GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

Emerging Markets
First Quarter 2025
COMMENTARY

GVA's Advantaged Subset: Superior Attributes for Uncertain Times

Total Returns (Net of Fees) +	Q1
GVA Emerging Markets	**1.5%**
MSCI Emerging Markets Index*	2.9%
MSCI Emerging Markets Value Index	4.3%
MSCI Emerging Markets Growth Index	1.7%

Regional Indices	Q1
MSCI China	15.0%
MSCI Korea	4.9%
MSCI Taiwan	-12.6%
MSCI India	-3.0%
MSCI Emerging Markets Small Cap	-5.5%

	GVA Emerging Markets Net Return	MSCI Emerging Markets Net Return*
1 Year	7.9%	8.1%
3 Years**	-3.1%	1.4%
5 Years**	5.5%	7.9%
Since Inception**	0.4%	3.6%

*Benchmark | **Annualized | +Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%).

What a Difference a Quarter Makes

The first quarter of 2025 showed a sharp reversal of the major themes witnessed in the majority of 2024 and 2023. In our previous quarterly letters, GVA has written at length about the unsustainable outperformance of US versus non-US markets, Large versus Small, and Growth versus Value. All three of these "mega-trends" have been headwinds to GVA's overall performance. Two of these trends reversed in the first quarter, with International significantly outperforming the US and Value materially outperforming Growth. The Magnificent 7 encompass this reversal (US and Growth), by pivoting from the best performing subsegment of the market over the previous two years to the worst performer in Q1 25. Small caps continued to see underperformance vs Large in the quarter (headwind to GVA), although this impact was somewhat alleviated by International small caps outperforming US small.

For the quarter, cheap companies with positive FCF and positive shareholder returns (GVA's Advantaged Subset) significantly outperformed the market on a global basis. Similar outperformance was seen within international and emerging markets. The net result was strong relative performance in GVA's Global Equity and International Small Cap strategies for the quarter. GVA's Emerging Markets strategy underperformed due to a negative impact from an overweight position in a few sectors and countries.

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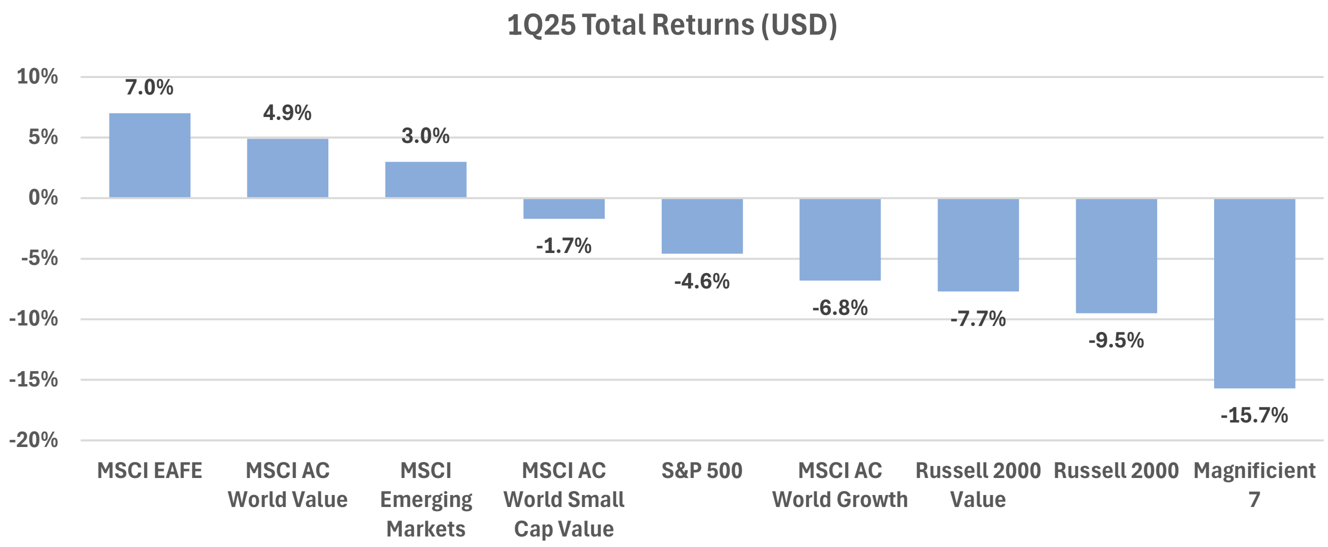

