



**Global Value Advisors** is an investment boutique specializing in long-only international and global equities. GVA is a value investor, and its research shows that companies that generate positive Free Cash Flow and return capital to shareholders outperform the market. GVA uses a disciplined methodology to isolate an advantaged subset of the universe and then applies fundamental research to identify companies with sustainable Free Cash Flows to maintain their assets, finance their growth and return capital to shareholders.

Total Returns (Net of Fees)		Q3	
GVA Global Equity		-9.9%	
MSCI All Country World Index*		-6.8%	
MSCI All Country World <u>Value</u> Index		-7.7%	
MSCI All Country World <u>Growth</u> Index		-5.9%	

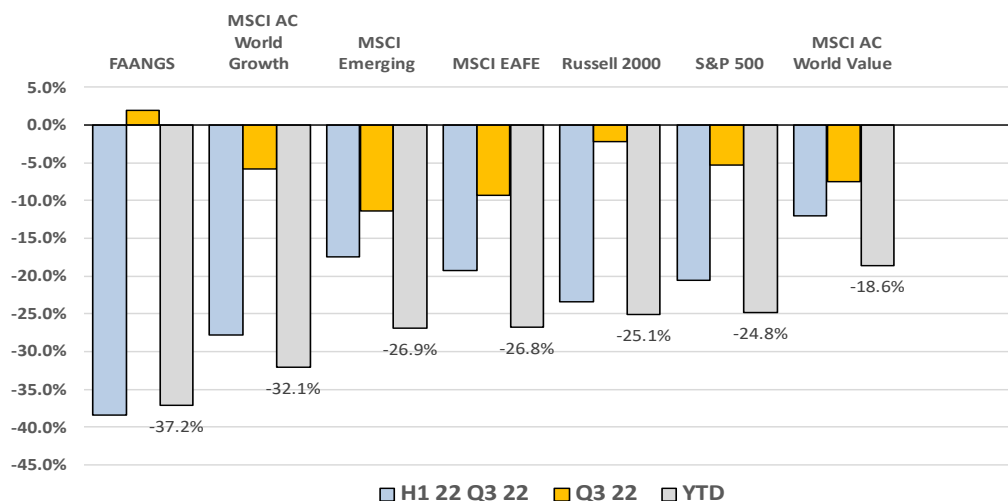
Regional Indices		Q3	
MSCI USA		-4.8%	
MSCI EAFE		-9.4%	
MSCI Emerging Markets		-11.6%	

GVA Global Equity Net Return		MSCI ACWI Net Return*	
1 Year	-22.9%	1 Year	-20.7%
3 Years**	-1.3%	3 Years**	3.8%
Since Inception**	-0.8%	Since Inception**	3.8%

\*Benchmark | \*\*Annualized

After a dismal first half of 2022, investors were hoping that a market bottom had been found going into the summer. The third quarter started with a violent recovery of growth stocks coupled with a 0.75% drop in the US 10-year government bond yield seemed to validate that thesis. But, as the US economy showed no clear evidence of a slowdown and its labor market proved a lot more resilient than expected, investors quickly realized that any anticipation of a FED pivot was premature: the Central Bank's crusade against inflation had further to go, which was confirmed by the hawkish message delivered by Jay Powell at Jackson Hole, late August, and the September FOMC minutes: "Many participants noted that with inflation well above the Committee's 2 percent objective and showing little sign so far of abating, and with supply and demand imbalances in the economy continuing, they had raised their assessment of the path of the federal funds rate that would likely be needed to achieve the Committee's goals."



\*Source: Factset

The early third quarter bounce was quickly requalified as a bear market rally, as indices retreated broadly to reprice the excess of optimism.

Over the quarter, Growth and the US marginally outperformed. It is worth highlighting that despite a positive return in Q3, FAANGS stocks (we average here Netflix, Amazon, Apple, Alphabet, Microsoft, and Tesla) remain the worst category on a year-to-date basis.



