

International Value ADR

Marketing communication | As of 31 Mar 2025

- **During the first quarter, the International Value ADR strategy outperformed the MSCI EAFE Index and the MSCI ACWI ex-U.S. Index.**
- **Versus the benchmark MSCI EAFE Index, security selection in the industrials, health care, financials and materials sectors contributed the most to relative returns. In terms of countries, selection in the Netherlands and France also aided results.**
- **Developed international equities performed well during the quarter, benefiting from eurozone fiscal stimulus and currency tailwinds, while valuations remained attractive compared to U.S. equities.**

Market review

U.S. economic activity remained strong in the first quarter but showed additional signs of a slowdown ahead. Across the globe, inflation remained above central bank targets, but monetary policy diverged among key central banks. Following three straight cuts toward the end of 2024, the U.S. Federal Reserve (Fed) remained on hold throughout the quarter as policymakers paused to assess the impact of the Trump administration's aggressive economic agenda. Following March's meeting, however, Fed policymakers lowered their growth outlook and increased inflation forecasts, while reiterating the likelihood of two 25-basis-point rate cuts in 2025. In contrast, other global central banks, including the European Central Bank (ECB), Bank of England and Bank of Canada, cut rates during the first quarter, while the Bank of Japan hiked rates for the second time this cycle to their highest level since 2008. Meanwhile, Chinese officials pledged looser monetary policy in 2025, which is likely given the risks associated with U.S. tariffs.

As the quarter progressed, uncertainty surrounding the erratic global trade policies of the new U.S. administration rattled global markets, driving U.S. rates and the dollar lower. The greenback, as measured by the U.S. Dollar Index, fell 4% against a basket of currencies as U.S. growth concerns increased. Treasury yields retraced about half of fourth quarter's increase as investors rushed to safe haven assets, while gold and other precious metals also notched new highs due to tariff-related fears.

Despite high hopes for the U.S. stock market heading into 2025, the elevated policy uncertainty and rising geopolitical tensions led to the worst quarterly start since 2022. The market rapidly shifted from record high levels in mid-February to correction territory, typically defined as a 10% or greater decline, by mid-March. Almost all major U.S. stock market indexes ended the quarter in the red as investors worried about the economic fallout from tariffs and the possibility of stagflation gripping the U.S. economy. Some of the hottest stocks of 2024, especially U.S. technology-related companies at the center of the artificial intelligence (AI) boom, were some of the hardest hit by the selloff, including the so-called Magnificent Seven. Investors rapidly



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rotated into energy stocks, which investors favored in the face of persistent inflationary pressures and constrained oil supply, as well as more defensive and value-oriented sectors like health care, consumer staples, utilities, real estate and financials.

Aided by the weaker dollar, overseas equity markets broadly outperformed the U.S. market for the quarter, led by Europe and China. In U.S. dollar terms, European stocks delivered their strongest quarterly return versus the U.S. in three decades, gaining 12.28% (MSCI EMU Index) and outpacing the S&P 500 by nearly 17%. Stocks in the region were broadly boosted by slightly improving economic data and the likelihood for increased fiscal stimulus as Germany proposed a historic increase in borrowing to fund defense and infrastructure spending. Overall, developed markets returned 6.86% for the quarter, as measured by the MSCI EAFE Index. Chinese equities, which account for 31% of the market capitalization of the MSCI Emerging Markets Index, also rallied sharply during the quarter. Investors shook off pending tariff concerns as optimism surrounding the country's AI capabilities following Deepseek's breakthrough helped drive the Chinese market 15.02% higher, as measured by the MSCI China Index. The broader MSCI Emerging Markets Index gained 2.93% for the quarter.

Portfolio review

During the quarter, the International Value ADR strategy outperformed the benchmark MSCI EAFE Index, on a gross and net of fees basis, as well as the MSCI ACWI ex-U.S. Index. The strategy underperformed the value version of the EAFE Index.

From a sector perspective, the portfolio's outperformance relative to the MSCI EAFE Index was driven by strong security selection in the industrials, health care, financials and materials sectors. The strategy also benefited from a combination of improved investor sentiment in Europe and a rotation out of U.S. mega-cap technology stocks. Security selection in the two consumer sectors and communication services detracted the most from the strategy's results.

On a country basis, security selection in the Netherlands and France contributed to performance, while selection in the United Kingdom, Spain and Switzerland detracted.

