



July 2023

# Observations in Global Equities

TP974

*All data in this presentation is as of 30 June 2023 unless otherwise noted.*





## Observations in Global Equities



Global Equity  
Themes

Recession  
Risks

Moderating  
Inflation

Narrow Market  
Leadership

Relative Value  
Assessment

# Global Equity Themes

Second Quarter 2023

## MACRO

- Central banks in many of the world's major economies continued to raise rates over the first half of 2023 to slow growth and curb inflation. While global growth and inflation both appear to be moderating, Fed Chairman Powell maintains his hawkish posture with markets no longer forecasting U.S. rate cuts in 2023.
- The probability of a U.S. recession in 2023 appears to have declined as employment levels remain near historic lows and the banking crisis experienced during 1Q has thus far had only a modest impact on growth.
- Aided by lower energy prices and tighter credit conditions, global inflation is trending down but at a diverging pace across regions. Currently at 4%, U.S. CPI remains above target but is significantly lower than levels in the Eurozone and UK.

## VALUATIONS / FUNDAMENTALS

- Volatility of financial asset prices has declined in recent months as better than expected economic prints have buoyed investor sentiment. Despite calm waters, risks remain. The impact of rising rates has been felt in certain areas, but the full implications of a more normalized cost of capital has likely yet to fully make its way through economy.
- Absolute valuations of U.S. stocks are elevated relative to their history. The S&P 500 is currently trading at 18.3x (12mo fwd earnings), above its longer-term average of 15x-16x. Relative to many non-U.S. markets, U.S. stocks are also trading well above long-term averages.
- Participation in the year-to-date rally has mostly been limited to growth sectors. Even within growth, breadth has been especially narrow, led by a handful U.S. technology stocks. Leadership will likely need to broaden out for the rally to continue.

## Global Equities: Major Indices in Positive Territory during First Half of 2023

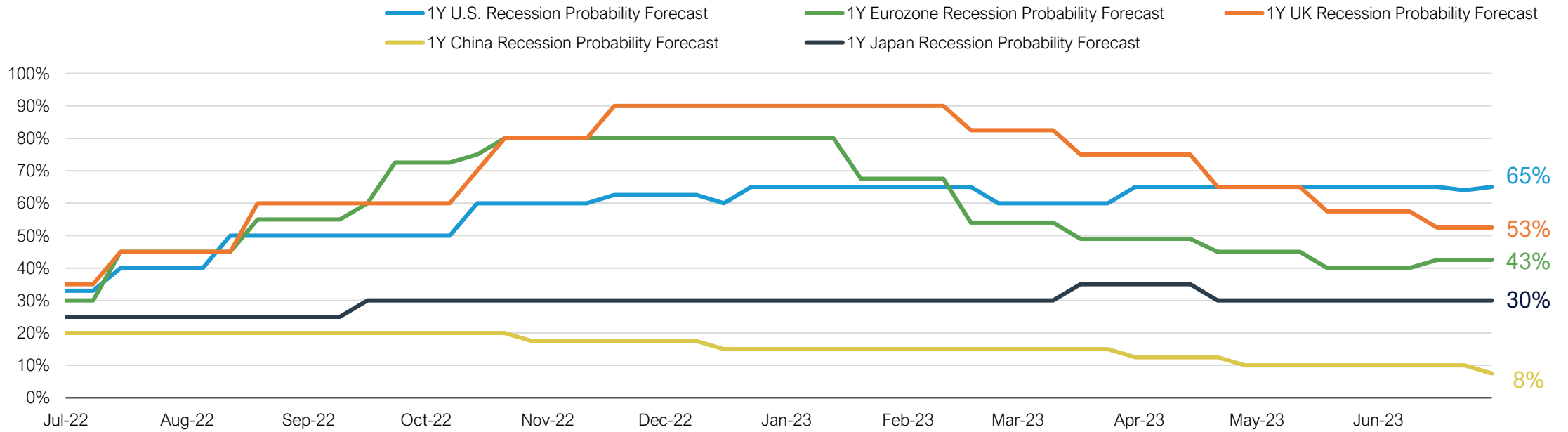
Total Returns, Selected Global Indices (USD) as of 6/30/23