In that context, GVA's Global Equity Strategy underperformed the benchmark in Q3 while maintaining positive relative returns year-to-date:

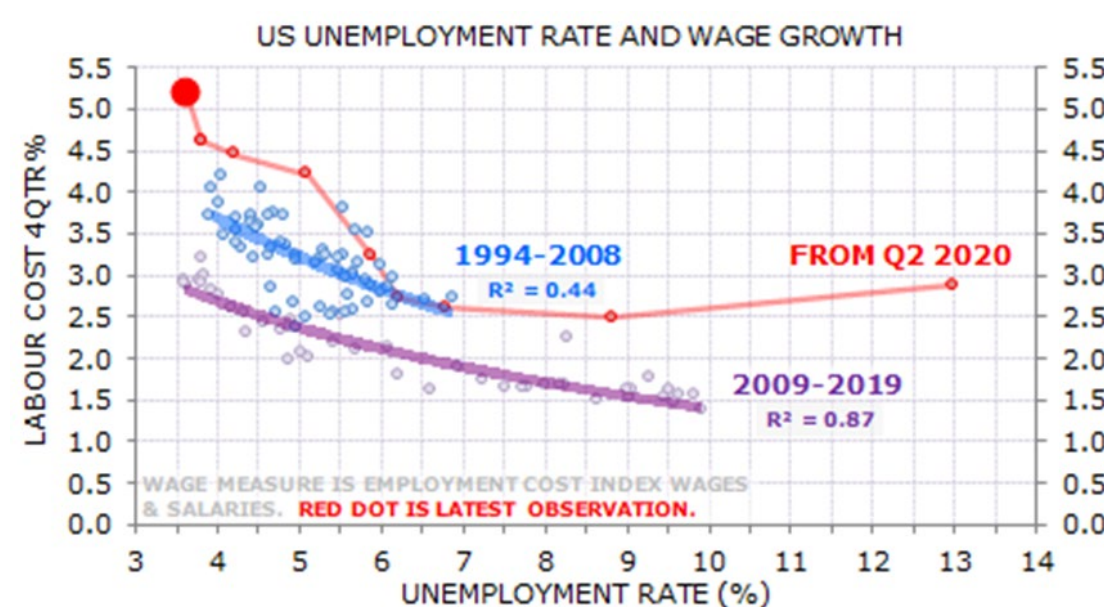
	Quarter to Date			Year to Date		
	Total Net Return	Bench. Total Return	Variation in Total Return	Total Net Return	Bench. Total Return	Variation in Total Return
<b>GVA Global Equity</b>	-9.87%	-6.82%	<b>-3.05%</b>	-24.21%	-25.63%	<b>1.42%</b>

Having studied past market bubbles' dynamics, this summer head fake did not surprise GVA's investment team. These counterrallies are symptomatic of the deflating phase of any major bubble. Former coworker and bubble expert Jeremy Grantham compiled these bear market rallies in his August 2022 letter:

1. From the November low in 1929 to the April 1930 high, the market rallied 46% – a 55% recovery of the loss from the peak.
2. In 1973, the summer rally after the initial decline recovered 59% of the S&P 500's total loss from the high.
3. In 2000, the NASDAQ (which had been the main event of the tech bubble) recovered 60% of its initial losses in just 2 months.
4. In 2022, at the intraday peak on August 16th, the S&P had made back 58% of its losses since its June low. Thus, we could say the current event, so far, is looking eerily similar to these other superbubbles.

He also adds that these rallies are the precursor to the final leg down of bear markets, triggered by fundamentals deterioration.

GVA believes this deterioration will materialize in the next quarters as no respite should be expected from the FED in its efforts to vanquish inflation. As Gerard Minack at Minack Advisors explains, the key to inflation is the labor market, as wage inflation drives services and housing inflation. To get wage growth under control, he calculates, unemployment rate needs to be lifted by at least 1%. Although the Phillips Curve (which shows the inverse relationship between the unemployment rate and labor cost) is certainly not the perfect tool, we can see here the magnitude of the move on unemployment required to get labor costs back under control. Note that the red dot (Q2 2022) shows unemployment near historic lows, resulting in stubbornly high wage inflation.

