July 18, 2023
Jack White, CFA
Todd Asset Management

The Real Pivot Favors International Economic Growth

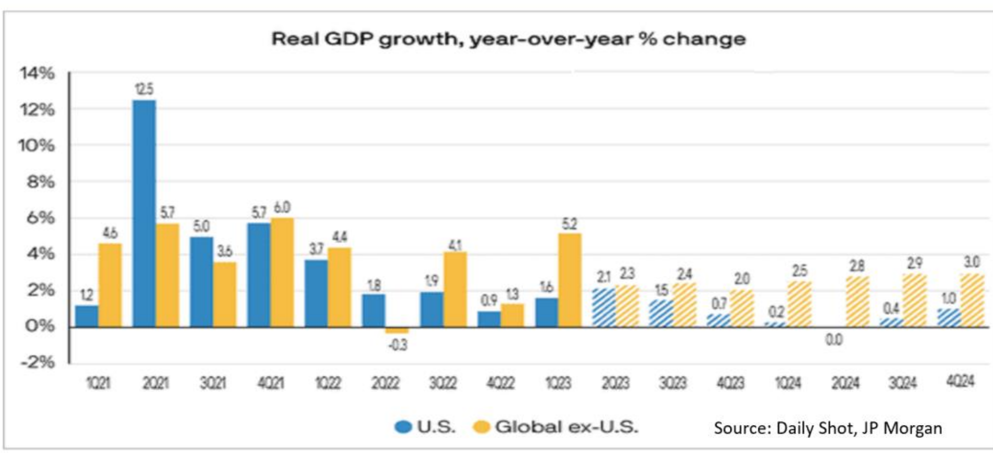
TAM International Q2 2023 Review and Outlook Chartbook

	2Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
MSCI ACWI ex-US (Net)	2.44%	9.47%	12.71%	7.22%	3.52%	6.32%	4.75%
MSCI ACWI ex-US Value (Net)	2.96%	8.27%	12.19%	10.42%	2.65%	5.70%	3.70%
MSCI ACWI (Net)	6.18%	13.93%	16.52%	10.99%	8.10%	9.94%	8.76%
MSCI ACWI Value (Net)	2.98%	4.25%	9.96%	11.82%	5.16%	7.07%	6.19%

** Annualized Total Returns as of 06/30/23*

International Markets have underperformed the S&P year to date as the rebound in the Growth style has favored US stocks. We think this underperformance is masking an important change that has happened since China re-opened, namely that growth in international economies is expected to be better than growth in the US. As you can see in the chart below, the real pivot was in growth rates, and it occurred 3 quarters ago. **Recession fears drove the recent lag, and as expectations of a slowdown are pushed out, we expect international markets to benefit from that.**

"The Pivot" Was In Real Growth Rates



- **Economic growth rates pivoted** 3 quarters ago to favor International over US Real GDP Growth.
- Many **international markets are surging** because of this. **MSCI Europe has outperformed** the S&P 500 since the beginning of 2022.
- **China's re-opening** coupled with a **new global capital investment cycle** supports better growth and performance over time.

Commentary may contain subjective judgements and assumptions subject to change without notice. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast.