	2016	2017	2018	2019	2020	2021	2022	YTD 2023
USA: S&P 500	11.96%	21.83%	-4.38%	31.49%	18.40%	28.71%	-18.11%	16.89%
USA: Russell 3000 Growth	7.39%	29.59%	-2.12%	35.85%	38.26%	25.85%	-28.97%	28.05%
MSCI EAFE	1.00%	25.03%	-13.79%	22.01%	7.82%	11.26%	-14.45%	11.67%
MSCI AC World ex-U.S.	5.01%	27.77%	-13.78%	22.13%	11.13%	8.29%	-16.00%	9.47%
MSCI AC World	7.86%	23.97%	-9.42%	26.60%	16.25%	18.54%	-18.36%	13.94%
MSCI Emerging Markets	11.19%	37.28%	-14.58%	18.42%	18.31%	-2.54%	-20.09%	4.89%
EURO STOXX 50	1.75%	25.25%	-15.61%	26.84%	6.01%	15.58%	-13.97%	21.48%
MSCI AC Asia Pacific (All-Cap)	4.82%	28.94%	-14.16%	18.70%	19.16%	5.54%	-9.89%	10.57%
Russell 2500 Growth Total Return	9.73%	24.46%	-7.47%	32.65%	40.47%	5.04%	-26.22%	13.37%
Russell 2500 Total Return	17.59%	16.81%	-10.00%	27.77%	19.99%	18.18%	-18.37%	13.55%

