in the number of workers, and increased financing needs for infrastructure spending, defense, business capital spending and new investment in energy infrastructure (both traditional and alternative) are all going to pressure real rates higher in coming years. Throw Quantitative Tightening into the mix, and one of the largest buyers of bonds over the past few years is now selling. These factors point to a sustainably higher level of rates, at a time when the global economy is suffering higher inflationary pressures from smaller workforces and lack of investment in natural resource supplies. The cycle has turned, and ***the growth superstars of the past 10 years are now likely to see continued erosion in market cap*** as their industries become more competitive and multiples continue to compress. The best thing the average investor can do is understand that ***looking different than the index will probably lead to better returns*** than mimicking the index. ***Strategies that are Internationally focused, value oriented, or equal weighted, are the best places to make money if the largest companies continue to bleed market cap.***

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

01/17/2023
MSCI ACWI ex-US (Net) – 269
MSCI ACWI (Net) – 335
MSCI ACWI ex-US Value (Net) – 1,190

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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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