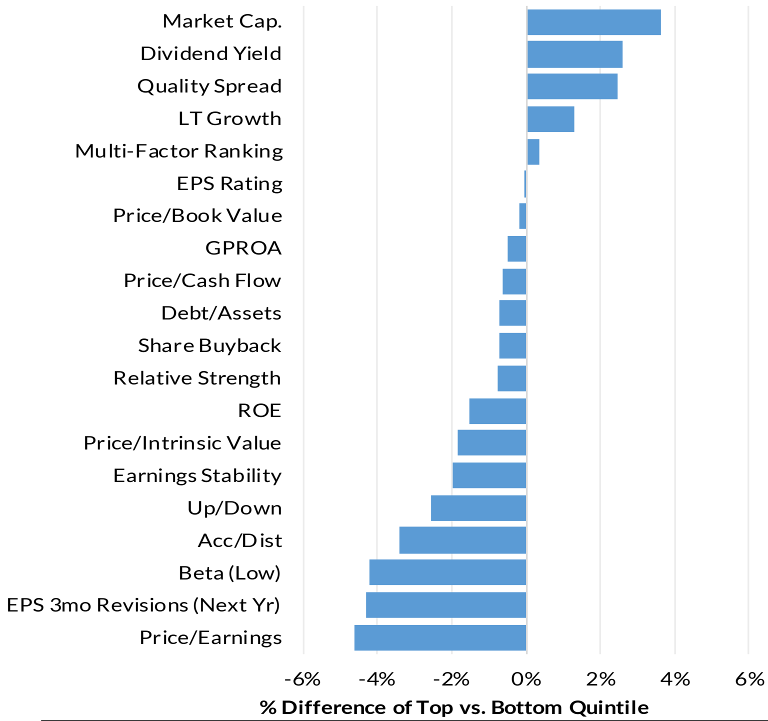
Despite early year concerns of a hard landing, followed by some prominent bank failures in March and fears of a US debt default, Global economies held together as inflationary pressures appear to be easing. "Soft landing" is a cyclical slowdown in economic growth that avoids a recession, and we are meeting that definition. You don't have to search very hard to find an angry Market Strategist nowadays, because many have been betting on a recession while the economy and market have strengthened. **Another recession will happen someday, but markets have changed their expectations of when that should occur and are pushing it out much further**.

The Dollar has weakened lately as the expected recession was deferred and it appears the US Fed may be nearly finished with their tightening cycle. **Rates are on the rise worldwide** at the same time and it appears that Japan is considering ending their yield curve control policies. In many European markets, we are seeing inflation rates declining but still higher than central banks are targeting. **Investors seem to be embracing the idea that the US Fed will achieve a soft landing**. Interestingly, despite inflation rates declining, long bond rates are not declining in most developed markets. Are developed market bond investors demanding a higher premium for longer term bonds now that the Inflation genie has gotten out of its bottle? **As investors feel better about the outlook, we have seen many Developed Markets challenging new all-time highs or multi-year highs.** Germany, France and Japan are examples of this, as rates are normalizing higher. **China has been making halting steps towards stimulus, but it appears that the process is going to take longer than most investors expected**. We expect more positive developments from the Chinese authorities over the coming quarters. Other Emerging Markets have been under more pressure, but most of them raised rates earlier than other markets. We anticipate they should become more stimulative, sooner than many advanced economies.

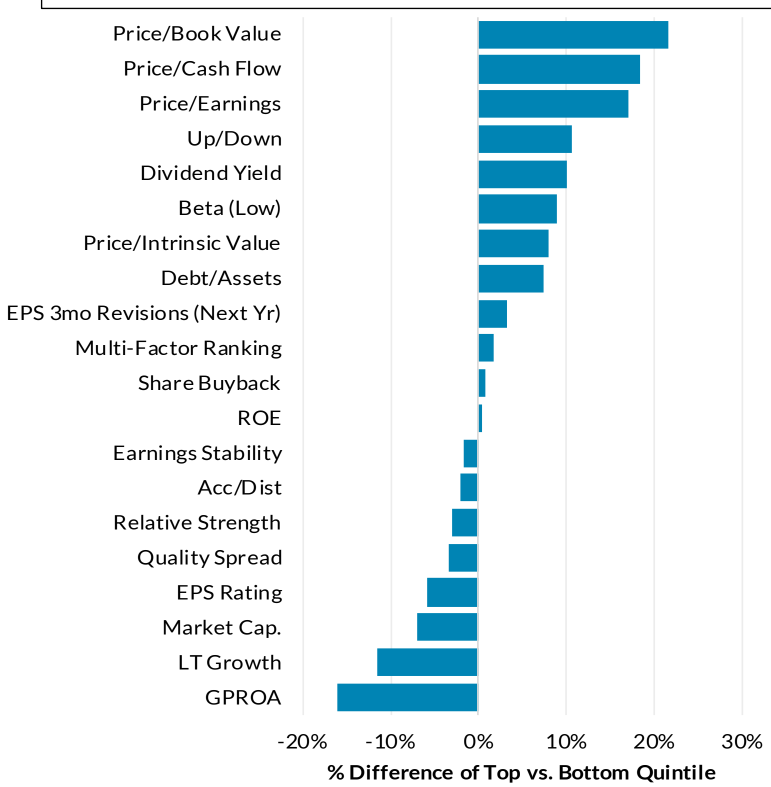
Many of our themes are continuing to play out. **Our overarching theme is that a new capital investment cycle is occurring** aimed at spending in the "old" economy. Governments are becoming proactive in promoting investment in Semiconductor Chip manufacturing and "Green" investments. Governments are pursuing industrial policy and seeking to re-shore supply chains and limit exports of advanced manufacturing machinery. Against this backdrop, employment remains strong in Europe, China, the US and Japan. It would be hard to forecast a recession without employment declining. Re-shoring implies that companies (and politicians) are emphasizing security of supply over higher costs. This could lead to margin pressures. The pros should outweigh this over time. **Re-shoring leads to employment gains and a larger wage base.** The average age of European plant and equipment is the oldest since the 1940s. A period of reinvestment is needed and welcome**. New facilities should be more productive too, something that the developments in Artificial Intelligence can probably provide a tailwind to.** We expect spending on development of new energy resources to see continued growth, both in green and traditional hydrocarbons, especially if recession fears get pushed out further. Lastly, the world is a more dangerous place than it had been since before the Iron Curtain fell. Governments worldwide are spending more on defense.

