

International Value ADR

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the International Value ADR strategy outperformed the MSCI EAFE Index and the MSCI ACWI ex-U.S. Index.**
- **Stock selection in the information technology and consumer discretionary sectors contributed to relative returns, as did security selection in Brazil and the U.K.**
- **The long-awaited decline in U.S. interest rates could lead to further weakness in the dollar and provide a tailwind for overseas stocks.**

Market review

Economic growth continued to expand during the third quarter, although more signs of a slowdown emerged. Second quarter's U.S. gross domestic product (GDP) growth came in stronger than expected at an annualized pace of 3.0%, while full-year growth is tracking just slightly below that rate, underpinning investors' hopes for an economic soft landing. Encouraging headline inflation prints during the quarter led key central banks to lower interest rates, even as core inflation remained sticky. The Federal Reserve (Fed) garnered the biggest headline by kicking off its long-awaited policy easing cycle with a 50-basis-point cut in September, larger than many investors had expected. The Bank of England also began lowering rates while the European Central Bank (ECB) made its second rate cut of this cycle. The People's Bank of China launched a battery of stimulus measures including rate cuts to help kickstart the country's deteriorating economy and ward off deflation. Meanwhile, the Bank of Japan (BoJ) was the outlier with a surprise increase to the country's key interest rate to help curb the yen's fall versus the U.S. dollar.

Markets started the quarter on a positive note in July, aided by falling Treasury yields and optimism over approaching Fed rate cuts. By month end, the bullish start had given way to concerns about slowing earnings growth for technology companies, which have powered the market for much of the year. In early August, global equity markets sold off sharply after a disappointing U.S. jobs report fanned recession fears, China's economy showed greater signs of deterioration, and the BoJ's surprise rate hike sparked an unwinding of the yen carry trade. As the month progressed, however, the tide quickly turned as inflation reports showed pricing pressures continuing to ease, corporate earnings remained strong, and Fed Chair Powell indicated the time had come for U.S. rate cuts.

Overseas, both emerging market (EM) stocks and non-U.S. developed markets outpaced the U.S. market, with the dollar's decline boosting returns for U.S. dollar-based investors. Developed markets, as measured by the MSCI EAFE Index, returned 7.26% as European markets rallied in the face of mixed economic data. Meanwhile, Japan's stock market quickly recovered from its 15% plunge in early August triggered by the BoJ's surprise rate increase and the resulting strengthening of the yen. The Nikkei 225 Index ended the quarter with an 8.38% return.



Peter Boardman
Portfolio Manager, Equity Analyst



James T. Stephenson, CFA
Portfolio Manager, Equity Analyst

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Elsewhere in EM, the aggressive stimulus package by the Chinese government sent equities in that country soaring, with the Shanghai SE Composite Index returning 18.32% for the quarter. China's strong advance helped fuel an 8.88% gain for the MSCI Emerging Markets Index as results among other EM countries were mixed.

Portfolio review

During the quarter, the International Value ADR strategy outperformed its benchmark MSCI EAFE Index, on a gross and net of fees basis. The strategy also outperformed the value-version of the EAFE Index as well as the MSCI ACWI ex-U.S. Index. Growth underperformed value for the quarter, and the strategy's underweight to growth proved beneficial from both an allocation and stock selection perspective. The portfolio also did well in defensive sectors due to strong stock selection, despite being slightly underweight these securities. Meanwhile, stock selection in cyclical sectors detracted, an area where the portfolio is overweight. As it pertains to market capitalization, the strategy is more diversified across the spectrum relative to the index, which proved beneficial as small-cap stocks outperformed larger-cap stocks during the quarter.

From a sector and country perspective, the portfolio's outperformance relative to the MSCI EAFE Index was driven by favorable security selection and an underweight to the underperforming information technology sector. Stock selection in consumer discretionary was also beneficial. Meanwhile, the financials sector was the leading detractor due to unfavorable security selection. As it pertains to countries, an out-of-benchmark position in Brazil was the leading contributor, led by aircraft manufacturer Embraer, followed by strong stock selection in the U.K. in names such as Tesco and Taylor Wimpey. Conversely, France was the leading detractor.

