

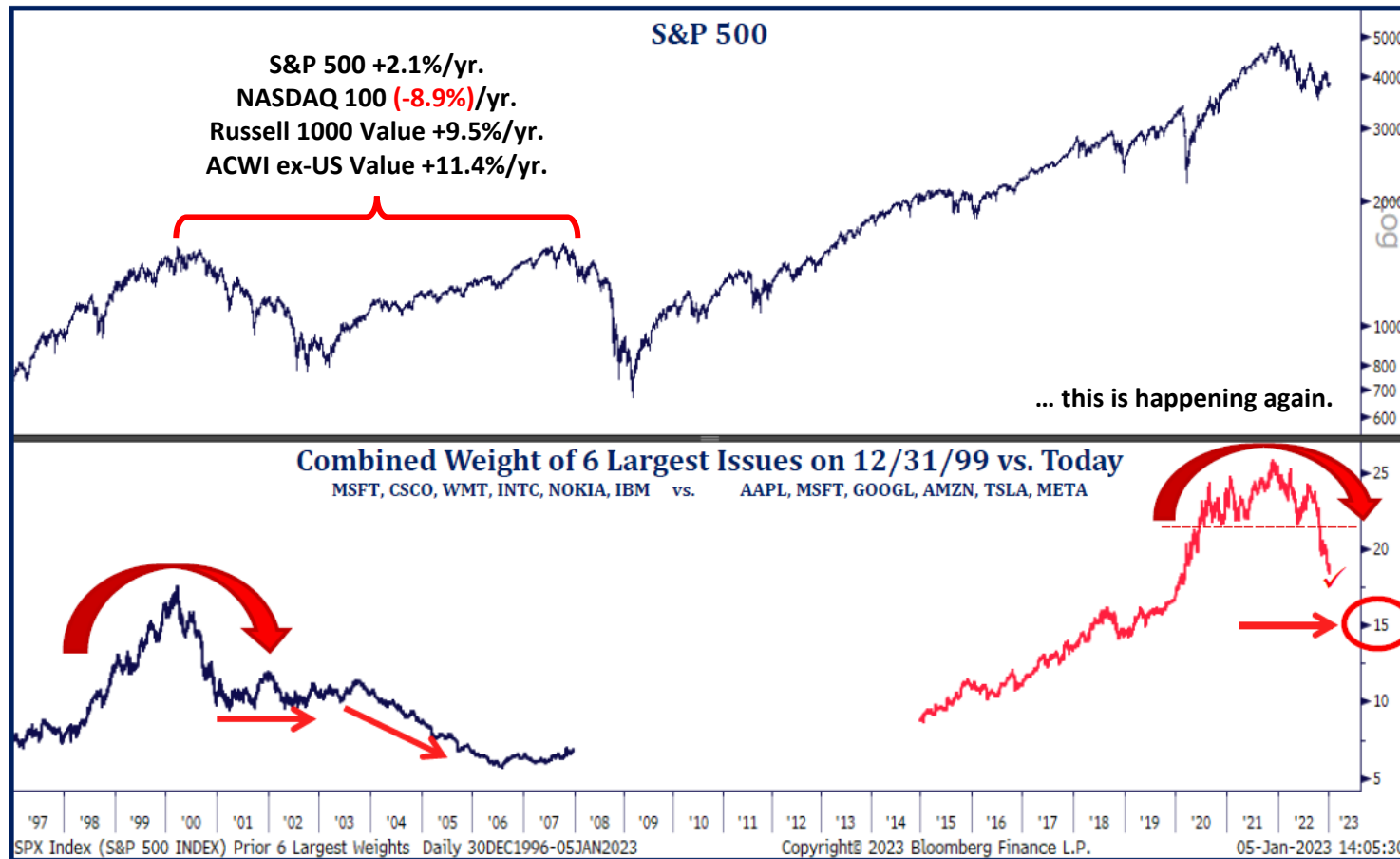


# Regime Change in 3 Charts

January 26, 2023

## Be Different than the Market

The cycle has turned and the growth superstars of the past 10 years are now likely to see continued erosion in market cap. This is like the process we saw after the Dot Com Bubble and it took until 2007 for the process to be completed. Looking different than the S&P index will probably lead to better returns than mimicking the index. Active strategies that are value oriented or investing in international markets are the best places to make money if the largest US companies continue to bleed market cap.



Source: Strategas. 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. See additional disclosure at the end of this presentation.

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## The End of an Era – Negative Debt Finally Eliminated

Negative rates never made much sense to us and created a tough environment for fundamentally oriented active strategies like ours. This era was defined by a number of speculative assets garnering all the attention (e.g. SPACs, Meme stocks, Crypto, NFTs) and the markets concentrating on a handful of mega-cap Tech names. Interest rates have broken out of a 40 year downtrend and closed the chapter on negative rates. The leadership profile that worked over the past cycle should look different as we enter this new cycle.