Until a recession becomes a much nearer term worry, we believe international equity markets are well positioned. No scenario is perfect, as there are signs of weaker consumer sales, purchasing managers indexes are weaker and commercial real estate is a concern. Still, the economy is holding up. Our signposts for a recession for that will be rising unemployment and a flatter yield curve among other things.

TAM Int'l 500 Index Best-Worst Performers for Q2 23



TAM Int'l 500 Index Best-Worst Performers for FY 2022



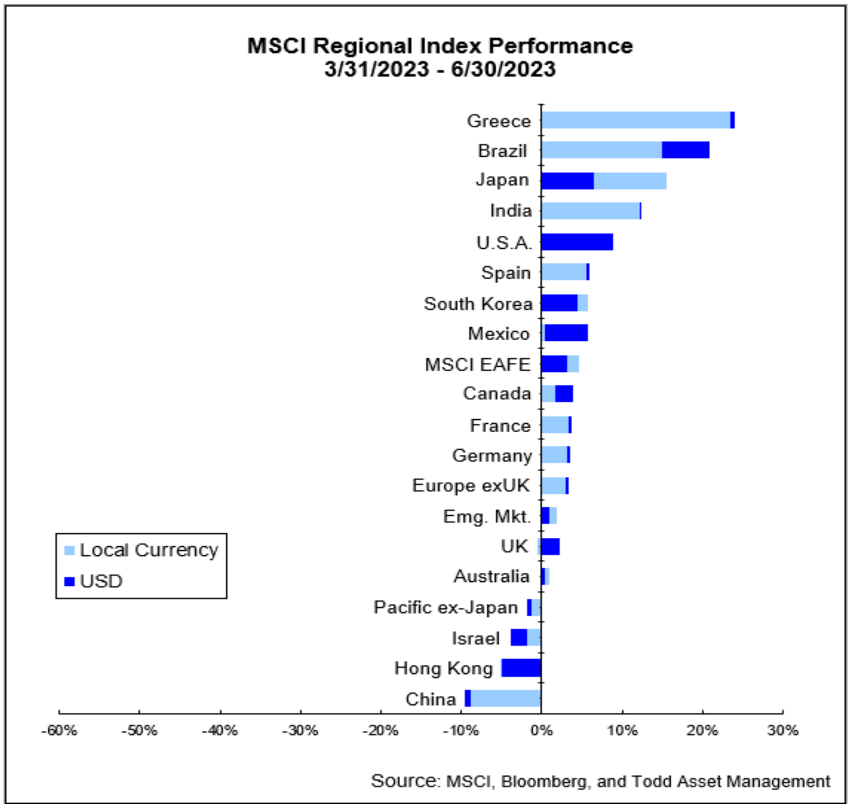
- Our customary factor analysis is presented to the left. The top pane shows the three months ending 6-30-23, while the bottom pane shows full year 2022. The analysis measures the best 100 of our largest 500 international companies and compares it with the lowest ranked 100 on each factor.