Source: MSCI, Bloomberg, Thornburg Investment Management

# Global Macro: Recession Probabilities Elevated but Abating in Select Regions

Median probability projections of private economists

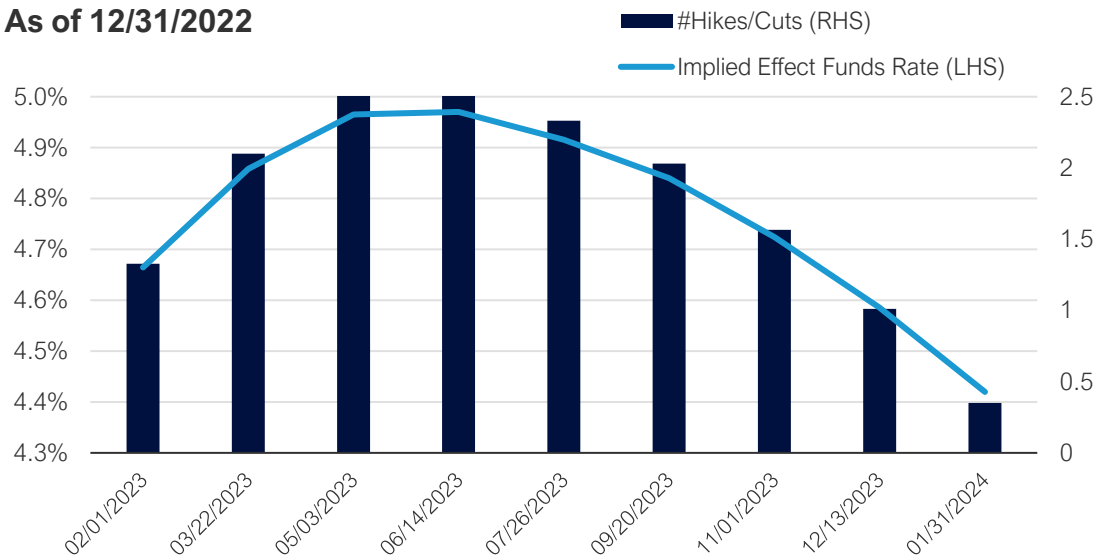


Source: Bloomberg

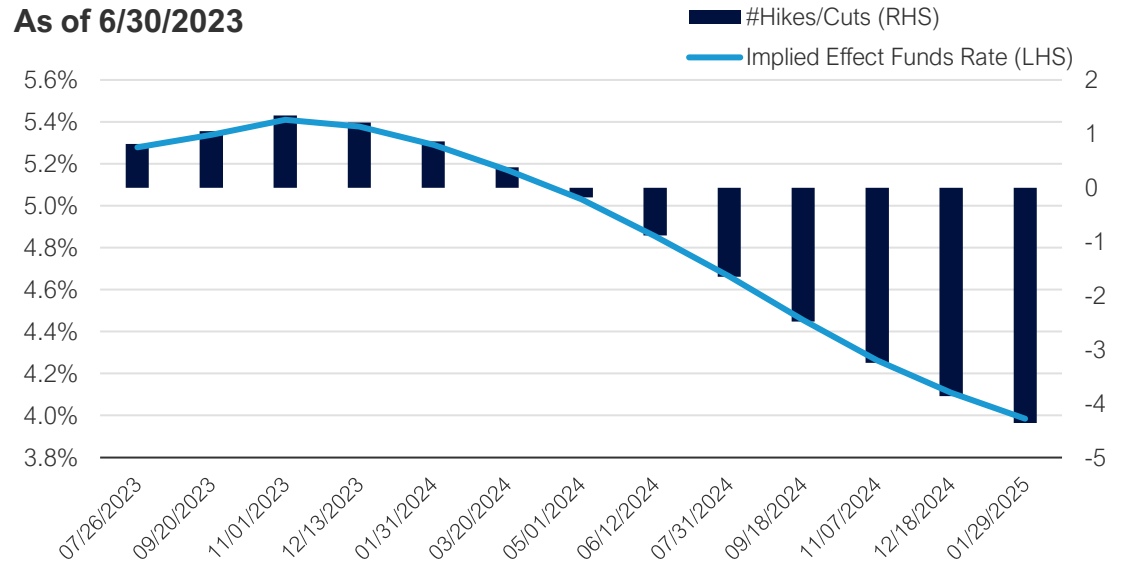
# Global Macro: “Don’t Fight the Fed”

Markets no longer expecting rate cuts until 2024

As of 12/31/2022



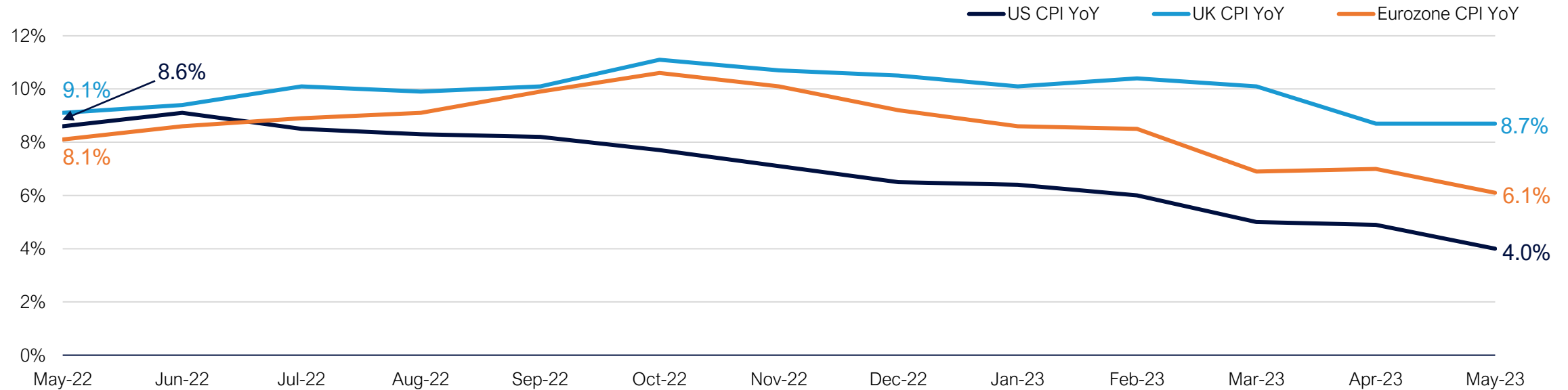
As of 6/30/2023



Past performance does not guarantee future results.