Contributors

French firm Thales, the provider of advanced technology solutions to the aerospace, defense and cybersecurity industries, advanced following the announcement of plans for European rearmament during the quarter. The company

is benefiting from its technological leadership, product lines and geographical market exposure, given the sense of urgency surrounding increased defense capabilities from the military and political establishment across Europe. Over the past three years, Thales has meaningfully increased its production of radars and effectors. Moreover, the company's aerospace business is performing well, and is in early discussions with Airbus and Leonardo regarding a potential merger of their satellite businesses. Given the increased spending outlook and the company's broad exposure to European defense markets, we believe revenue and profit growth will likely accelerate at a much higher pace than current consensus expectations.

French financial services holding company Societe Generale continued to benefit from its turnaround story with expectations of short-term catalysts, including cost-efficiency measures within its French Retail and Global Markets divisions to be announced in its first-quarter results. The company is also benefiting from expectations for a faster-than-expected capital return via an expected €500 million share buyback in the second half of 2025. The potential for additional asset disposals by the company, along with a possible further delay or cancellation of the European Commission's FRTB requirements, have also enhanced the company's capital return story. Having built up solid capital, the company will likely put its new dividend policy set in the fourth quarter 2024 into action in the second half of this year.

Canadian-based gold producer Agnico Eagle Mines also performed well as gold prices rose 17% during the first quarter. The company's reliable execution allowed it to benefit from higher gold prices, while competitors have struggled to deliver higher production, have experienced cost inflation, or have undertaken questionable mergers or acquisitions. Our outlook remains constructive for gold given risks of higher inflation. Agnico's stock price continues to trade at a slight discount to its five-year average and is discounting gold prices below \$3000 per ounce.

Detractors

Chinese resort and casino operator Sands China detracted based on fears of slowing visitors to Macau during the Chinese New Year. Shares have also been weighed down by renovation delays of luxury suites at the company's Londoner Macao property and lower spending by Sands' core mass customer base. The company's fourth quarter results were affected by the temporary closure of more hotel rooms, lower year-over-year turnover rent, lower VIP win rate and fewer gamblers during Chinese official visits in

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mid-December. Going forward, Sands may pay down its \$1-billion shareholder loan, which has limited the company's ability to pay dividends. After this takes place, we would expect improving shareholder returns.

French advertising and public relations firm Publicis Groupe also detracted due to fears of a slowdown in U.S. spending, given the company's large U.S. exposure (60% of revenue) and earnings downgrades by competitors such as British firm WPP. Marketing budgets are closely linked to the U.S. economy and fears of a consumer-led slowdown and tariff wars have resulted in downgrades to U.S. GDP growth forecasts. Although Publicis has low overall exposure to the U.S. government and public sector (3% of revenue), its digital consulting arm Sapient (15% of revenue) could be negatively impacted by a broader wait-and-see attitude. On the other hand, experts have noted that advertising dollars are being redirected away from brand building and into performance marketing, which supports Publicis's Connected Media unit. Our outlook remains positive as the company expects single-digit growth in 2025 and higher operating profit margins and free cash flow.

Shares of U.K.-based grocery store chain Tesco were hurt by fears of price wars in the U.K. food segment. The #3 supermarket chain, Asda, announced on its fourth quarter results call that it will cut prices on a wide range of products to stem its sales slide as the company has lost market share since being purchased by private equity. Although Tesco's earnings may be impacted in the short term, we are less concerned given the company's much stronger balance sheets, cash flows, store standards and market share momentum. Moreover, while Asda may have to pay for the price investment with cash flow, Tesco's large loyalty program could translate to price cuts being mostly funded by vendors.

Portfolio positioning

During the quarter, we initiated a position in Capgemini, a beneficiary of growing demand for installation of Generative AI software in Europe. The company is one of the top IT services vendors in Europe and a top 10 systems integrator globally. In the mid-term, we believe Capgemini's growth is supported by client demand for new technologies as they arise as the secular growth trend related to the shift to cloud and digitalization remains intact. However, Capgemini will need both of its growth engines to perform well to normalize its results, which include helping clients optimize their costs and helping clients grow through digital transformation. The shares look attractive as the company is currently trading at a 10-year low valuation.