- The most recent quarter saw more mixed of factor leadership compared to the full year 2022. Where value was the strongest factor last year, value measures were found at both the best performers and worst performers.

- We believe as the year progresses and economies avoid recession that investors should rotate back towards favoring value factors.

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

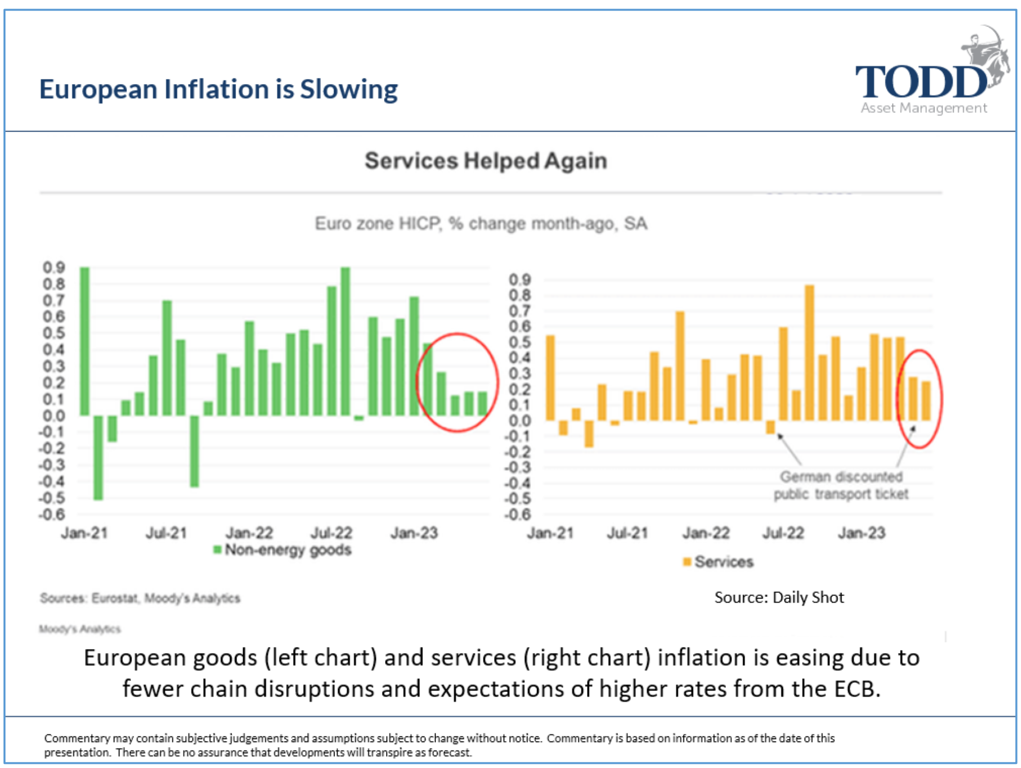
Regional Performance



Emerging Markets, Japan and the US were leadership during the quarter, for a variety of reasons. As investors edged away from recessionary forecasts, the outlook for all these economies improved. Japan is especially notable, as that market is near a 33-year high.

At the lower end of the spectrum, China, Hong Kong, Israel and Pacific ex-Japan have lagged global indexes. The slow recovery in China is impacting most of these, as market expectations of stimulus have not been met. We still anticipate more stimulative measures from China in the coming quarters.

Charts We are Sharing With Our Clients



Central Banks are Selling Bonds, Pressuring Rates Higher

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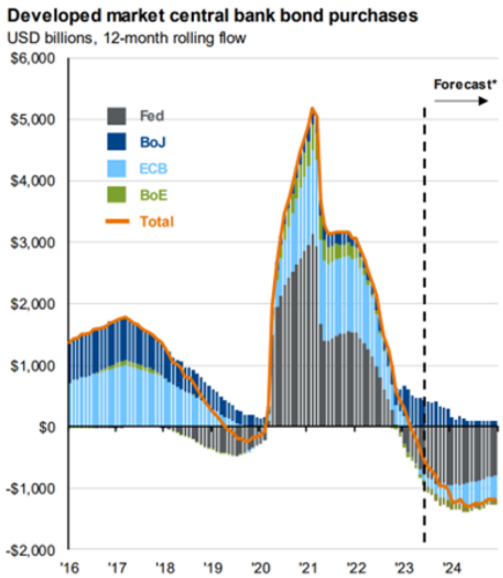