Source: Factset. MAG 7 = "Magnificent Seven" stocks – Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA) and Meta Platforms (META)

US Outlook Deteriorated

US market conditions shifted substantially in the first quarter. Market uncertainty was elevated as investors attempted to digest the near daily news flow on tariffs and DOGE policy shifts from the Trump administration. Risks of a recession in the US have risen, with the Fed's GDP model now predicting that GDP growth will come in at -1.8% in Q1 25. Note that the Fed's Bank of New York Recession Indicator puts the odds of a recession at a modest 30% over the next 12 months, although several Wall Street strategists have the odds as high as 50%. Mass layoffs in the public sector are still working their way into the unemployment statistics. The uncertainty in the labor market has resulted in declining consumer confidence, which now sits at a 12-year low. As a result, the S&P 500 entered into correction territory with a 10% pullback from historical highs.

The Fed is faced with a difficult scenario in what appears to be a stagflationary environment. Economic growth is slowing, while inflation remains elevated. The Fed recently lowered its GDP estimate for the year to 1.7% (previously 2.1%) and raised its core inflation target to 2.8% (well above the 2% target). Consumer inflation expectations from the University of Michigan spiked to a 30 year high in the most recent reading. If the Fed continues with the two 25bps rate cuts in 2025 that the market is pricing in, it could lead to higher inflation. On the flip side, if the Fed leaves interest rates elevated, then GDP growth is likely to slow further.

This difficult backdrop comes as US stock market valuation ratios are still sitting near multi-decade highs. Investors have started to rotate away from risk assets, with all members of the Magnificent 7 trading in negative territory on a YTD basis. A basic historical scatter plot of US market PE ratios vs their expected future returns indicates that US equity markets are poised for low or even negative returns over the medium to long term. Note that this is not the case for International equity markets.

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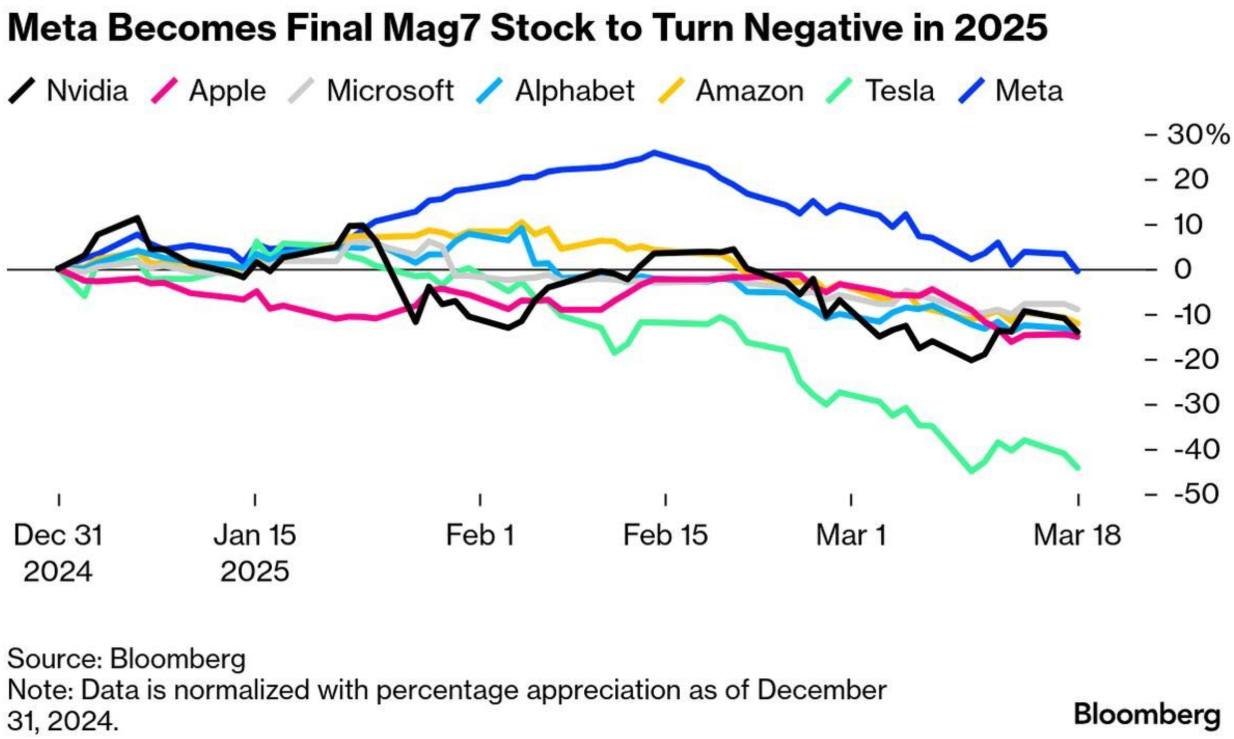

