January 18, 2023
Jack White, CFA
Todd Asset Management

Be Different Than the Market

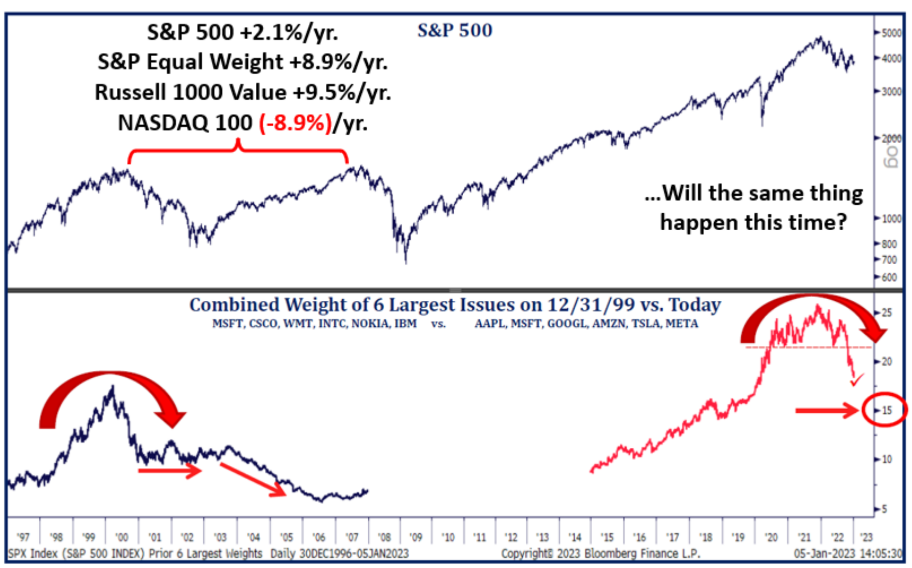
Todd Asset Management US Q4 2022 Review and Outlook Chartbook

	4Q 2022	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
S&P 500	7.6%	-18.1%	7.7%	9.4%	11.5%	12.6%
Russell 1000 Value	12.4%	-7.5%	6.0%	6.7%	9.1%	10.3%

* *Annualized Total Returns.*

The bear market in Growth stocks continued despite the strong market rebound during the fourth quarter and it's time to add Value to your portfolio. This bear market features the largest tech disruptors getting disrupted themselves as higher interest rates weigh on multiples and diminished outlooks weigh on earnings. The era of zero interest rates is over and the largest tech stocks in the S&P 500 have begun a multi-year period of being downsized by the market while lower multiple areas like Energy and Financials have outperformed. <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.

When S&P Leaders Fail… Be Different to Outperform



Source: Strategas Research, 5 Quick Takeaways Update 1-5-23 Performance Period Measured 6-30-00 to 6-30-07
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.