Source: JP Morgan

- **<u>Central Banks are slated to sell trillions of dollars in bonds</u>** over the next few years. This should pressure rates higher.
- Additionally, **<u>a capital cycle is unfolding.</u>** Increased funding needs for government spending, infrastructure, reshoring, green energy, commodities investment and defense spending are **<u>likely to contribute to structurally higher rates as well.</u>**
- All of these contribute to the **<u>new regime</u>** thesis we believe markets are in.

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The US Is Not the Only Index Acting Well

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Source: Bloomberg, Evercore ISI Research

The "New Regime" we believe in favors international markets that have value characteristics. Europe and Japan both performed well in the first half, with better breadth than the US.

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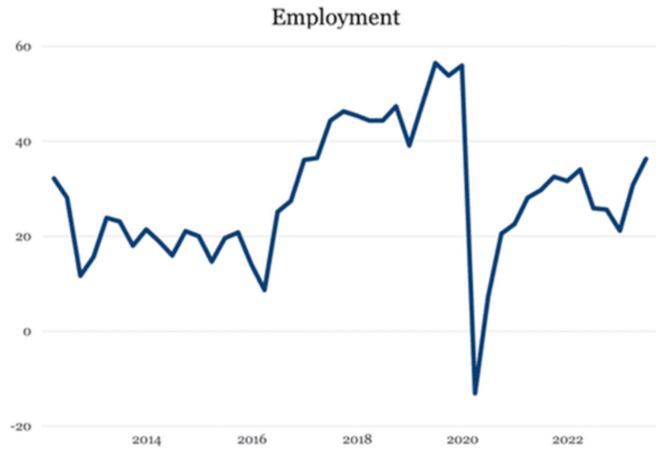
Chinese Economy Is Generating Jobs



Source: China Beige Book

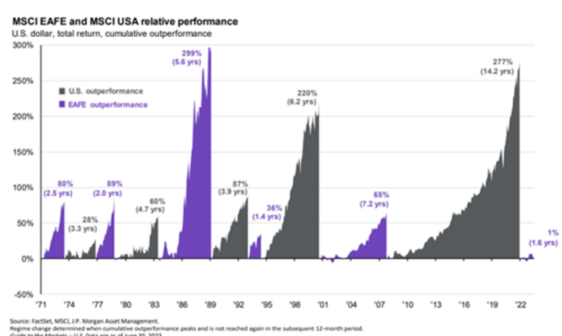
China's recovery is being driven by employment gains. We expect more stimulus to be allocated in coming quarters.

Dollar Cycle Has Finally Turned, Favoring International

Source: JP Morgan

- Since 1974, there have been six periods where the dollar changed long term trend (chart left), and 10 episodes of regime change (chart below.)

- When the dollar weakens, international stocks tend to lead and vice versa. These trends last years.
- We believe the dollar should weaken as deficit spending and higher worldwide rates attract capital away from the US.



Regime Change- Governments Pursue Stimulus, not Austerity

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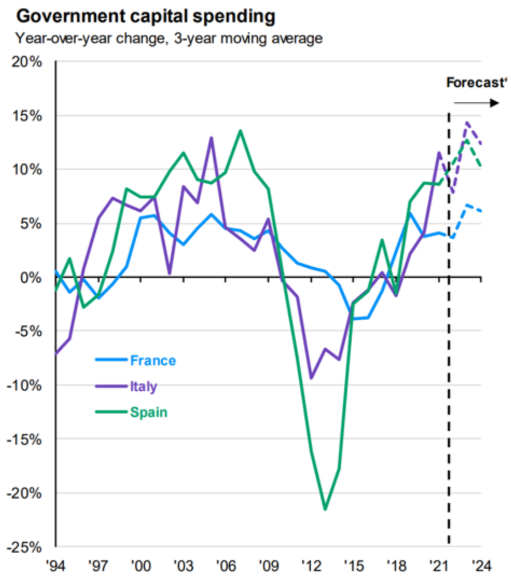

Source: JP Morgan

- Prior to the Global Financial Crisis, European governments had stimulative policies, and their markets outperformed.
- Following the crisis, Governments capital spending declined, and their markets underperformed.
- Following the Pandemic, they have resumed their stimulative Government Capital Spending policies. This should help companies making capital goods and markets.

