International Opportunities ADR

Marketing communication | As of 30 Sep 2024

- **During the third quarter, the International Opportunities ADR strategy underperformed its benchmark, the MSCI ACWI ex USA Index.**
- **The portfolio's underperformance was driven by unfavorable security selection in the communications services sector and an overweight in the underperforming energy sector.**
- **Despite a mixed market landscape for non-U.S. stocks, our team continues to identify long-term structural growth opportunities outside the U.S.**

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Market review

Markets got off to a positive start in early July, aided by falling Treasury yields and optimism over potential Federal Reserve rate cuts. But by month-end, that bullish beginning had given way to concerns about slowing earnings growth for technology companies, which had powered the market for much of the year. And in a late July surprise, with the yen falling, the Bank of Japan (BoJ) raised rates, sparking a yen rally. As August began, the BoJ's tightening triggered a scramble to close "carry" trades — whereby investors borrow money in a currency with low interest rates and invest it in another currency with higher yields or higher expected returns. Closing these trades forced traders to sell stocks and other assets to raise cash. The selloff was exacerbated by a disappointing U.S. jobs report, which fanned recession fears, and signs that China's economy had continued to deteriorate. But equity market bulls returned as August progressed, thanks to encouraging corporate earnings reports, assurances from Fed Chair Jerome Powell that "the time had come" for rate cuts amid cooling inflation and the announcement of massive stimulus from China's government to boost economic growth and ward off deflation.

Equity markets outside the U.S. posted positive returns, outperforming the S&P 500 Index (+5.9%). Currencies in both developed and emerging market (EM) economies generally strengthened against the U.S. dollar during the quarter, significantly boosting many non-U.S. index returns when translated into dollars. Based on non-U.S. MSCI indexes in U.S. dollar terms, EM equities (+8.7%) bested their developed market counterparts (+7.3%), which performed well in the face of mixed economic data. Meanwhile, Japan's stock market quickly recovered from its 15% plunge in early August, which had been triggered by the BoJ's rate hike and the resulting yen rally. The Nikkei 225 Index ended the quarter with an +8.4% return.

Elsewhere in Asia, the MSCI China Index returned +23.5% in the third quarter, driven by stimulus optimism. This outsized gain propelled the MSCI EM index, as Chinese stocks made up about 28% of the index based on market capitalization as of 30 September. Results for other EM countries were mixed.

International Opportunities ADR

Portfolio review

During the third quarter, the International Opportunities ADR strategy underperformed its benchmark, the MSCI ACWI ex US Index, on a gross and net-of-fees basis. Value shares overall outperformed their growth counterparts, adding to their significant edge over the past three years. The portfolio's underweight in stocks with high earnings yields — often characterized as value stocks — detracted. Meanwhile, our underweight in the outperforming EM segment did not hinder relative results, as this positioning was offset by positive stock selection among EM names. Regarding market capitalization, the strategy remained more diversified than the index, which proved beneficial as small caps outperformed larger caps during the quarter.

In terms of sectors, the largest detractor from the portfolio's relative return for the quarter was communication services, a function of unfavorable stock selection. Energy also hampered results, reflecting both negative stock selection and overweight exposure to this underperforming sector. On the plus side, consumer discretionary added the most value, thanks to strong stock selection and a substantial sector overweight. From a country perspective, China detracted the most, the result of underweighting the country and poor results from our portfolio holdings there. In contrast, underweighting Korea, a notable EM laggard, provided the biggest lift.

Contributors

Among individual names, Chinese e-commerce giant Alibaba Group contributed the most to relative returns, as it participated in a rally among China's internet stocks and equities more broadly. Also lifting Alibaba's stock was an agreement with rival JD.com designed to increase user growth and address Beijing's antitrust scrutiny.

Flutter Entertainment PLC, an Irish online gaming and sportsbook facilitator, also contributed, as it posted forecast-topping quarterly revenue and earnings, and issued bullish guidance.

Swiss footwear and apparel manufacturer On Holding AG, the strategy's third-largest contributor, benefited from strong quarterly results and sharply reduced supply chain pressures.

Detractors

In terms of specific companies, the top detractor was Danish health care conglomerate Novo Nordisk A/S. Its shares suffered from a rotation within the health care sector that saw investors take profits from select names (like Novo Nordisk) that had rallied earlier in the year and reallocate the proceeds to other stocks that had performed poorly.

ASML Holding N.V., a Dutch semiconductor manufacturer, also detracted. Although ASML posted quarterly financial results that exceeded or met expectations, the company was hurt by headlines about potential curbs of U.S. chip exports to China, from where it derives a significant portion of its revenue.

British semiconductor and software firm ARM Holdings PLC hampered relative performance as well, due in large part to weakness in the entire sector, as the firm posted results ahead of expectations while reaffirming fiscal-year guidance.

Portfolio positioning

Portfolio holdings remained well-diversified and growth-oriented. At quarter-end, the strategy's sector positioning was overweight consumer discretionary and energy, while mainly underweight industrials and financials.

Geographically, the portfolio finished the period with overweight allocations to the Netherlands and Brazil. India, Australia and Germany were the three largest underweights.

We exited one position during the quarter — sustainable paper and packaging firm Smurfit Kappa — and opened a position in Brazilian regional aircraft manufacturer Embraer S.A. In addition, we trimmed our allocation to in Brazilian fintech company Nu Holdings Ltd., whose shares surged in August.

Over the course of the period, the strategy's exposures to industrials and consumer discretionary increased, while its weightings in all other sectors decreased, in most cases marginally. On a country basis, allocations to Brazil and Switzerland grew the most. In contrast, our exposure to Denmark and the Netherlands declined. Lastly, our EM allocation increased slightly, ending the period at 22% of the portfolio.

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, capped off when voters go to polls in late October (Japan) and November (the U.S.). Potential repercussions from the escalation of hostilities in the Middle East could exacerbate these market jitters. Specifically, if the proxy war between Israel and Iran intensifies, or if the conflict widens further, the effects would be more severe.

With Germany in a prolonged recession due to shrinking manufacturing activity, prospects for growth in Europe have dimmed. On the positive side, inflation on the continent is seemingly under control, giving the European Central Bank the runway to keep easing policy following its September rate cuts.

In Japan, hotter inflation could prompt the BoJ to raise rates again. That, in turn, could strengthen the yen, aiding Japanese banks and other financial companies. At the same time, slowing demand in North America and weakness in China favor Japanese companies tilted toward domestic consumption, while continued long-term corporate reforms should help firms in Japan boost return on equity and command higher valuations on their shares.

For investors with a higher risk tolerance, we have identified select EM opportunities in markets such as Brazil. Brazilian stocks have demonstrated resilience, and the country is currently one of the top overweights in the portfolio. In Japan, the yen could rally if inflation heats up. That in turn, could prompt the BoJ to raise rates, aiding Japanese banks and other financial companies.

Although many diversified equity allocations are still tilted toward the U.S., investors are becoming more comfortable reducing that overweight in favor of non-U.S. developed and EM equities. Factors supporting such a move include cheaper relative valuations outside the U.S., favorable earnings growth estimates and the long-awaited decline in U.S. interest rates, which has helped weaken the dollar and boosted returns for U.S. investors in non-U.S. stocks. The portfolio remains well-diversified among growth stocks and is slightly smaller in market cap compared to last quarter. The team continues to monitor demand and trade, economic growth and inflation.

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. With 1,853 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. **Volatility** is the fluctuations in market value of a portfolio or other security. The greater a portfolio's volatility, the wider the fluctuations between its high and low prices. **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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