Why a Closer Look at International Investing is Merited

As a value-focused investment manager, Brandes is always looking past the current successes enjoyed by any equities market to identify the future hidden potential that may lie elsewhere.

For an extended period, international equities have faced a variety of known headwinds and underperformed when compared with stocks in the United States. This has led their valuations/fundamentals to reach low levels, creating what we believe is a long-term opportunity for patient investors. Through the analysis that follows, we make the case for re-examining what international equities can potentially offer investors.

Could U.S. Equity Dominance Be Cresting?

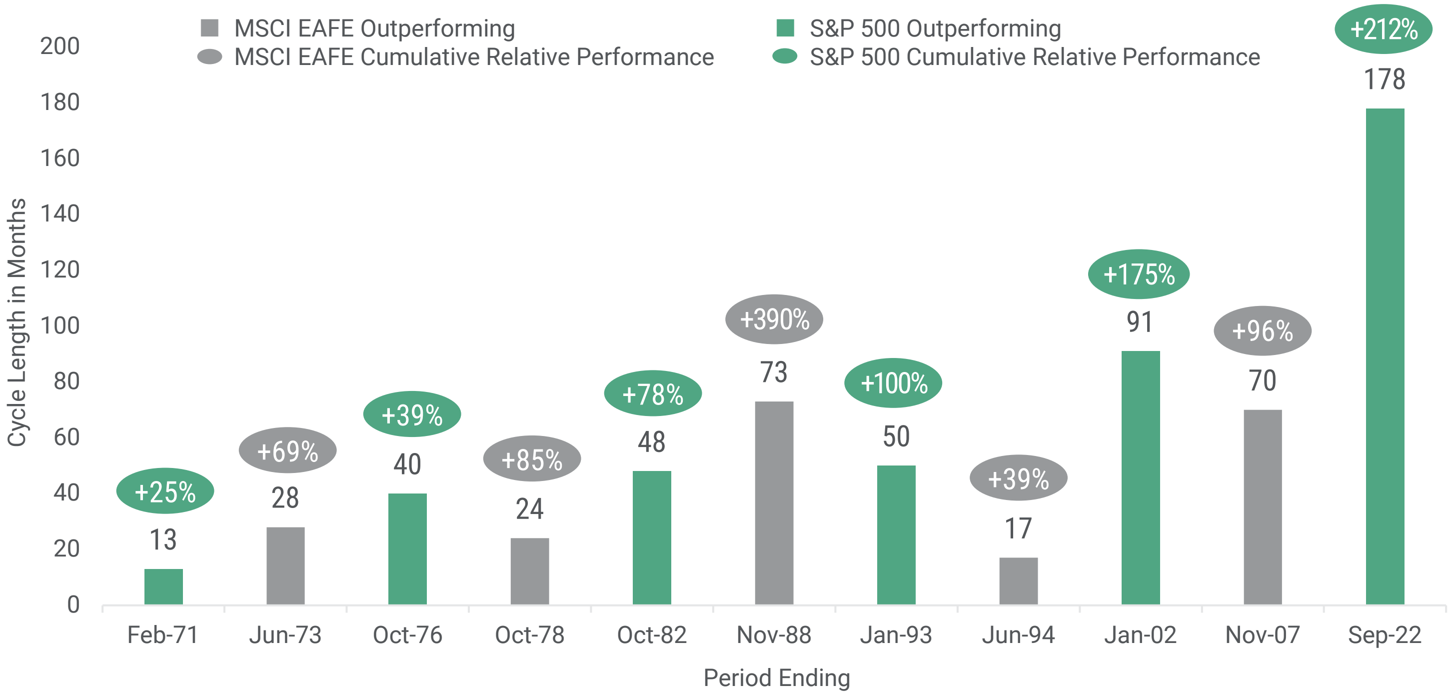
It's clear from the numbers that in the most recent investing cycle large- and mid-cap international stocks were dominated by the S&P 500. In fact, we've experienced the longest cycle of U.S. outperformance vs MSCI EAFE since 1970. As the graph below indicates, international equities last outperformed in the period ending in November 2007. Additionally, the recent period marks the second-largest gap in terms of relative performance between US and international markets. The only cycle stronger than this one occurred when international markets outperformed during the late 1980s Japan bubble.