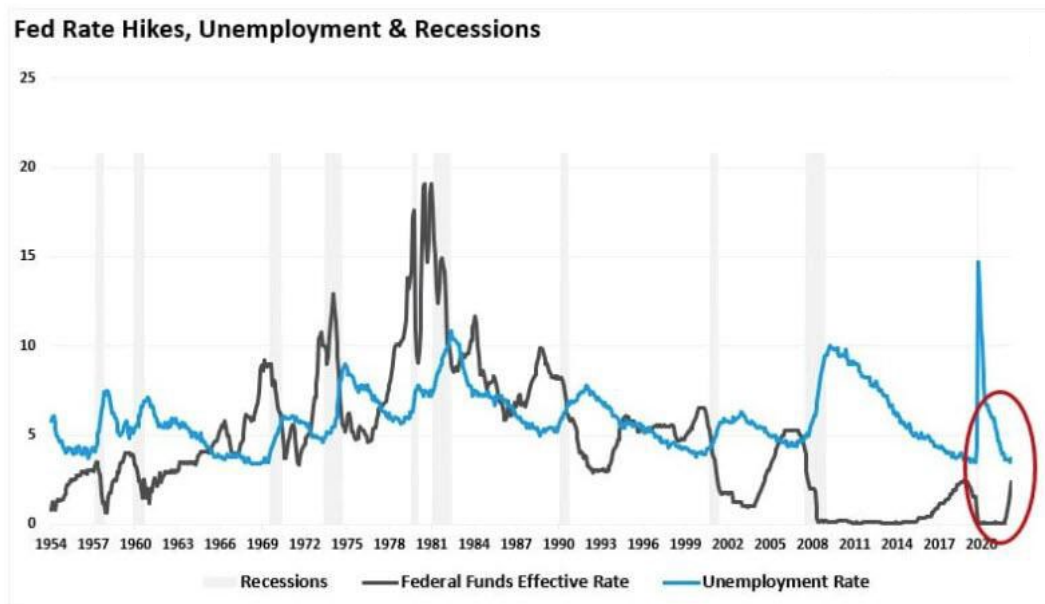


\*Source: Gerard Minack – Minack Advisors



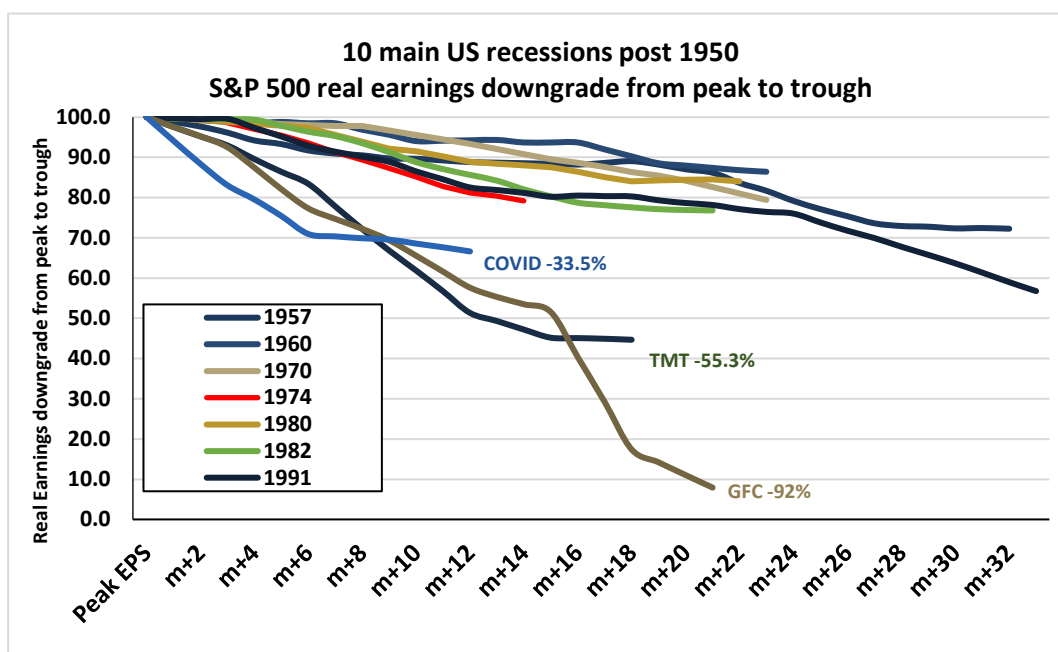
Former Treasury Secretary Lawrence Summers confirmed a week ago that “the neutral jobless rate, which was at roughly 4% pre-pandemic, is now closer to 5% and needs to rise significantly from there for inflation to begin cooling.”