### Bloomberg Global Aggregate Negative Yielding Debt (USD trillions)



Source: Deutsche Bank 2022 Review and Bloomberg

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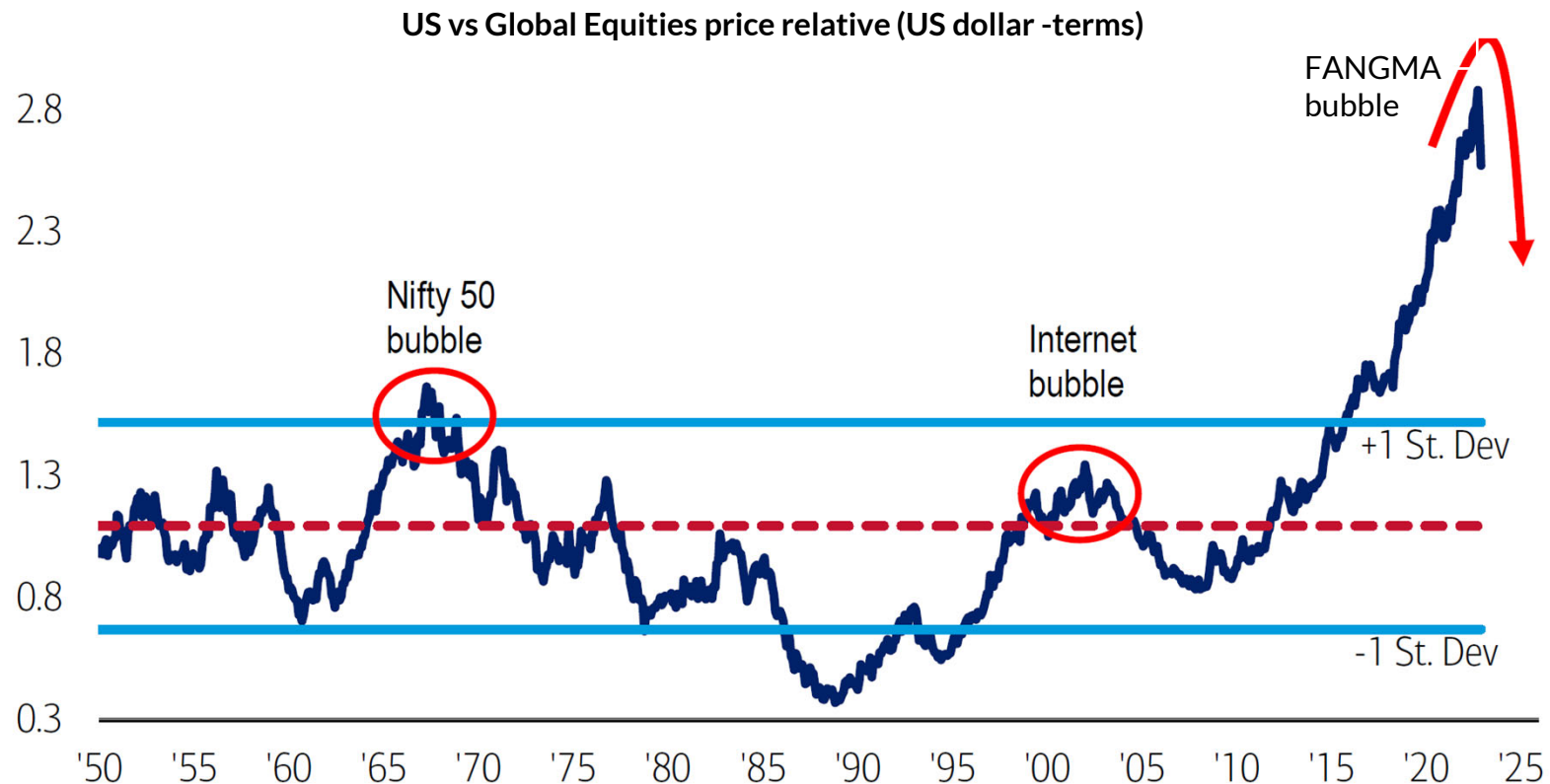
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## Have We Finally Reached a Tipping Point?

The relative performance of US markets over International markets has been incredibly stretched for some time. Candidly we were too early on our call for a reversion to the mean, so what's changed to make the recent run of outperformance for International markets more lasting? Stated simply we are in a different interest rate, inflation and policy environment. As we highlighted in the first 2 charts, the breakdown of the largest stocks in the US and the breakout of interest rates has ushered in a new environment. As a result, the leadership profile that worked over the past cycle should look different as we enter this new cycle. We read this as Value > Growth, International > US, Active > Passive.



Source: Bank of America Global Research and Todd Asset Management

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