The relative performance cycles have largely correlated with price/cash flow discounts, which have often preceded the outperformance of one of the asset classes (as shown in the chart below).

Today, we're seeing one of the widest discounts for international stocks compared with those in the U.S. in history (on a sector-neutral basis to account for the significant sector weight differences between the two markets). In early 2022, U.S. stocks were trading at higher price/cash flow multiples than at any of the previous cycle turns, while international stocks were trading at a more-than-30% discount relative to U.S. stocks and a more attractive overall valuation level.

It's Been a While

U.S. vs. International Equity Performance Cycles



P/CF (Sector Neutral)	Oct 76	Oct 78	Oct 82	Nov 88	Jan 93	Jun 94	Jan 02	Nov 07	Sep 22
MSCI EAFE	4.9x	**5.2x**	4.7x	**8.7x**	10.3x	**9.7x**	9.3x	9.8x	7.5x
MSCI USA	**6.7x**	5.0x	**5.2x**	6.4x	7.4x	9.5x	**12.8x**	10.9x	**11.0x**

RELATIVE PERFORMANCE OF MSCI EAFE VS S&P 500 MEASURED MONTHLY, FEBRUARY 1, 1970, TO SEPTEMBER 30, 2022. PRICE/CASH FLOW (P/CF) MEASURED BETWEEN DECEMBER 31, 1974, AND SEPTEMBER 30, 2022, ON THE LAST DAY OF THE MONTH IN WHICH THE CYCLE ENDED | Source: FactSet, MSCI. Cycles are based on sustained outperformance on a cumulative basis over periods of at least 12 months. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. MSCI EAFE Index inception is March 31, 1986. Performance shown prior to inception is the result of back-testing by the index provider. There may be frequent material differences between back-tested performance and actual results. MSCI EAFE net return vs S&P 500 total return.

Negative Sentiment Towards International Stocks May Portend Improved Potential

If you're seeking justification to be a bear when it comes to international equities, it's not hard to make the case. A variety of valid concerns—from the energy crisis and economic growth concerns in Europe, to the evolving regulatory environment in China, and political risk in Latin America—can all be cited as cautionary notes.

