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Global and International

International Value ADR

Marketing communication | As of 30 Jun 2025

- **During the second quarter, the International Value ADR strategy posted a double-digit gain but underperformed its primary benchmark, the MSCI EAFE Index, and the MSCI ACWI ex-U.S. Index. However, the strategy outperformed the value version of the EAFE Index.**
- **The market's sharp rotation back into growth stocks during the quarter created a headwind for the strategy's value-oriented approach relative to the benchmark MSCI EAFE Index. Security selection detracted in industrials, financials and Japan, but contributed in energy and France.**
- **Despite threats of higher U.S. tariffs, our outlook for international equities remains positive as Europe infrastructure spending begins to ramp up and China shows signs of recovery.**

Market review

Global economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers remained cautious about tariff-related inflationary pressures that could push consumer prices further above the 2% target. At his June testimony, Fed Chair Powell reaffirmed the central bank's wait-and-see posture due to the still-healthy job market and uncertain impact of the Trump administration's trade and immigration policies. The Bank of Japan also remained on hold during the quarter, while the European Central Bank (ECB) and Bank of England cut by another 50 basis points and 25 basis points, respectively. The U.S. dollar experienced continued weakness, ending the quarter down another 7% versus a basket of currencies as measured by the U.S. Dollar Index. The greenback's decline reflected investors' concerns over projections for ballooning U.S. deficits, geopolitical tensions due to President Trump's trade policies and reduced confidence in continued outperformance by U.S. assets.

Broadly speaking, equity markets produced strong results for the quarter after staging one of the most dramatic comebacks in recent history. Global markets began the quarter with a sharp selloff following President Trump's "Liberation Day" announcement of across-the-board tariffs that were materially higher than expectations. Volatility spiked, as exemplified by the VIX Index, which reached nearly a four-year high in April following the announcement. The subsequent 90-day pause for the most extreme measures led volatility to decline and risk assets to quickly recover. The higher tariffs and slowing economy also caused Brent crude oil prices to plunge nearly 15% in the first week of April, but subsequently recover after Israel and the United States bombed Iranian nuclear sites.

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International Value ADR

Helped along by the significantly weaker dollar, international markets produced strong returns and surpassed the U.S. market for the second quarter in a row as the latter wrestled with fears of stagflation. The U.S. slowdown fears, combined with improved outlooks in Europe and China, drove an 11.78% second quarter advance for developed markets as measured by the MSCI EAFE Index in U.S. dollar terms. Across the globe, growth stocks reversed course and meaningfully recovered during the second quarter, with the MSCI EAFE Growth Index rising 13.54% versus the MSCI EAFE Value, which advanced 10.11%. In overseas markets, EAFE small cap stocks (16.6%) outperformed mid caps (14.9%) and large caps (11.0%), another reversal from first quarter's focus on large caps.

Japan's Nikkei 225 Index was a star performer, advancing 18.29% on the back of strong consumer spending and a surge in fund flows from foreigners. European stocks delivered another quarter of double-digit gains with a 14.61% return for the MSCI EMU Index. Stocks in the region were broadly aided by continued ECB easing, increased defense spending and improving economic data, including benign inflation readings. Emerging market (EM) equities slightly surpassed both the United States and other developed markets with an 11.99% quarterly return as measured by the MSCI Emerging Markets Index. However, Chinese equities, which account for nearly 30% of the market capitalization of the EM index, notably trailed for the quarter while other Asian EM countries like Korea and Taiwan produced impressive gains.

Portfolio review

During the quarter, the International Value ADR strategy posted a double-digit gain but underperformed its primary benchmark, the MSCI EAFE Index, and the MSCI ACWI ex-U.S. Index on a gross and net of fees basis. The strategy outperformed the value version of the EAFE Index. Broadly speaking, the market's sharp rotation back into growth stocks created a headwind for the value-oriented approach of our strategy relative to the MSCI EAFE Index. From a sector perspective, the portfolio's underperformance relative to the benchmark was driven by unfavorable security selection in industrials and financials, while selection in energy offset some of the negative impact. On a country basis, security selection in Japan detracted the most from relative results, while selection was strong in France. Out-of-index exposure to Brazil also proved beneficial.

Contributors

Shares of U.K.-based grocery store chain Tesco rebounded from the prior quarter, benefiting from improved earnings momentum as the company delivered a solid first quarter report that beat expectations on all fronts. U.K. like-for-like sales came in at 5.1% versus consensus expectations of 4.0%. Furthermore, the company's leading food wholesaler Booker performed better than expected due to strength in core catering and retail, which offset a tobacco market decline, and a pickup in Central Europe from strong performance in food. In addition, management reiterated the company's fiscal year 2026 outlook for group-adjusted operating profit somewhere between £2.7 billion and £3.0 billion, along with a £1.45 billion share buyback to be completed by April 2026.