International Markets, Especially Europe, Look More Promising

Recent policy shifts that have called into question the sustainability of US exceptionalism have coincided with a better outlook for European markets. European leaders have been forced to execute a rapid reversal in infrastructure and defense spending in the fast-changing geopolitical environment. This shift in spending was most apparent in Germany, which is undergoing its largest boost to fiscal spending since WWII. Germany's long standing "debt brake" has been lifted, allowing the country to boost deficit spending on defense to its 2% target. At the same time, Germany announced an additional 500bn EUR in infrastructure spending. These measures will result in meaningful fiscal stimulus in the Eurozone, at a time when the US appears to wean off its historically high levels of stimulus. Monetary policy also remains favorable vs the US, with the ECB looking for inflation to moderate slightly in 2025 and then to decline to close to the ECB's inflation target of 2% in 2026 and 2027.

Although investors have started to rotate into European equities, we believe that we are still in the early innings of that reallocation. The 40% PE discount in Europe vs the US has barely budged. Also, the relative outperformance of European equities in the first quarter of 2025 looks minimal when measured on the very long term.

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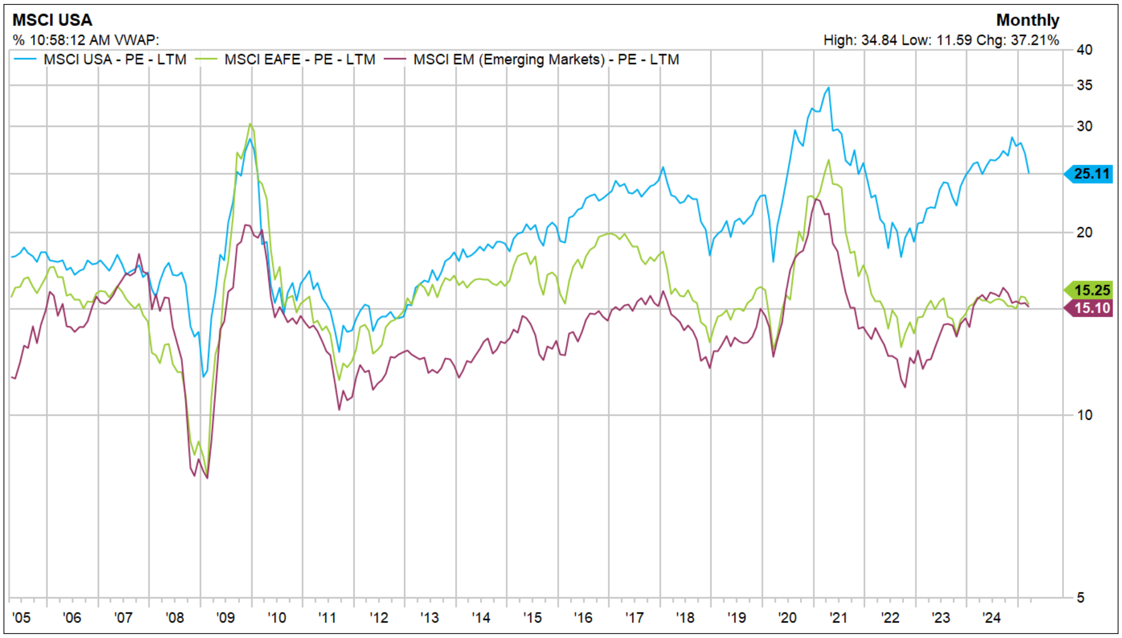
Total Relative Return: MSCI Europe – MSCI USA

Source: Factset

The PE chart below shows that US equity valuations remain elevated, while compelling values can still be found in Europe and EM. More importantly, the relative valuation gap between the US and International markets has widened to historically high levels.