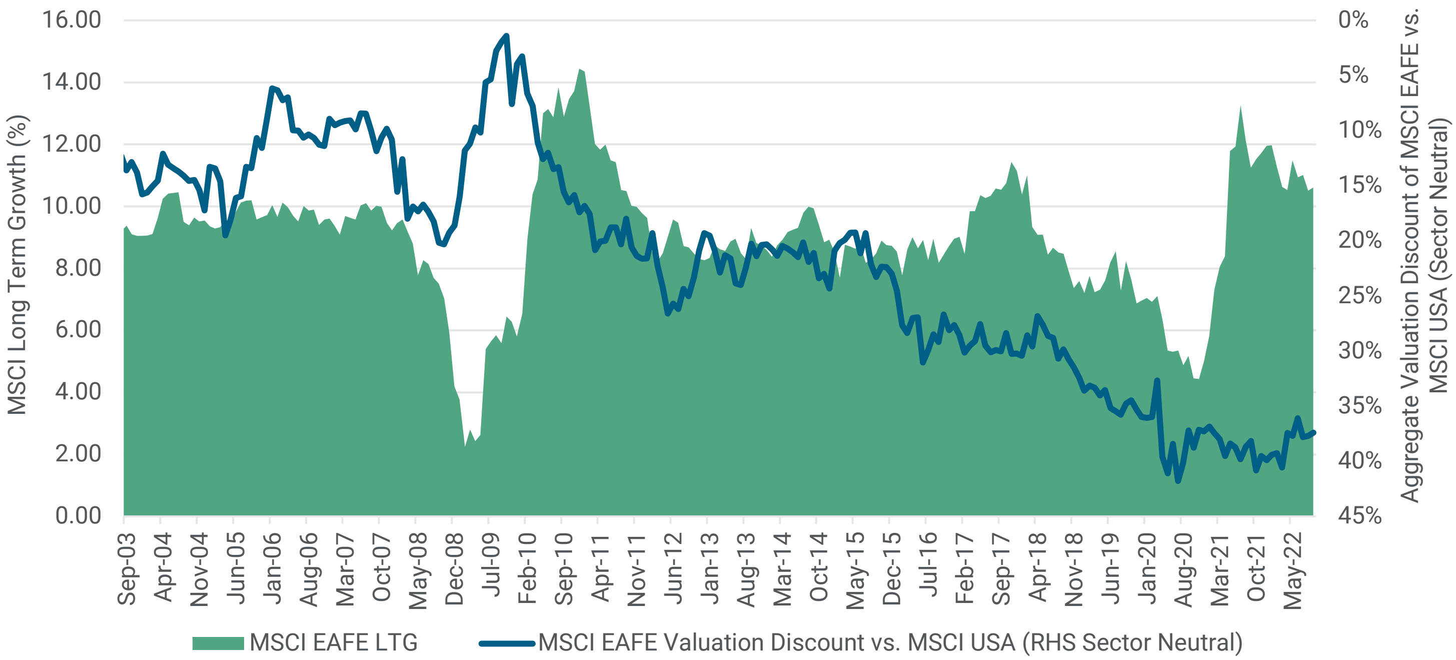
However, we believe that marketplace uncertainty may already be largely priced in to current valuations as these concerns are all well known. Since we believe negative market sentiment has already been priced into international equities, any positive (or even less disappointing) news could spur a rebound. The potential is enhanced if internationally domiciled companies can maintain long-term earnings growth, as that possibility might not be reflected in today's valuations.

International equities are trading at near the lowest discount levels of the past 20 years relative to those of U.S. companies, and this applies to both developed and emerging markets.

Additionally, the markets may not be recognizing that many companies operating in international markets also benefit from global exposure. And we expect that they could also offer attractive long-term potential, especially if recent long-term earnings growth forecasts from sell side analysts and MSCI are considered.

International vs. U.S. Equity Valuations and Expected Long Term International Earnings Growth

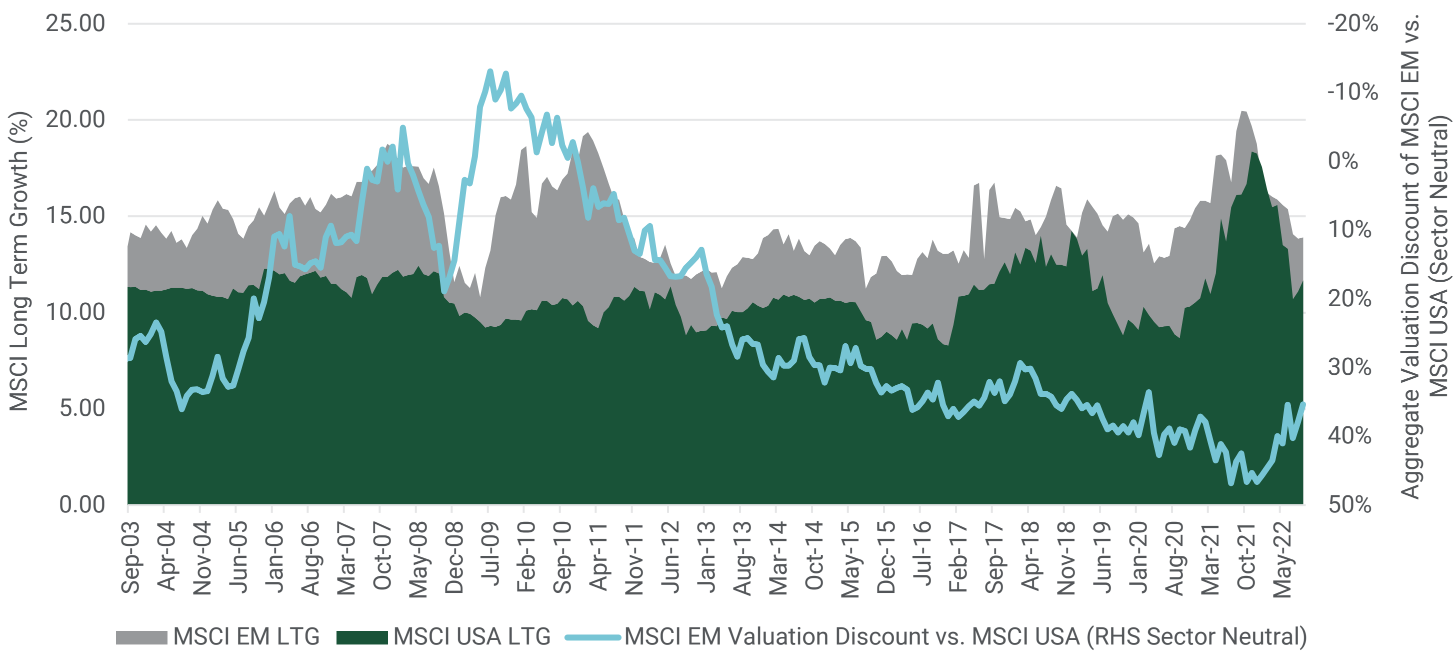
Long-Term Earnings Growth of MSCI EAFE and Sector Neutral Valuation vs. MSCI USA