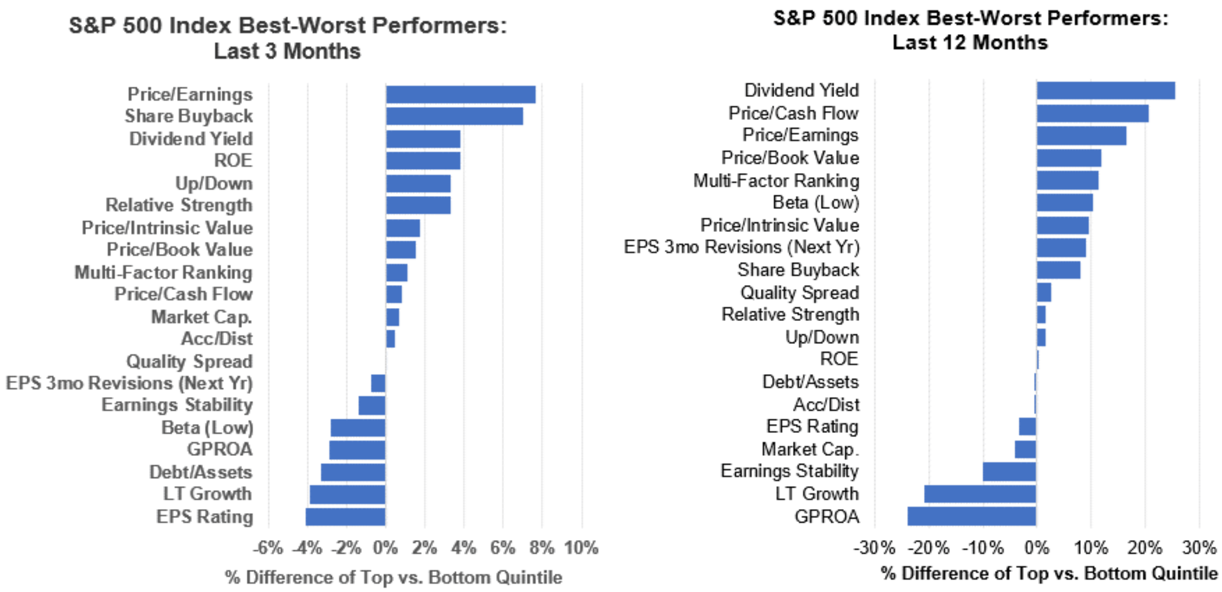
The deflation of these large names offers opportunities to investors, specifically in indexes that do not hold those names. When one sector gets disrupted, another one usually benefits. The most obvious beneficiaries would be the Value Indexes in the US, International Investing and Equal Weighted strategies. As an example, from Mid-2000 until Mid-2007 the NASDAQ 100 declined (-8.9%)/yr. while the S&P returned +2.1%/yr., the S&P equal weighted index returned +8.9%/yr. and the Russell 1000 Value returned +9.5%/yr. We believe we could be entering a similar environment currently.

We can discuss recession potential, expected terminal rates for Fed tightening, and/or the profit outlook 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".*** While the Mega-caps lose ground, your best bet for making money is to be different and focus the new leaders like the Energy, Financial and Industrial sectors. Our Value based disciplines should help investors do that.

Factor Analysis

Factors – Value Leading YTD

As Of 12/31/2022



Higher Growth factors suffered while Value saw resurgence. Our Multifactor worked during the quarter and the year.

Data Source: Bloomberg, William O'Neil & Co. and TAM. 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.

Despite the Q4 recovery, the NASDAQ 100 declined modestly. Growth factors did not participate in the rebound, while value and quality factors did. This is a classic sign of a rotation.

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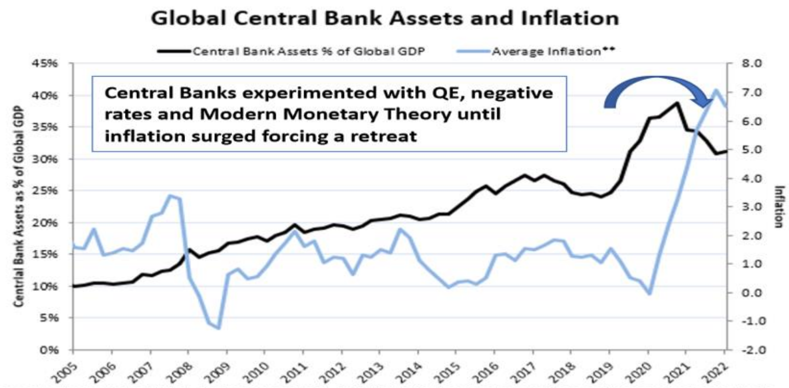
Charts we are sharing with our clients