French engineering and technology-based energy company Technip Energies was another leading contributor during the quarter based on expectations of new engineering awards. The company's second floating liquified natural gas (LNG) project in Mozambique, Coral North, has recently received government approval to move forward. The company also continues to make progress on two U.S.-based projects, Commonwealth LNG and Lake Charles LNG. Technip's first quarter 2025 results were relatively mixed with a small miss in the Technology, Process and Systems division, offset by higher results in Project Delivery. The company continues to see strong demand for ethylene projects, as well as clean energy projects such as blue hydrogen and sustainable aviation fuel. The company reported a backlog of more than €70 billion, with management confident that it can achieve 10% EBIT margins in the future.

French financial services holding company Societe Generale continued to outperform during the period, benefiting from stronger-than-expected first quarter 2025 results. After the company beat consensus expectations by 10% at the pre-provision income level, the market expressed increased confidence in its earnings and capital trajectory, expecting a 60% total payout by 2026 and 2027. The company continues to trade at very low multiples with a price-to-tangible book value of 0.64x compared with its return on tangible equity of 7.8%. One of the key pillars for Societe Generale is a reduction in its cost/income ratio to 65%, which the company is increasingly closer to achieving. A further catalyst for the stock could be the increasing success of BourseBank, France's leading internet bank with nearly 7.6 million clients. BourseBank's success could lead to an improvement in the company's asset-light returns or an eventual spin-off.

Detractors

British oil and gas company Shell was the strategy's leading relative detractor. In general, shares of oil companies such as Shell were weaker during the quarter following the Liberation Day announcement, although oil prices and oil stocks recovered in June following the bombings of Iran by the United States and Israel. Shell's stock was also weaker due to rumors of a potential merger and acquisition deal with BP, which was formally denied by Shell in a statement. We continue to like Shell given the company's commitment to improving shareholder returns, as well as growing sales of LNG and other products such as biofuels.

Shares of Sanofi, the French pharmaceutical and health care company, underperformed due to uncertainty surrounding both tariffs and most favored nation (MFN) drug pricing dynamics, along with further risks to its pipeline. The company does have mitigating strategies around tariffs and low exposure to U.S. government programs, which means it is relatively insulated from MFN pricing-related headwinds. However, mixed results from Sanofi's second study for its investigational monoclonal antibody Itepekimab to treat chronic obstructive pulmonary diseases (COPD) have investors questioning the drug's approval timeline.

Swiss firm Barry Callebaut, one of the world's largest chocolate and cocoa product manufacturers, continued to underperform during the quarter despite weaker cocoa prices. Historically high cocoa prices in the prior quarter hurt chocolate volume sales and caused the company to increase debt related to working capital. The increase in supply cooled the market and pressured shares further in the second quarter. While the recovery may not be immediate, we believe the outlook for Barry Callebaut is likely to improve in the second half the year.

Portfolio positioning

During the quarter, we initiated a new position in Hong Kong based Techtronic Industries, one of the world's largest manufacturers of power tools and outdoor power equipment for both do-it-yourself and professional users through the Milwaukee and Ryobi brands. The stock fell to a 10-year low valuation due to the risks of higher import tariffs since 77% of its sales are to North America, while Mexico and the United States comprise only 28% of the global production. The company's largest distributor, Home Depot, which represented more than 53% of its sales in fiscal year 2024, has been able to increase prices to offset higher costs and tariffs given its leading industry position. Despite fears of slowing housing markets, we believe Techtronic Industries can generate about 6% free cash flow, which offers downside protection given its strong balance sheet.

We also initiated a new position in German semiconductor manufacturer Infineon Technologies, a leader in both the automotive microcontroller market (32% share) and power market (29%) due to its superior technologies. Estimates for the next three years call for a five-fold increase in artificial intelligence (AI) server power demand, which should benefit Infineon as a leading supplier. Although silicon carbide (SiC) chips are facing challenges in the short term due to oversupply, the segment offers a promising estimated growth rate of 24% (2024-2029). In the SiC space, Infineon also differentiates itself from the competition with its technology. Meanwhile, the cycle for industrial and automotive chips has bottomed, with estimates calling for margin expansion to increase to 22.6% in 2027 (from 15.9% in 2025) with bigger scale and step-up initiatives.