History tells us that no FED has ever lifted the unemployment rate by 1% without triggering a recession. The following graph illustrates that:



\*Source: Real Investment Advice

GVA's economic base case is a recession in the next few quarters. When analyzing the 10 most recent recessions in the US (1950-2020), the median peak to trough earnings cut was -28% with a median duration of 21.5 months.



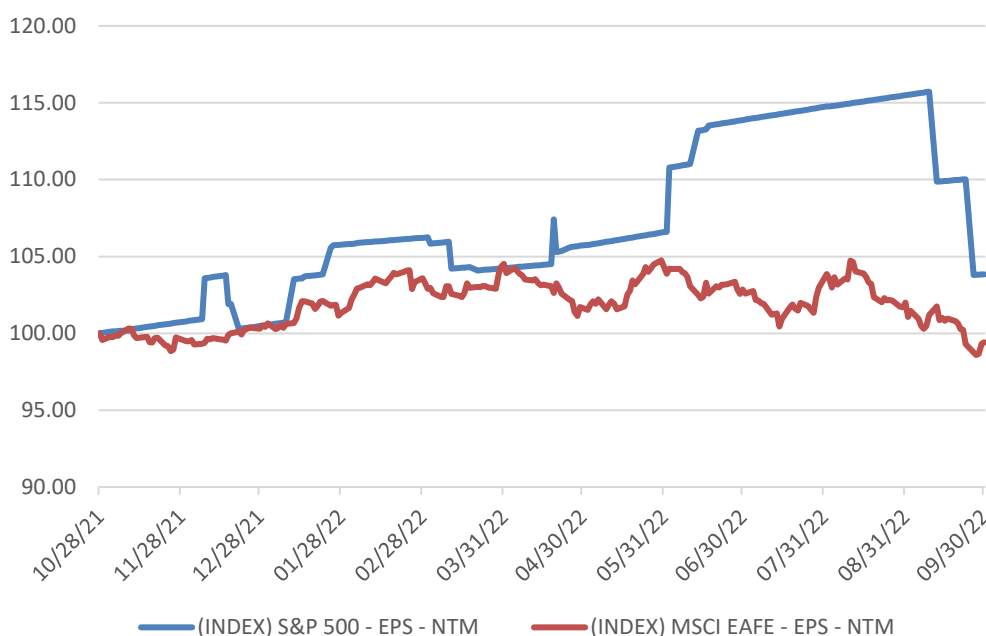
\*Source: Public Database – Robert Shiller



GVA believes that the year-to-date equity market performance has principally been driven by the multiple compression induced by the rate hiking cycle initiated earlier this year. The denominator of the market P/E (the earnings) will probably be under pressure in the coming months and might contract by the same amount as it has in past recessions: -30% real. We focused this analysis on the US equity market because of the availability of deep historical data, however, this base case scenario can be extrapolated to most non-US equity markets because of the synchronicity of the economic cycle across regions and the similarity of central banks' policies, the Bank of Japan being an exception. GVA believes that the UK and Europe might actually have to deal with stronger headwinds than the US because of the acute energy crisis of the region.

As is often the case, this is not the scenario that the street is currently envisioning, as analysts have barely started to revise down their earnings expectations: the S&P 500 Next 12 months EPS peaked mid-September and has only started to be reduced by a few percent. The consensus forecast for the S&P 500 is still looking for an optimistic 7% growth in 2022 and 8% in 2023.