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



*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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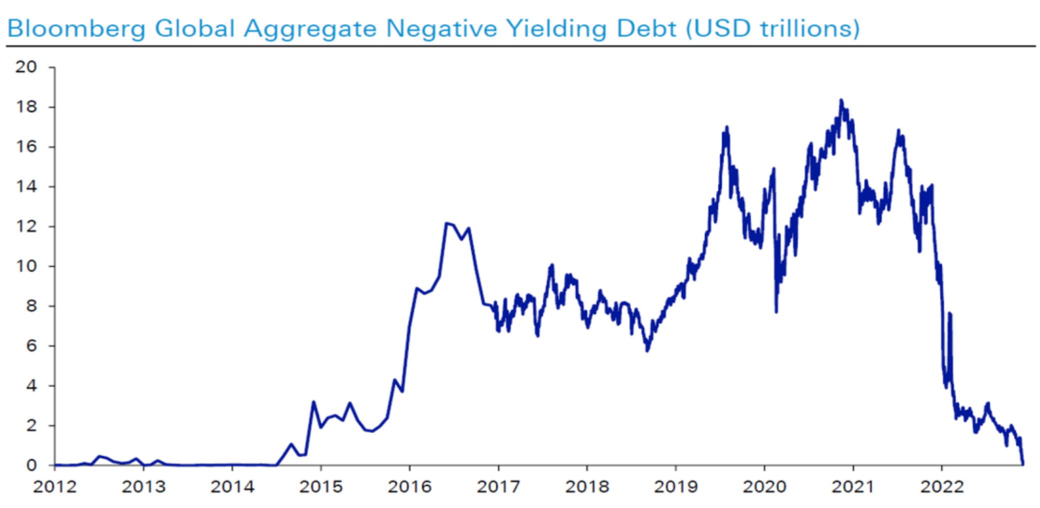
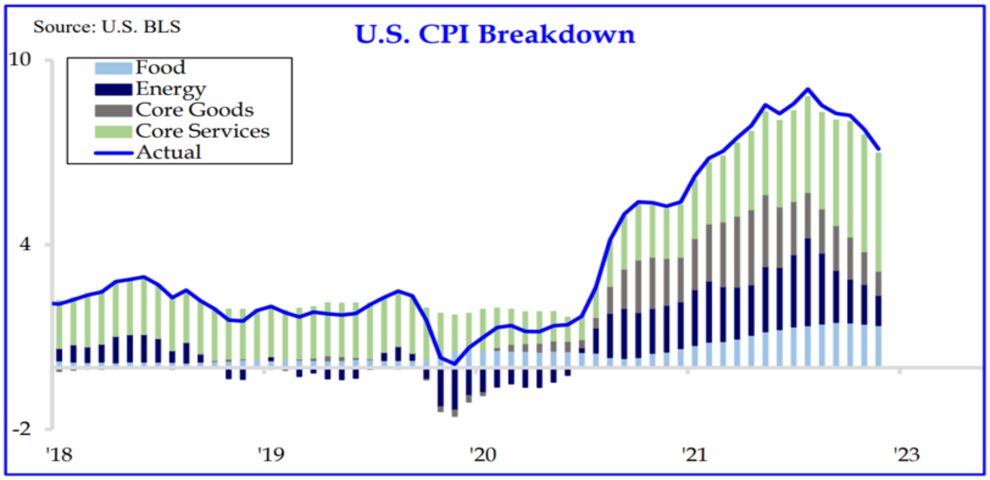
New Regime- Negative Yielding Debt Finally Eliminated



Source: Bloomberg Finance LP, Deutsche Bank

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

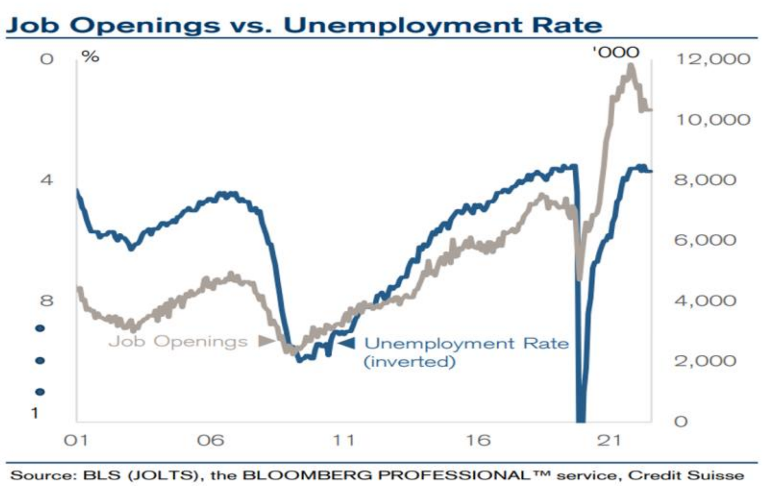
US Inflation- Encouraging Trend



Declining Energy and Core Goods have prompted an inflation rollover in the US. Core Services and Food remain elevated. The Fed wants to see this decline further.