Price/Earnings (LTM)



Source: Factset

Investment Implications

GVA remains highly confident in its positioning. If a global economic slowdown or recession is in the works, investors will focus on companies with stronger fundamentals. GVA only invests in cheap companies with strong balance sheets, that have a high and sustainable FCF generation as well as consistent shareholder returns. The thematic piece in the second part of our commentary highlights how these key attributes interplay to define superior businesses. Owning companies with these attributes brings resilience to GVA's portfolios, especially in uncertain times. GVA also believes that an interest rate regime change is under way (higher rates for longer). It might challenge the market leadership that has characterized the past 15 years and re-invigorate the value style that typically outperforms in such contexts.

GVA's Advantaged Subset: Superior Attributes for Uncertain Times

Our 4th Quarter 2024 market commentary focused on the 4 major speculative events of the past century. It showed the magnitude of each event's overvaluation and concluded that the current market environment shares similar excesses. It also showed how all these bubbles reverted to trend and most of the time overshot. Finally, GVA highlighted some of the most compelling investment opportunities currently available to contrarian investors, if this exuberance was coming to an end; these are mainly concentrated in the segment of the market that has underperformed the most over the past 15 years: Non-US, Value and Small.

This quarter's thematic piece builds on that: amid a very volatile market environment, GVA's investment team remains stoic, and shares its thoughts on how best to navigate the years to come, using history as a guide.

This equity bubble might have burst a few months ago. No one knows. All we know is that the current economic, political and geopolitical developments constitute a unique backdrop filled with uncertainty which puts market participants on edge. Most importantly, the phasing out of fiscal support combined with the likely deterioration of fundamentals related to tariffs negotiations might create sufficient headwinds to trigger a market reversal. But head fakes abound in the history of financial markets and the short-lived value rally of 2022 was a great reminder of it.

To put the recent move into perspective, the following chart represents the peak to trough real returns and duration of the 4 major equity bubbles of the past century. We also added the year 2022 for reference, which we qualify as an aborted bubble burst:

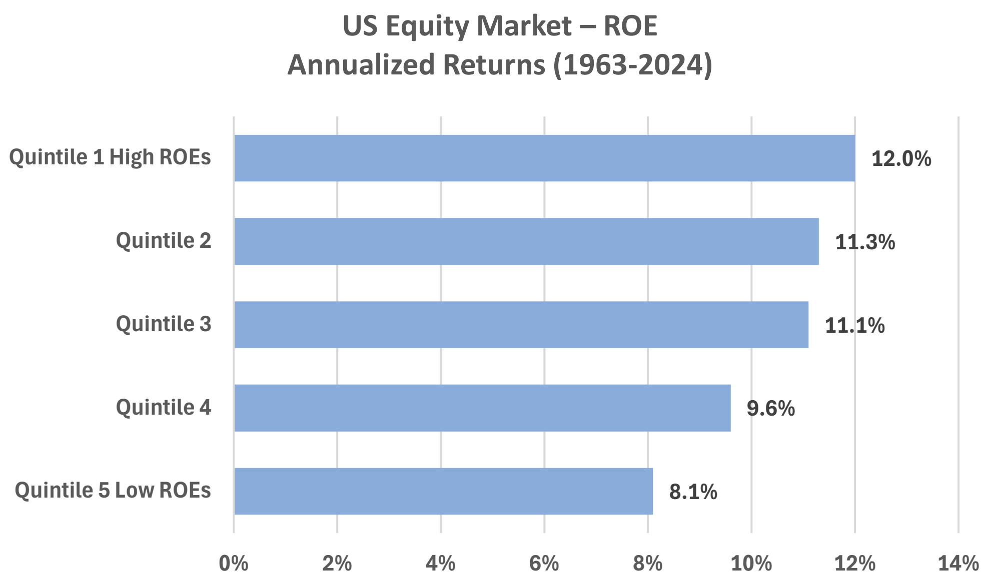
	Peak to Trough Real Return	Peak to Trough Duration in Months	Value minus Growth	Small minus Large	High ROE minus Low ROE	Slow Asset Growth minus High Asset Growth
US 1929	-79.5%	34	-14.6%	0.4%		
US Nifty Fifty 1966	-44.8%	104	61.8%	10.1%	8.7%	53.9%
Japan 1989	-70.3%	158	71.9%	-32.1%	31.9%	-12.5%
US TMT 2000	-44.5%	36	86.1%	32.3%	98.6%	78.9%
US 2022	-21.7%	12	36.5%	-2.3%	13.7%	34.8%
Average	**-52.2%**	**68.8**	**48.3%**	**1.7%**	**38.2%**	**38.8%**