Concern: European Wage Growth Continues to Run Hot

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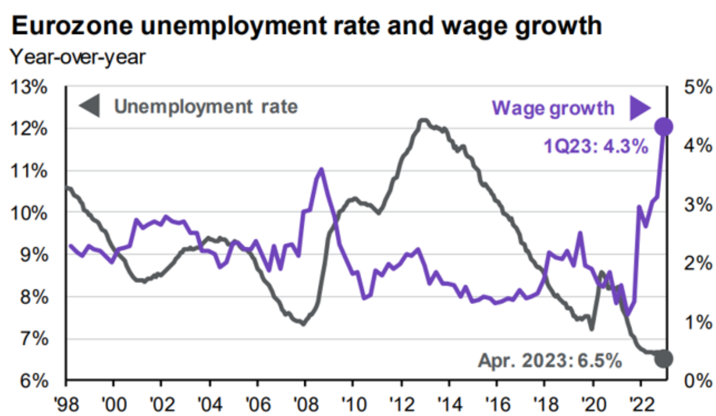

Source: JP Morgan

The ECB is intent on raising rates because wages continue to post higher than desired increases. Cooling this trend may be difficult.

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Leading Indicators Predict Firmer Global Growth

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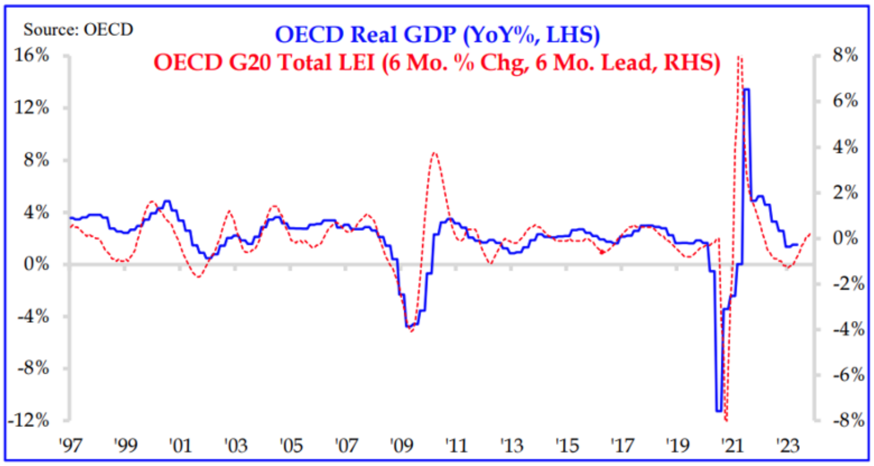

Source: Strategas

Leading Indicators for the G 20 nations recently hooked up. Markets have noticed this and are anticipating a soft landing (for now…)

Dollar Breaking Down Should Support Commodities

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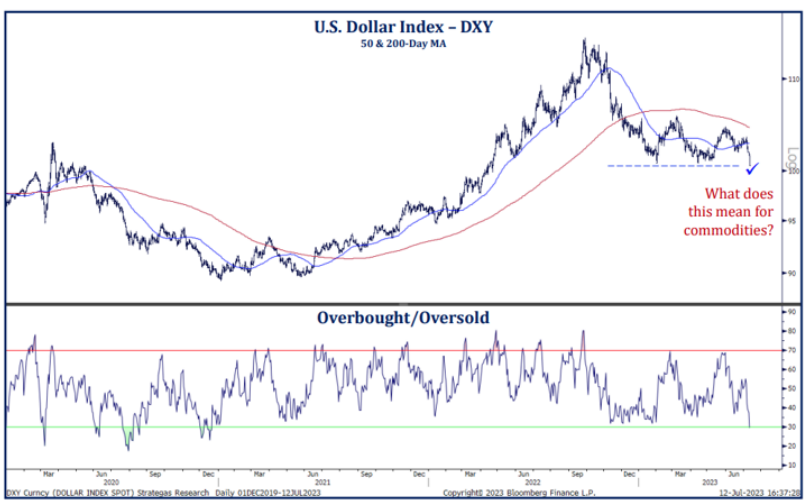

Source: Strategas

The dollar declined as economic prospects have brightened and the Fed is almost finished tightening. A weaker dollar should lead to higher commodity prices.