Contributors

The largest individual contributor was a position in Brazilian aircraft manufacturer Embraer. The firm's quarterly results were mixed, but the stock continued to move higher throughout the quarter as the firm provided guidance for revenues and aircraft deliveries to remain at double-digit growth in the second half of 2024 and into 2025.

Tesco, the British grocery retailer, also provided a meaningful contribution during the quarter. The firm has been able to maintain good pricing power in the U.K. while the grocery industry has rationalized. The stock continued to perform well amid moderating inflation as investors piled into defensive areas of the market.

The third leading contributor was Japanese homebuilder Sekisui House. The company posted better-than-anticipated quarterly results in September, with revenue and earnings both ahead of consensus. Company management also raised fiscal-year guidance above consensus. Results were mainly driven by the firm's U.S. operations, aided by its recently integrated acquisition of U.S. homebuilder M.D.C. Holdings.

Detractors

British oil and gas company Shell was the strategy's leading relative detractor. The price of oil dropped nearly 20% throughout the quarter based on increased supply and weakened demand in China, which put pressure on the company's stock price. The firm is in the second year of a large strategic turnaround under its new CEO and is focused on returning cash to shareholders.

Japanese auto manufacturer Toyota Motor also detracted from relative returns. The company's share price was hurt by the strong yen and safety certification issues, which limited its global auto production. However, demand remains strong, particularly for Toyota's hybrid-electric models in the U.S. and Japan, while full battery-electric demand has softened.

Heineken, the Dutch multinational brewing company, also detracted during the period. The stock experienced volatility after the company posted a disappointing quarter, as expectations were elevated leading into the announcement. The firm continues to operate well in a difficult environment, and forward-looking guidance was maintained at the high end of the prior range.

Portfolio positioning

During the quarter, we eliminated positions in City Developments Limited, the real estate firm based out of Singapore, as well as French luxury goods manufacturer Kering. The strategy ended the period with overweights in the financials, industrials, consumer discretionary, materials, communication services, and energy sectors, while remaining predominantly underweight in the defensive areas of the market such as health care, consumer staples, utilities, 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

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Unibanco. Meanwhile, the portfolio's most notable country underweights at quarter end were in Australia and Japan.

Outlook

A number of factors have already pushed market volatility higher this year, including U.S. recession fears, shifts in the macroeconomic picture, and an unusually busy global election season—notably in the U.S. and Japan. Potential repercussions from the escalation in the Middle East could exacerbate these market jitters. Specifically, if the proxy war between Israel and Iran intensifies, or if the conflict widens by drawing in other countries, the effects would clearly be more severe.

With Germany in a prolonged recession due to slowing manufacturing activity, growth in Europe is expected to continue to be sluggish. Inflation continues to moderate, with the ECB implementing the second rate cut of this cycle in September. In Japan, further yen strength should continue to help financials, and inflation continues to accelerate from the start of the year. Slowing demand in North America and weakness in China favors domestic companies, while continued long-term corporate reforms

should help return on equity and command higher valuations.

For investors with a higher risk tolerance, we have identified select EM opportunities in markets such as Brazil. Brazilian stocks have demonstrated resilience, and their forward price-to-earnings (P/E) ratio looks inexpensive, well below its 20-year average.

Many diversified equity allocations continue to be weighted more toward the U.S., but investors are becoming more comfortable reducing U.S. exposure and shifting assets into non-U.S. developed and EM equities. Factors supporting such a move include cheaper relative valuations overseas, favorable earnings estimates, and the long-awaited decline in U.S. interest rates fueling the potential for a weakening U.S. dollar, which serves as a tailwind for U.S. investors in international stocks. The portfolio remains well balanced and has positions on both sides of the economic growth debate, but is tilting more toward the offense with a focus on valuation, capital return, and long-term fundamentals.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. This strategy may invest in American Depositary Receipts (ADRs). ADRs do not eliminate the currency and economic risks for the underlying shares in another country. U.S. companies with a significant portion of their assets and/or operations located outside of the U.S. are also eligible for investment. Investing internationally presents risks such as political risk, exchange rate risk and inflationary risk, which includes the risk of economic change, social unrest, changes in government relations and different accounting standards. Investing in securities of developing countries involves greater risk than, or in addition to, investing in developed foreign countries. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods.

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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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