SEPTEMBER 30, 2003 TO SEPTEMBER 30, 2022 | Source: MSCI via FactSet. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. For each fundamental ratio (Price/Book, Forward Price/Earnings, Price/Cash Flow), we calculate the average ratio of the MSCI EAFE Index and divide it by the average ratio of the MSCI USA Index to determine the relative valuation. Aggregate valuation discount based on the average of each individual metric's valuation discount of the MSCI EAFE index relative to MSCI USA index. Expected 3-5 year earnings growth of the companies in the index.

Emerging Markets vs. U.S. Equity Valuations and expected Long Term Earnings Growth

Long-Term Earnings Growth of MSCI Emerging Markets and MSCI USA, and Sector Neutral Valuation of MSCI EM vs. MSCI USA



SEPTEMBER 30, 2003 TO SEPTEMBER 30, 2022 | Source: MSCI via FactSet. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. For each fundamental ratio (Price/Book, Forward Price/Earnings, Price/Cash Flow), we calculate the average ratio of the MSCI EM Index and divide it by the average ratio of the MSCI USA Index to determine the relative valuation. Aggregate valuation discount based on the average of each individual metric's valuation discount of the MSCI EM index relative to MSCI USA index. Expected 3-5 year earnings growth of the companies in the index.

Record Valuation Discount Positions International Equities For Long Term Potential

Historically, when valuation discounts for international equities (compared to U.S. equities) have reached levels that are present now, they have tended to be followed by strong subsequent performance for international equities, and for European equities specifically. When the gap has narrowed, or the discount has favored U.S. markets (as last seen over a decade ago), in the past that pattern has tended to portend relatively weaker returns for international and European equities.

Over the last two years, large- and mid-cap European equities reached their largest-ever discounts relative to the U.S. on a sector-neutral basis. This was also true for international equities, which even reached the discount level that U.S. equities traded at relative to international equities during the late 1980s Japan bubble. The discount level recorded at that time preceded notable U.S. equity outperformance during the next three years.