Source: Strategas Quarterly Review In Charts 1-3-23

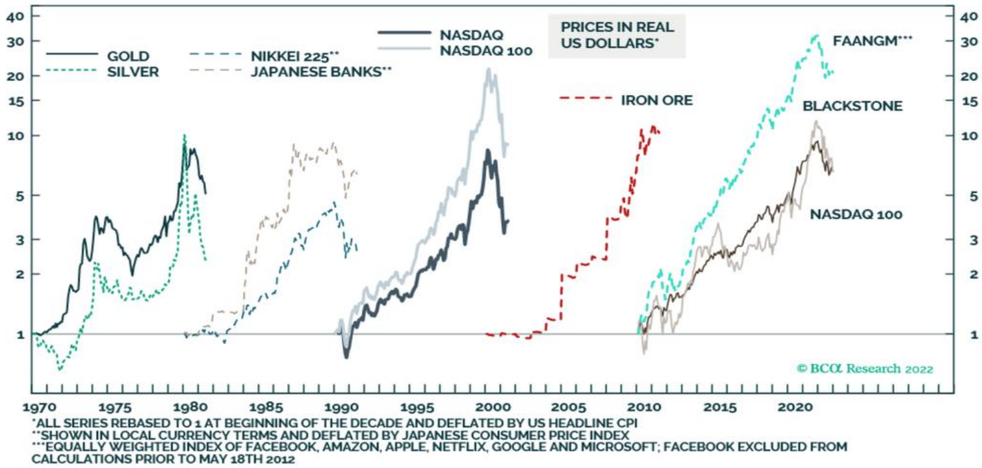
Low Unemployment and Plenty of Jobs



The Fed wants job openings to decline until wage pressures ease. Unemployment may rise if that occurs. Rates may rise further if these figures remain strong.

Source: Credit Suisse 2022 Review 1-5-23

FAANGM and NASDAQ Bubble Bursting

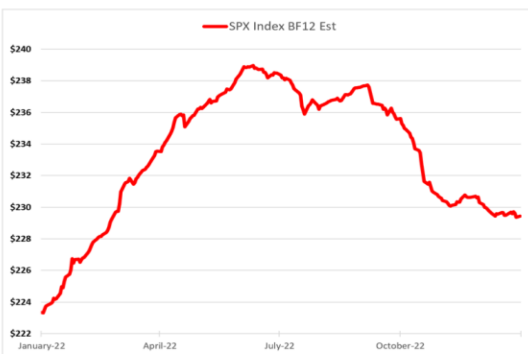


Bubbles have burst before, always leading to new and different leadership. Our sense is the next cycle favors investment in capital spending.

Source: BCA Conversation with Ms. Mea 12-8-22

Forward Earnings- Divergent paths

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.