Source: Fama-French

If the Covid 19/AI market exuberance is coming to an end, the mean reverting process is likely in its very early phase. The 4 big resets covered here took years to complete and registered steep losses in that process. Although the duration and magnitude of the drawdowns varied from one bubble to another, the market dynamics observed on the downside seem consistent across bubbles, as highlighted in the grey area of the same chart: here we use Fama and French's 4 factor dataset and track their respective performance from peak to trough over the length of each market downturn. GVA's investment strategies are attractively positioned around all 4 of these factors.

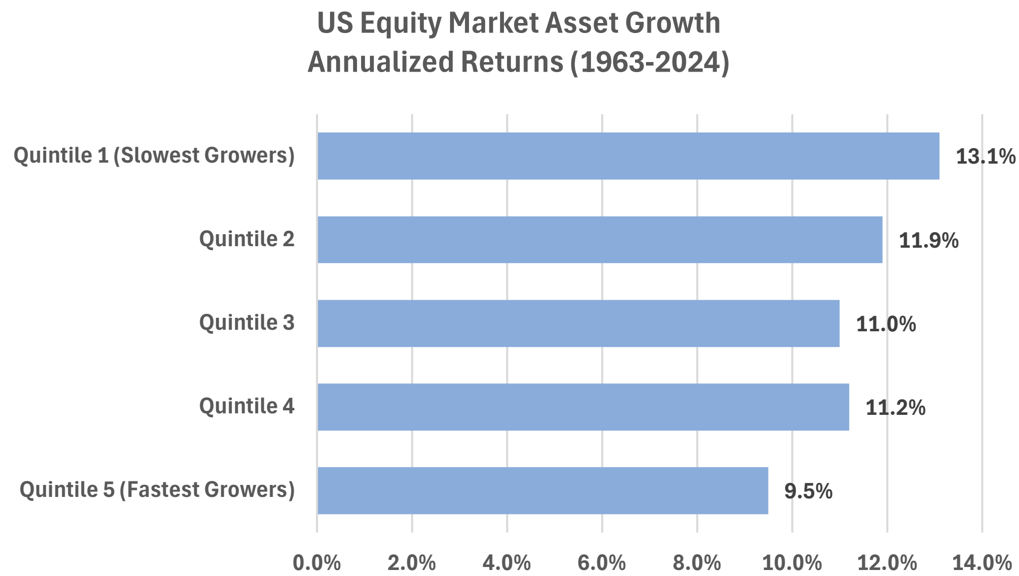
When looking at past drawdowns, Value stands out as a powerful factor in most of these events. Higher profitability and conservative growth are also strong attributes. Size's outperformance is more muted when compared to the 3 other factors.

GVA has covered extensively the characteristics of Value and Size in past letters. ROE is rather well understood too: higher ROEs outperform over the long run:



Source: Fama-French

Asset growth remains a counter intuitive but powerful metric too. Conventional investment wisdom would favor fast growing businesses over subpar growers. The reality is that slow growers outperform high growers steadily over time. The following study illustrates that:

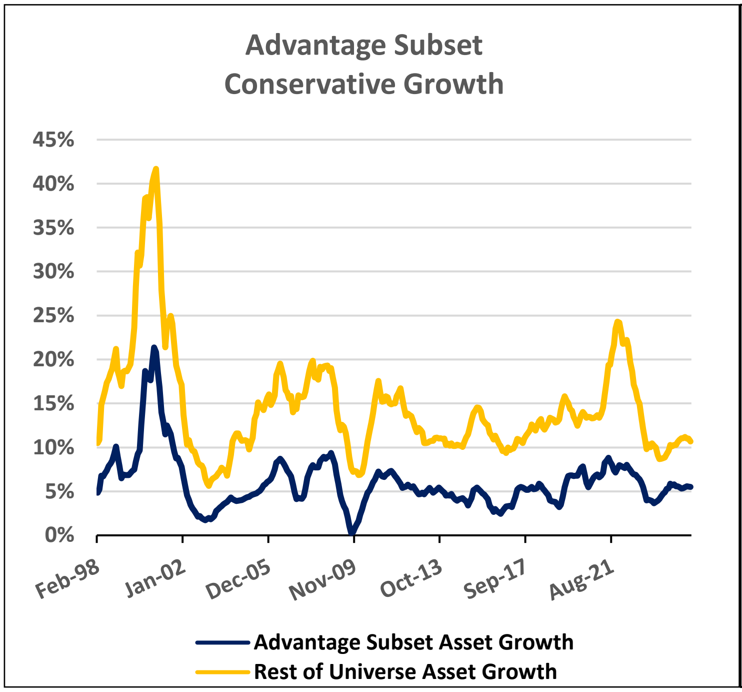


Source: Fama-French

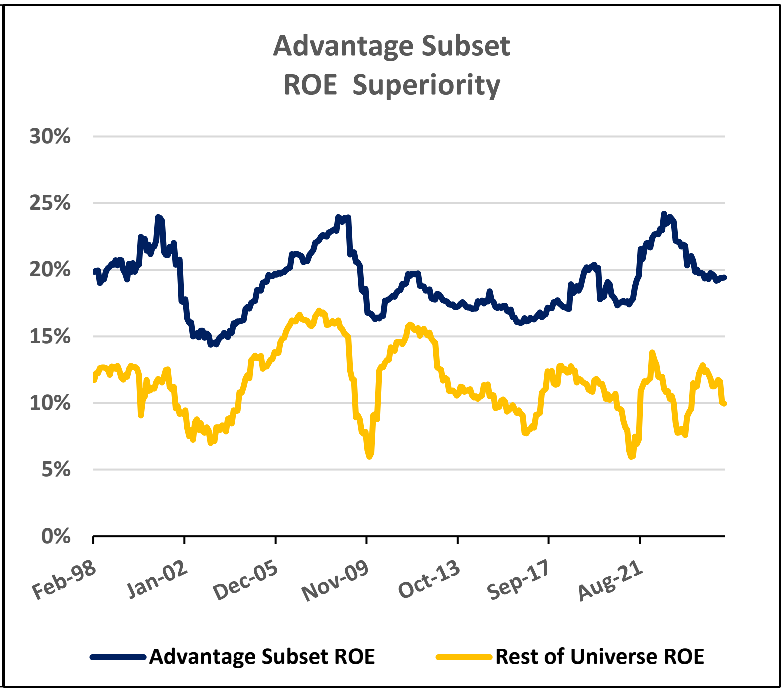
Above average growth typically necessitates external financing (that usually dilutes equity holders), it can also create operational challenges (in a transformational deal for instance), or more typically, it attracts competition which erodes growth and margins down the road. Overall, owning businesses with modest growth profiles but high free cash flow generation proves to be a sounder strategy especially in volatile and uncertain times. This is at the core of GVA's investment approach.

Instead of ranking the investment universe on ROE or Asset Growth to add a qualitative component to its standard valuation metrics, GVA has developed a unique approach that centers around the companies' capital allocation process to identify superior businesses: GVA only invests in firms that generate positive free cash flow and positive return to the shareholders (dividends, buybacks and debt repayments). These companies rely predominantly on internal financing to maintain their operations.

These businesses typically grow conservatively, deliver above average ROEs while maintaining healthier balance sheets than the rest of the universe. The following graphs illustrate GVA's Advantaged Subset's intrinsic appeal from this perspective:



Source: Factset



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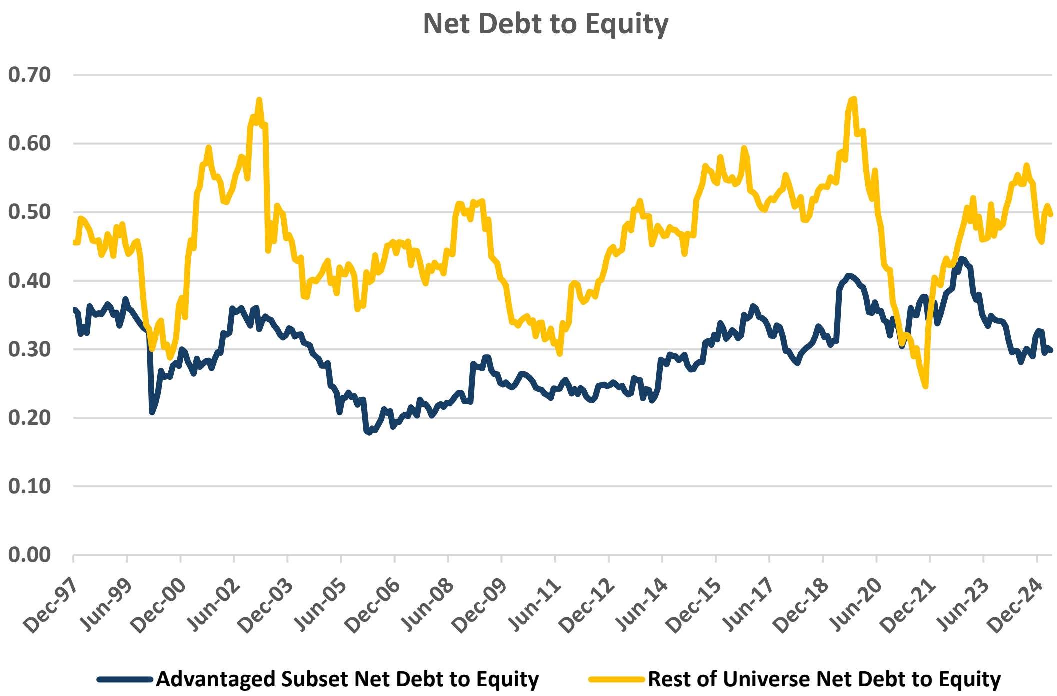
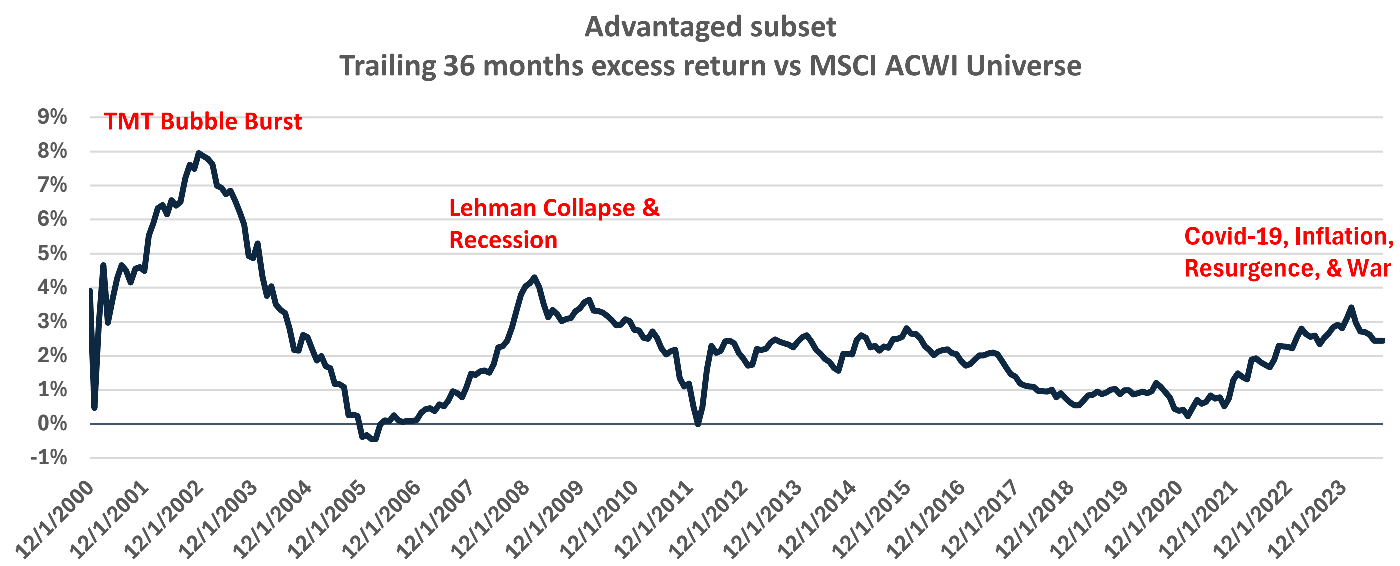