International vs. U.S. Equity Valuations and Returns

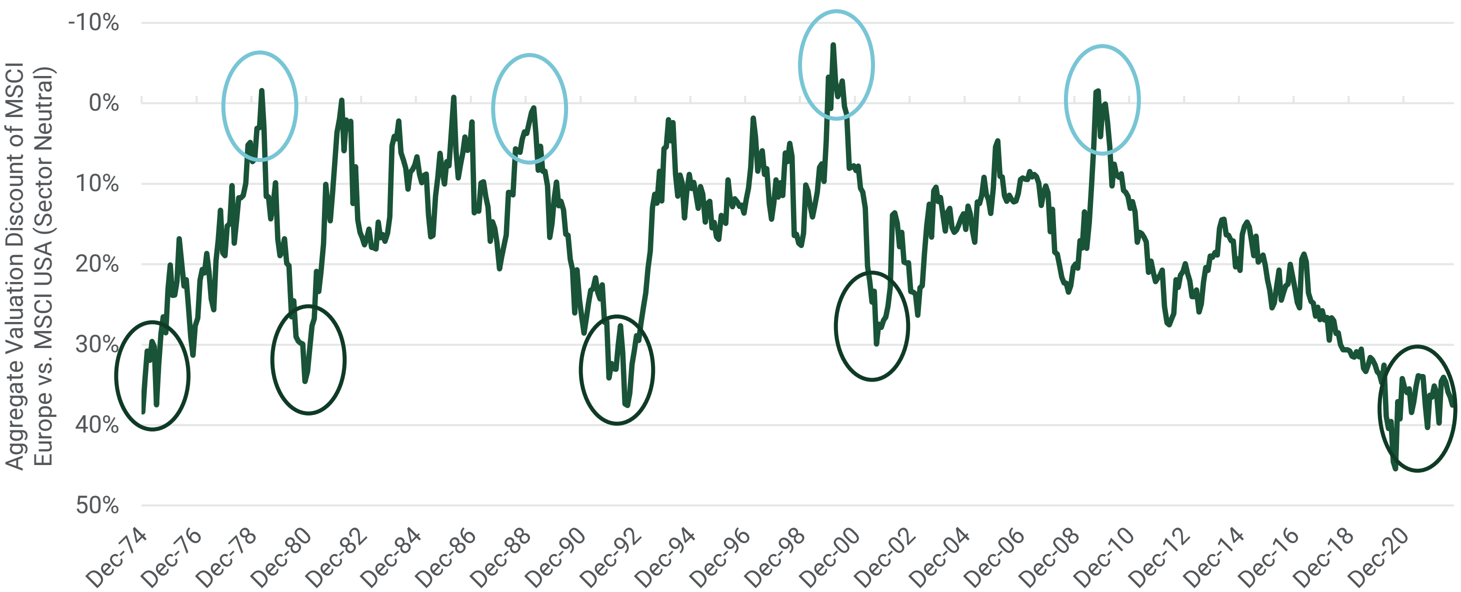
Sector Neutral Valuation of MSCI EAFE vs. MSCI USA

Largest EAFE Discounts | **Largest EAFE Premiums**

Cumulative Returns	Dec 74 – Dec 79	Jul 92 – Jul 95	Nov 01 – Nov 06	Feb 89 – Feb 92	Apr 94 – Apr 99	Oct 09 – Oct 19
MSCI USA	11.7%	12.3%	5.5%	**16.0%**	**27.2%**	**13.0%**
MSCI EAFE	**17.9%**	**16.0%**	**14.4%**	-4.3%	8.7%	5.4%

DECEMBER 31, 1974 TO SEPTEMBER 30, 2022 | Source: MSCI via FactSet. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. For each fundamental ratio (Price/Book, Price/Earnings, Price/Cash Flow), we calculate the average ratio of the MSCI EAFE Index and divide it by the average ratio of the MSCI USA Index on a sector neutral basis to determine the relative valuation. Aggregate valuation discount based on the average of each individual metric's valuation discount of the MSCI EAFE index relative to MSCI USA.