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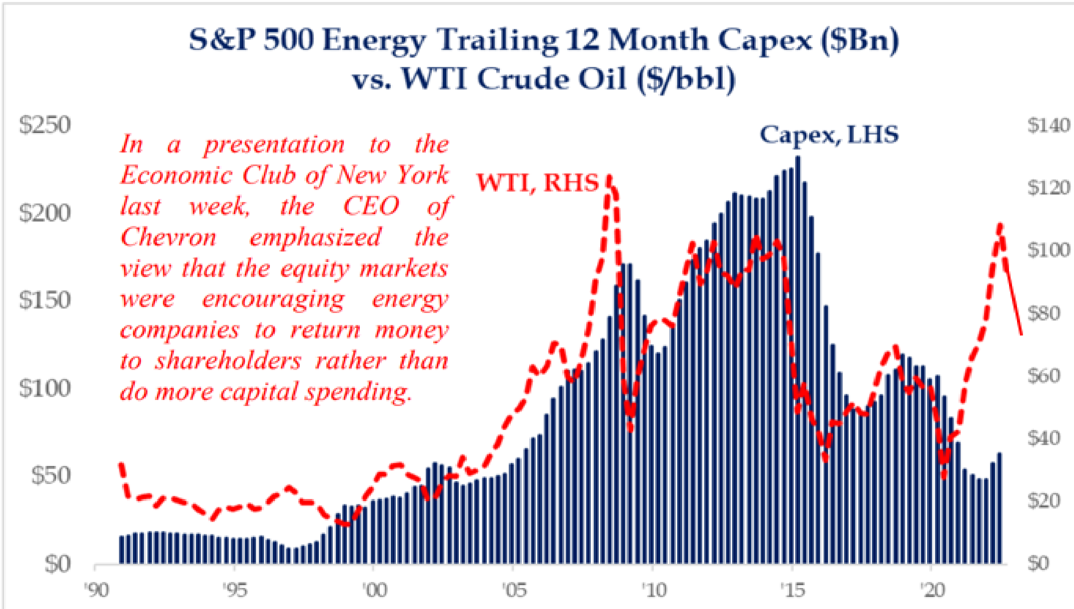
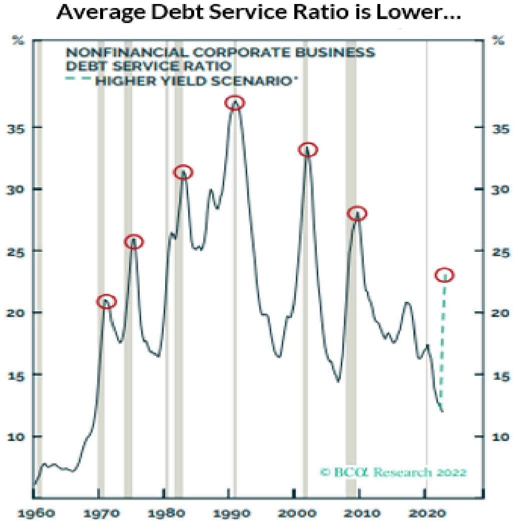
Theme- Energy Capex Down- Should Support Prices



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

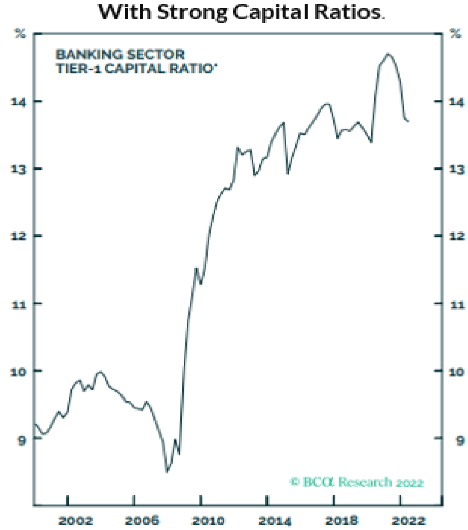
Theme- Banks- Better Capitalized Along With Their Clients

Average Debt Service Ratio is Lower…



*ASSUMES A 4 %10-YEAR TREASURY YIELD AND HIGHER CORPORATE BOND SPREADS.
NOTE: SHADING DENOTES NBER DESIGNATED RECESSIONS.

With Strong Capital Ratios.