We also initiated a position in German chemical company BASF as a potential beneficiary of Germany's efforts to boost its economy as the company has a broad range of products serving many industries. BASF is split into six segments clustered in upstream (Chemicals, Materials), downstream (Industrial Solutions, Nutrition and Care) and the stand-alone Surface Technology and Agriculture businesses. BASF's new CEO recently outlined that the company will exit its Coatings business and likely IPO its Agriculture Solutions business to create value for shareholders. BASF is also currently building a new Verbund site in Zhanjiang, China for €\$10 billion. With capital expenditures peaking in 2026 based on the startup of the Zhanjiang facility, free cash flow will likely increase to €3.6 billion (nearly 9% free cash flow yield) versus €0.6 billion in fiscal year 2025. The shares currently trade near 10-year low valuations, leading us to believe the company has a good risk/reward profile going forward.

We eliminated British firm Dowlais, which operates in the automotive and powder metallurgy industries, after the stock rose following a takeover offer by American Axle. While the multiples appear to be low, we do not believe there will be an adjustment to the deal terms and found better opportunities in other names. In addition, we eliminated Chinese internet search engine provider Baidu to purchase Alibaba, which we believe has more catalysts for achieving higher returns and a better risk/reward profile.

The portfolio ended the period with overweights in the materials, energy, consumer discretionary and financials sectors while remaining predominantly underweight in the defensive areas of the market such as health care, utilities, consumer staples and real estate, as well as the information technology sector.

From a country perspective, the portfolio maintained an overweight to the Netherlands via securities such as ING Groep and Wolters Kluwer, as well as out-of-benchmark positioning in the emerging market of Brazil through aircraft manufacturer Embraer and financial services company Itau Unibanco. Meanwhile, the portfolio's most notable country underweights at quarter end were in Australia and Japan.

Outlook

Reinvigorated European shares have been bolstered by the German government's constitutional amendment to the "debt brake," which previously limited borrowing to just 0.35% of GDP. This move was designed to end years of domestic economic stagnation at a critical time when the U.S. is pivoting away from its European allies. Germany has

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pledged to spend €500 billion on infrastructure and green projects while boosting military and civil defense manufacturing, cybersecurity investment and support for Ukraine. As a result of the proposed stimulus, economic forecasts for German GDP have improved dramatically. According to the DIW Berlin estimates, for example, GDP expansion in Germany could nearly double over the next 10 years, from 1.1% to 2%, a pace the country last reached in 2021.

Whether Europe can continue outperforming the U.S. will depend in large part on Germany's commitment to increase infrastructure and defense spending. Lowering consumer energy costs will also be crucial as natural gas prices, for example, are about four times higher in Europe than in the U.S., according to Statista Research. While this year's rally has lifted European equity valuations, they remained at a 30% discount to their U.S. counterparts as of quarter-end, with a P/E ratio of 13.7x versus 19.4x for the S&P 500.

In addition to opportunities in Europe, we believe Japan offers an abundance of attractively valued growth companies. Although the Nikkei started slowly this year, fourth-quarter corporate earnings for Japanese companies overall were solid (+12.1% quarter over quarter and +13.5% year over year, according to Cornerstone Macro). While higher interest rate dynamics have translated to a stronger yen, which makes Japanese exports more expensive and potentially hinders earnings, the country's low unemployment and tight labor market could support wage

growth and, in turn, personal consumption. We believe the Japanese market's focus on corporate governance, coupled with global underweights to Japanese equities, adds to the country's allure.

We believe China's domestically driven economy may be able to withstand U.S. tariffs without sustaining significant damage, although harsh trade rhetoric between the two countries has intensified. Total exports account for less than 20% of Chinese GDP, putting the country 128 out of 154 nations surveyed by the World Bank. Beijing appears determined to enhance households' capacity and willingness to consume through its new "special action plan," a multipronged stimulus with a focus on raising wages, supporting the stock market and building out the services sector.

As we construct the portfolio from the bottom up, our outlook remains positive regarding opportunities from overweight positions in cyclical sectors such as materials, energy and financials. We believe improved non-U.S. developed market performance could continue due to the vulnerability of the U.S. equity market to technology stock volatility, the effects of trade tariffs and decreasing U.S. consumer confidence. The uncertainty around U.S. economic policy, as well as a potential re-acceleration of inflation due to tariffs, may be a catalyst for a sustained shift in market leadership.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

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Glossary

The **MSCI ACWI ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Europe Index captures large- and mid-cap representation across 15 developed markets countries in Europe. The **MSCI China Index** is designed to capture large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. The MSCI China Index represents approximately 85% of China free float-adjusted market capitalization and evolves to reflect the changing equity market. **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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