In addition, we initiated a new position in U.K. based Diageo, a leading spirits and beer company with over 200 brands sold in more than 180 countries. The United States is Diageo's largest market, representing around half of its operating profits, with leading brands such as Smirnoff, Johnnie Walker, Don Julio and Baileys. The stock has declined to near historical low valuations based on fears of increased import tariffs and structural market shifts away from spirits. The company's new CFO has targeted cash flow over revenue growth through a program called "Accelerate" to achieve $500 million in cost savings over three years and increase accountability for delivering strong results. The initiative also includes larger divestments of underperforming products and asset heavy divisions. Based on reverse discounted cash flow, the market currently values Diageo assuming slightly declining margins and only 2% growth, which appears overly pessimistic to us.

We eliminated Sands China because we believed the risk/reward opportunity was greater with another Hong Kong based company, Techtronic Industries. Although we agree that Sands China shares look inexpensive, we remain concerned about the shrinking addressable market size due to the weak macro environment in China. The company also continues to see high capital expenditures and lower return-on-invested-capital for additional concession-related capital commitments.

We also eliminated European firm STMicroelectronics due to the greater potential risk/reward opportunity of Infineon Technologies. STM is the largest chip provider to both Tesla and Apple, which could be challenging for the company in the short term. Moreover, board infighting between the company's two major partners, Italy and France, could have longer-term implications for future capital allocation, especially in a period with increased Chinese chip improvement.

In addition, we eliminated Japanese firm Sekisui House based on fears of a slowing U.S. housing market, higher-for-longer U.S. mortgage rates, and the company's relatively higher inventory levels. While the shares are reasonably priced at around 1x price-to-book, we are concerned that the company may have to increase discounts and/or write down current projects being developed in the United States. Sekisui acquired MDC Holdings in April 2024, expanding its coverage in the Eastern and Southern United States, Colorado and New Mexico, while the U.S. housing market is slowing.

Finally, we eliminated South African firm Valterra Platinum, which was divested from British mining company Anglo American. We used the proceeds to reinvest in Anglo American, which we believe has several catalysts, including the potential divesture or sale of DeBeers and higher copper prices.

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

From a country perspective, the portfolio maintained an overweight in France through several holdings that included Thales and Societe Generale, and the Netherlands via several securities, including ING Groep and Technip Energies. The portfolio also kept out-of-benchmark positions in the emerging market of Brazil through positions in Embraer and Itau Unibanco, and Canada through Agnico Eagle Mines and Nutrien. Meanwhile, the portfolio's most notable country underweights at quarter end were in Japan and Australia.

Outlook

Although the bulls behind the U.S. market continue to tout their Goldilocks narrative that has supported the rally since April, the fundamental question is if the economy gives way to rising risks of stagflation. The biggest increase in tariffs in more than 70 years has so far not shown an adverse impact on the U.S. economy, but it is hard to believe that this trend will continue. U.S. growth expectations have fallen from the start of the year from nearly 2.2% to the current estimate of 1.5%. Private-sector job hiring is faltering, with less than half of industries adding jobs. Many expect that any potential growth slowdown could be effectively countered by Fed easing, but historically the market has not focused on easing during times of softening activity. Risks include higher U.S. inflation, Fed credibility being pressured and reduced demand for U.S. bonds as U.S. fiscal deficits rise to over 7%.

Declining growth in the United States is now being partially offset by recovery in China with rising PMIs and expectations that the economy has stabilized. Excitement for Hong Kong stocks may further improve with increased buying by mainland China, spurred by a diversification push, public policy support for the private sector, AI developments and expansion of the new stock connect trading link, which allows mainland Chinese investors to purchase Hong Kong shares in yuan. Year to date, Hong Kong ranks number two in initial public offering (IPO) fundraising globally but is on track to be the world's number one listing destination. According to our conversations with representatives from the Hong Kong Exchange, it could see more than 200 IPOs over the next year, especially companies supporting China's effort to develop AI.

Given the strong first-half performance in the eurozone, we may see a period of consolidation as MSCI Europe has now recovered to mid-cycle multiples. The consolidation phase will ultimately be healthy, as flows normalize. However, we could see a renewed eurozone push as we get closer to German stimulus impact and as improving eurozone credit impulse starts to be felt, resulting from ECB easing. In Europe, we continue to overweight financial shares and have started to increase our weights in consumer staples companies, which are trading at some of the lowest valuations over the last decade.

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.

International Value ADR

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

Important information on risk

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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 changingequity 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 sregarding unknown financial terms and concepts.

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