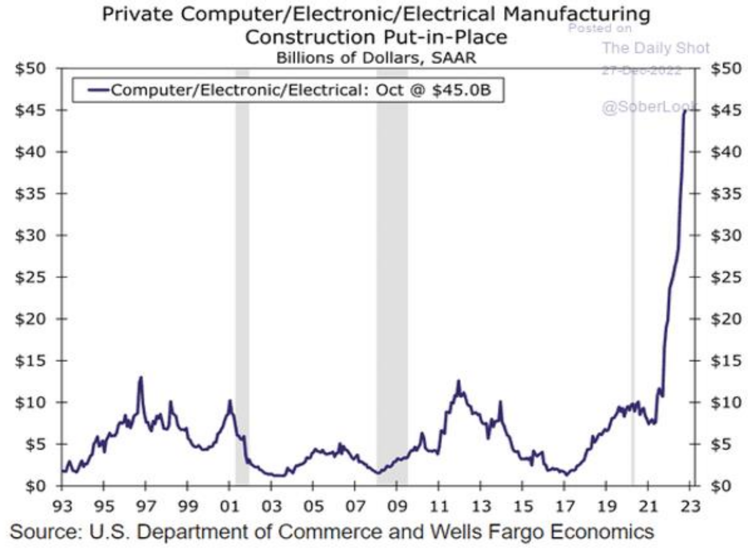


* TIER-1 CAPITAL AS A PERCENT OF RISK-WEIGHTED ASSETS.
SOURCE: FEDERAL RESERVE BANK OF NEW YORK.

BCA – "Preparing for a Pivot of Our Own" Page 6
12/12/2022

Re-Shoring Drives Tech Capex

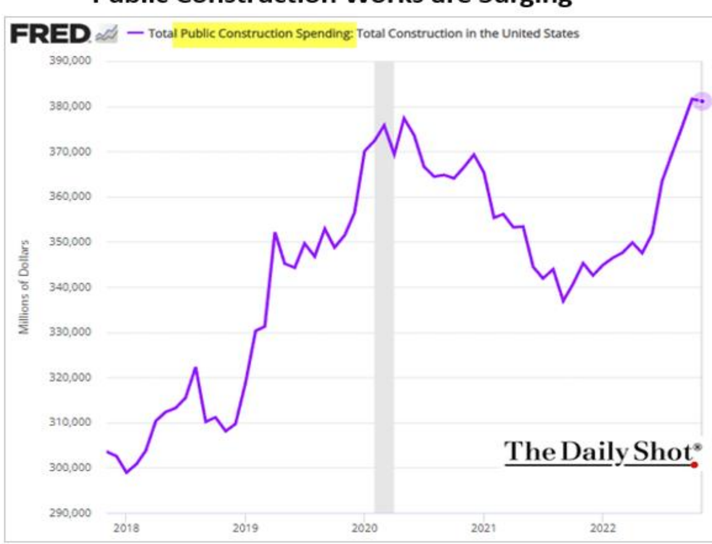
The CHIPS Act Has Started a Multi-year Capital Spending Cycle