Energy: A Checkback like 2003?

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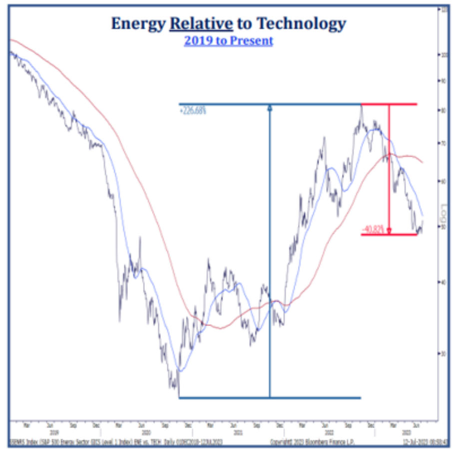

Source: Strategas

Energy stocks have suffered over the past year as commodity prices declined. Relative to the old (and new) technology leadership, the energy sector has checked back just like it did in 02-03. A large recovery followed from 03 to 06.

Oil Positioning Anticipates Recession

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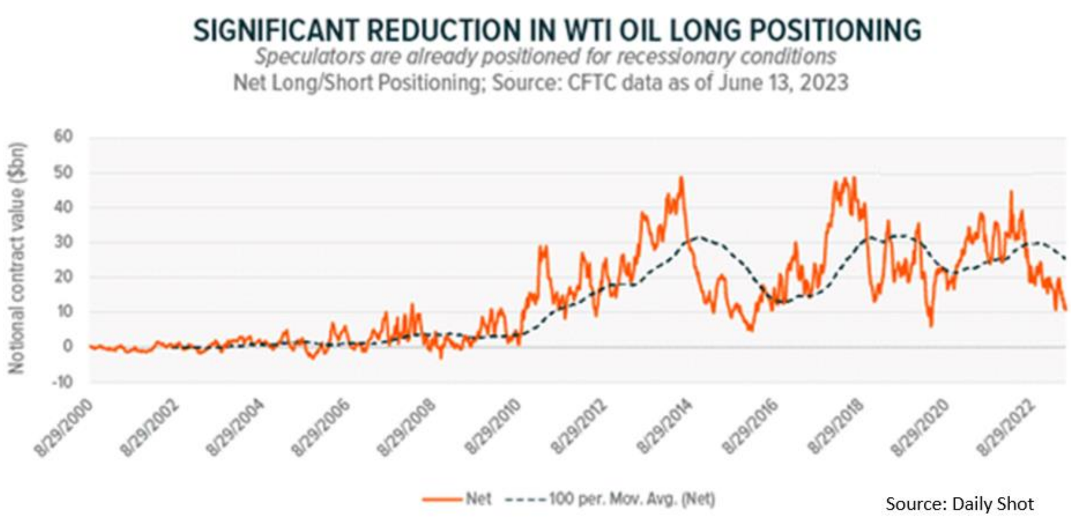

Source: Daily Shot

Speculators net oil position rivals' bottoms seen in the 2020 Pandemic and 2015 Saudi production surge. A recession (that may not come until later) is priced in.

Summary

We've never seen the consensus call for a recession before, so to hear most of Wall Streets' best and brightest do so earlier this year was a little unnerving. Consensus calls are often wrong though. It appears this one was as well. Maybe it was only premature, and there is a recession sometime much later. In any event, it appears the economy is in soft landing territory now. For as long as that is the case, we believe we can be constructive on the stock market. More importantly, the market can broaden out and sustain a healthier balance in the leadership. The narrow leadership of the last six months should give way for a period where more stocks can perform well … if we avoid a recession. We think that is constructive for many of our secular trends and will be keeping you abreast of that in future reports.

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

07/18/2023
MSCI ACWI ex-US (Net) – 282
MSCI ACWI (Net) – 370
MSCI ACWI ex-US Value (Net) – 280
MSCI ACWI Value (Net) - 305

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.

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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