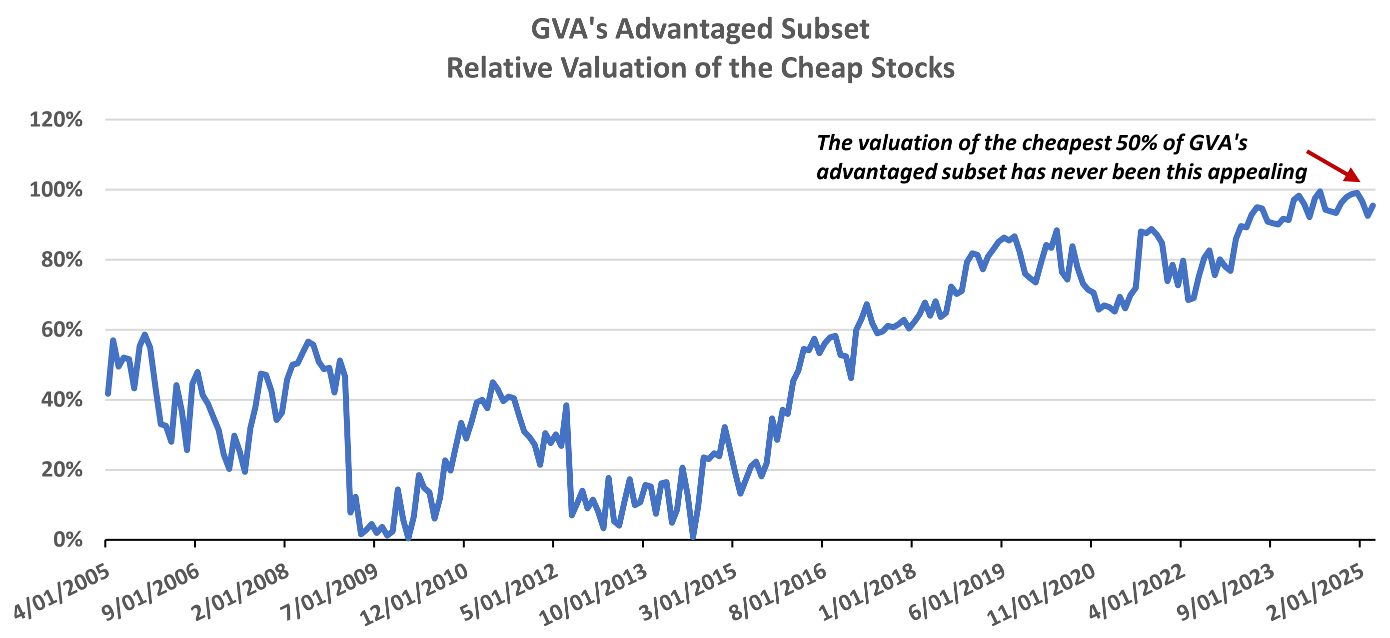
Source: Factset

The combination of these attributes proves invaluable in uncertain times as illustrated here:



Source: Factset As of Sept. 2024.

Value managers (GVA included) have been vocal on how wide valuation spreads are versus history to illustrate how compelling the case for value is. The market has been indiscriminate in its speculative march forward, and the value names that exhibit strong qualitative attributes that typically bring resilience in the event of a downturn have never been cheaper:



Source: Factset

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100% of the names held in GVA's portfolios belong to that pool of superior businesses. GVA sees that as the most compelling investment opportunity. That positioning is expressed across GVA's 3 strategies.

Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

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** This information is presented as supplemental to the GIPS Report, which are available here

*Sector weights include exposure to iShares MSCI China A ETF and iShares MSCI India A ETF. ETF exposures are broken out by sector on a look-through basis.

Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%). The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The standard investment management fee schedule for new business is as follows: 0.60% in perpetuity on all investments made prior to strategy assets reaching $150 million, thereafter, 1.00% on the first $25 million and 0.90% on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.

The information presented in the presentation contains analysis of GVA's Advantaged Subset. GVA's Advantaged Subset is a quantitative screen of the investable universe that identifies liquid companies with positive free cash flows and that have positive total return to shareholders.