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

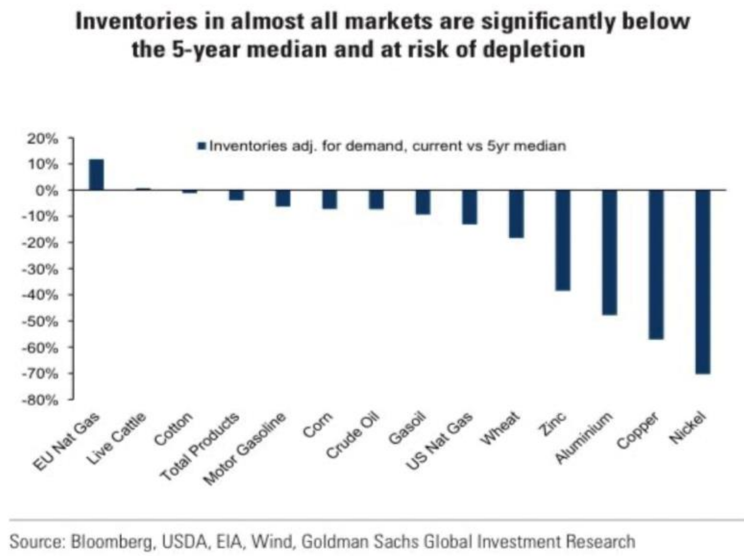
Theme- Capital Spending Remains Strong

Public Construction Works are Surging



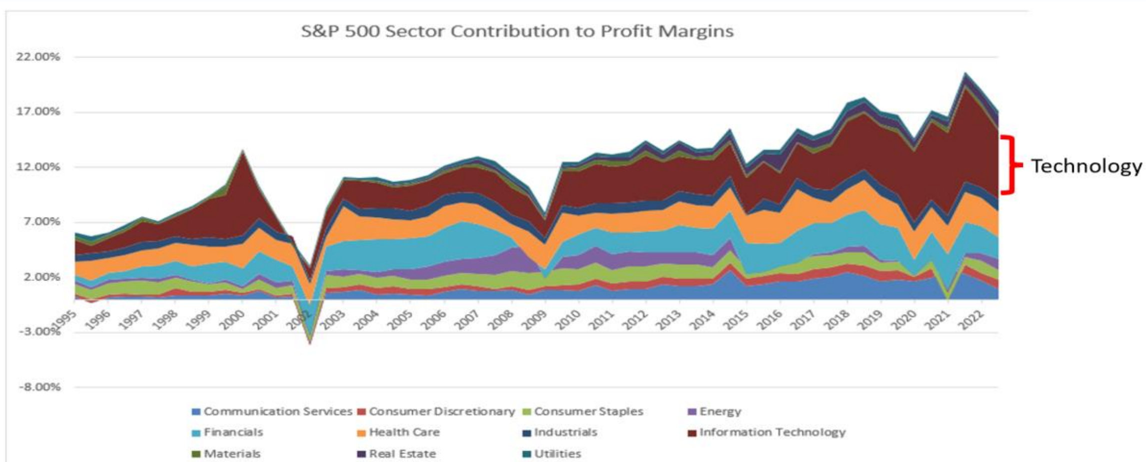
Source: Daily Shot 1-4-23

Theme- Low Commodity Inventories - Overweight Materials



Source: Goldman Sachs 1-8-23

Theme- Margin Pressure Likely for Tech- Underweight



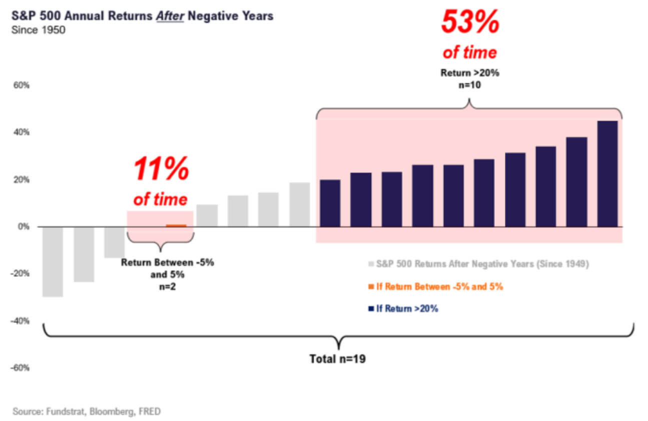
- Investors expect S&P profit margins to contract if the economy weakens.
- Technology is the largest contributor to S&P margins.

Source: Todd Asset Management, Bloomberg- Chart represents market cap weighted contribution to S&P margins. 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.

Don't Get Too Bearish- History Suggests a Rebound

Since 1950, Markets Usually Rebound after Negative Years

POST-NEG YEAR: 53% of Time >20% Equity Returns after Neg Years



Markets rebound after negative years. Markets rally after midterm elections. Markets rally after negative sentiment surges. DON'T GET TOO BEARISH.

Source: Fundstrat First Word 1-6-23

<u>Current Situation:</u>

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). Inverted Yield Curves, weak Leading Indicators and softer Purchasing Managers indexes suggest a recession. Still, **there are reasons to hope for a soft landing**, as weakening inflation, potential for the Fed to pause increases, and some potential economic boost from China re-opening support that argument. What is certain is **the Fed intends to continue to raise interest rates** a few more times, and the labor market remains firm. The Fed is probably closer to finished raising rates than not but will need to see softening inflation and a weakening economy to be sure. 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, markets 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 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 recognize that ***looking different than the S&P index will probably lead to better returns*** than mimicking the index. ***Strategies that are value oriented, or equal weighted, or investing in international markets 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

01/00/23
S&P 500 – 3,991
Russell 1000 Value – 1,556

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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S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.