European vs. U.S. Equity Valuations and Returns
Sector Neutral Valuation of MSCI Europe vs. MSCI USA



	Discount >30%				Discount ~0% or Less			
Cumulative Returns	Dec 74 – Dec 79	Nov 80 – Nov 90	Jul 92 – Jul 95	Sep 01 – Sep 06	Dec 79 – Dec 80	Feb 89 – Feb 92	Feb 00 – Feb 01	Oct 09 – Oct 19
MSCI USA	11.7%	11.7%	12.3%	6.2%	**27.9%**	**16.0%**	**-11.0%**	**13.0%**
MSCI Europe	**18.9%**	**16.2%**	**14.0%**	**15.1%**	14.5%	11.6%	-14.2%	5.7%

DECEMBER 31, 1974 TO SEPTEMBER 30, 2022 | Source: MSCI via FactSet. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. For each fundamental ratio (Price/Book, Price/Earnings, Price/Cash Flow), we calculate the average ratio of the MSCI Europe Index and divide it by the average ratio of the MSCI USA Index on a sector neutral basis to determine the relative valuation. Aggregate valuation discount based on the average of each individual metric's valuation discount of the MSCI Europe index relative to MSCI USA.

A Strong U.S. Dollar Could Also Lift International Companies

A primary headwind for international equities over the past decade has been the strength of the U.S. dollar. It has now reached almost its highest level during the last half-century after a period when it dipped to its lowest-ever levels in 2011.

Historically, changes in U.S. dollar strength versus international currencies have been correlated with international stock performance cycles against U.S. stocks. During comparable periods—the 1970s, mid-80s, and early 2000s—which preceded a robust performance by international stocks, the U.S. dollar's strong appreciation had stopped, or dropped, after reaching similarly elevated levels. While U.S. dollar weakness—in the late 1970s, early 1990s and a decade ago—aligns with strong U.S. stock returns relative to international stocks.

Over the past 50 years, these cycles have lasted about seven to 10 years each. The current cycle has now just extended slightly beyond a decade.

From a fundamental perspective, a strengthening dollar is a headwind for investing in international stocks. However, the dollar's rapid strengthening/appreciation over the past year-and-a-half also creates potential opportunities for internationally based companies to compete more effectively with U.S. businesses. This scenario exists because, as international currencies decline in value against the dollar, the international company cost base becomes more attractive relative to companies with a core U.S. cost base. And that, too, could help spur more attractive earnings growth for international companies, as shown in the charts used to visualize the data presented in this analysis.

US Dollar Strength Has Correlated With Performance
Real Exchange Rate of USD vs Basket of 27 Currencies

Cumulative Returns from Peaks and Troughs	Aug 71 – Oct 78	Oct 78 – Mar 85	Mar 85 – Aug 92	Aug 92 – Feb 02	Feb 02 – Jul 11	Jul 11 – Aug 22
MSCI EAFE	117.9%	70.3%	241.5%	58.3%	94.6%	48.1%
MSCI USA	3.6%	132.1%	170.5%	208.5%	34.4%	254.8%
EAFE Relative to USA	**+114.3%**	**-61.8%**	**+71.0%**	**-150.2%**	**+60.2%**	**-206.7%**

AUGUST 31, 1971 TO AUGUST 31, 2022 (2010 = 100) | Source: MSCI via FactSet and BIS. Real Exchange Rate based on BIS (Bank for International Settlements) narrow indices which cover 27 economies for the relative value of the U.S. dollar. Upward slope represents a strengthening dollar relative to foreign currencies. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

International Equities Deserve Reconsideration

On balance, we believe that it's in long-term investors' interest to review their portfolios and to assess the go-forward opportunity that international equities represent. We think the data and analysis shared here bode well for the potential of international investments. Despite legitimate concerns about known near-term headwinds, reconsidering the future value of international equities could be warranted.

Price/Cash Flow: Price per share divided by cash flow per share.

Price/Book: Price per share divided by book value per share.

Price/Earnings: Price per share divided by earnings per share.

Forward Price/Earnings: Price per share divided by earnings per share expected over next 12 months.

The MSCI EAFE Index with net dividends captures large and mid cap representation of developed market countries excluding the U.S. and Canada.

The MSCI Emerging Markets Index with net dividends captures large and mid cap representation of emerging market countries.

The MSCI Europe Index with net dividends captures large and mid cap representation of developed market countries in Europe.

The MSCI USA Index is designed to measure performance of the large and mid cap segments of the U.S. market.

The S&P 500 Index measures equity performance of 500 of the top companies in leading industries of the U.S. economy.

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