Consensus EPS Next 12 months



\*Source: Factset

Although dark storm clouds are overhead, GVA's strategies are well positioned to outperform in turbulent markets. Our process only invests in companies with the following attributes:

1. Are in the top 20% of companies ranked on Free Cash Flow generation.
2. Are in the top 20% of companies ranked on Shareholder Yield (dividends + buybacks + debt repayments).
3. Strong balance sheet.
4. Cheap valuation, defined as the bottom 20%.

In periods of distress, investors shift their focus towards companies that can fund their own growth internally (high FCF) and have solid balance sheets. GVA had anticipated this same rotation during the COVID lockdowns, but unprecedented government stimulus left companies and consumers in much healthier shape than they should have been. "Zombie" companies with unsustainable debt levels were bailed out and ironically outperformed the market. This time around, the "FED put" is gone. Interest rates are almost certain to ramp higher, forcing an economic slowdown. Without further stimulus, financial markets are expected to perform as they should. Cash draining companies with high balance sheet leverage will be under pressure to raise external sources of financing or face the risk of going out of business, whereas strong companies with high FCF and solid balance sheets will be left in a stronger competitive position.



**GLOBAL VALUE ADVISORS**  
A Division of Moody Aldrich Partners

# Global Equity

## Third Quarter 2022

### COMMENTARY

GVA also stands to benefit from the shift in market dynamics. High inflation rates and rising interest rates are favorable backdrops to value stocks outperforming. After waiting for more than a decade, there is a strong chance that we are entering a multi-year cycle of value stocks outperforming growth. Investors have already reassessed their love for low profitability growth stocks (i.e., unprofitable tech, cryptos, NFTs, SPACs, IPOs, etc), as interest rates jumped from zero to 3% in the last 6 months alone. Having seen early signs of dovishness coming from some Central Banks around the world, it seems reasonable to assume there will be a FED pivot, but for now, that is hard to envision.

Although tough times are ahead, GVA's strategies are positioned for just these types of markets. Prudent investors will stay the course and continue to invest during market drawdowns, and GVA's form of value investing may continue to regain its place in the sun. We'll be watching closely...

Please feel free to contact us with any questions or comments. Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

Sincerely,



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CIO, Portfolio Manager



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For comparison purposes, the GVA Global Equity strategy performance is measured against the MSCI ACWI Index-Net

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The Global Value Advisors Global Equity Composite contains fully discretionary equity accounts managed in the Global Equity style which seeks to outperform the MSCI ACWI Index-Net over a complete market cycle.

Data presented is as of September 30, 2022. \*Past performance is no guarantee of future results. Returns are presented gross and net of management fees and include the reinvestment of all income. More information about such fees and expenses applicable to a client's investment are generally available in the Form ADV Part 2A of Moody Aldrich Partners, LLC, which is publicly available and upon request and provided to every client (along with Form ADV Part 2B) prior to investment. Actual returns may vary from the performance information presented. All performance numbers are expressed in US Dollars. This product does not use leverage, derivatives or short positions in its portfolio. Global Value Advisors manages \$105 Million for its global equity clients, with \$128 Million in total firm assets under management. Characteristics for the MSCI ACWI Index and the GVA Global Equity Portfolio were derived from FactSet.

Moody Aldrich Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Moody Aldrich Partners has been independently verified for the period October 26, 2012 through September 30, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verifications provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Global Value Advisors Global Equity has had a performance examination for the periods June 1, 2018 through September 30, 2022. The verification and performance examination reports are available upon request at [information@moodyaldrich.com](mailto:information@moodyaldrich.com).

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The Global Value Advisors Global Equity Composite was created June 1, 2018. The inception date of composite performance is June 1, 2018. Composite results are based on fully discretionary accounts under management, including those accounts no longer with the firm. 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 is calculated retroactively using the highest maximum management fee, 0.90%.

The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The investment management fee schedule for new business is as follows: 0.90% on the first \$25 million, 0.80% on next \$25 million, and 0.70% on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.