Source: Bloomberg

# Global Macro: Inflation is Trending Down but at Diverging Rates across Regions

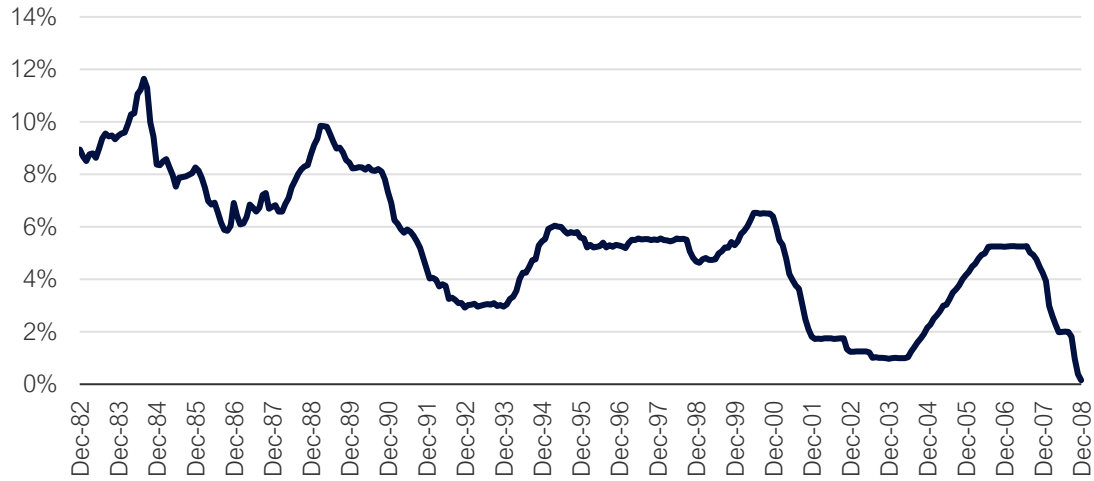


Source: Bloomberg, as of 5/31/23

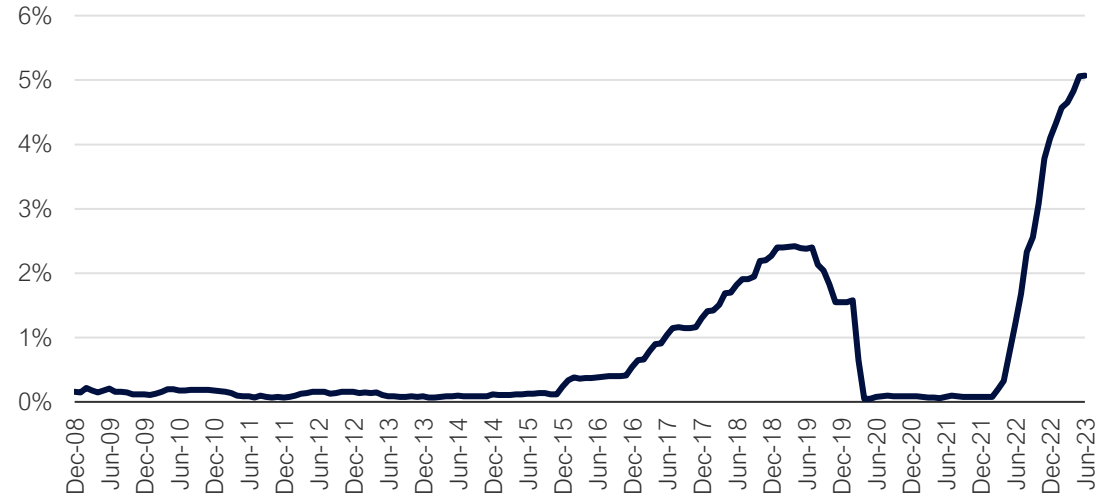
# Global Macro: A Return to Normal?

Higher rates favor companies with positive cash flow and better stewardship of investor capital

**EFFECTIVE FED FUNDS RATE, 1982-2008: AVERAGE 5.31%**



**EFFECTIVE FED FUNDS RATE, 2008-2023 YTD: AVERAGE 0.75%**



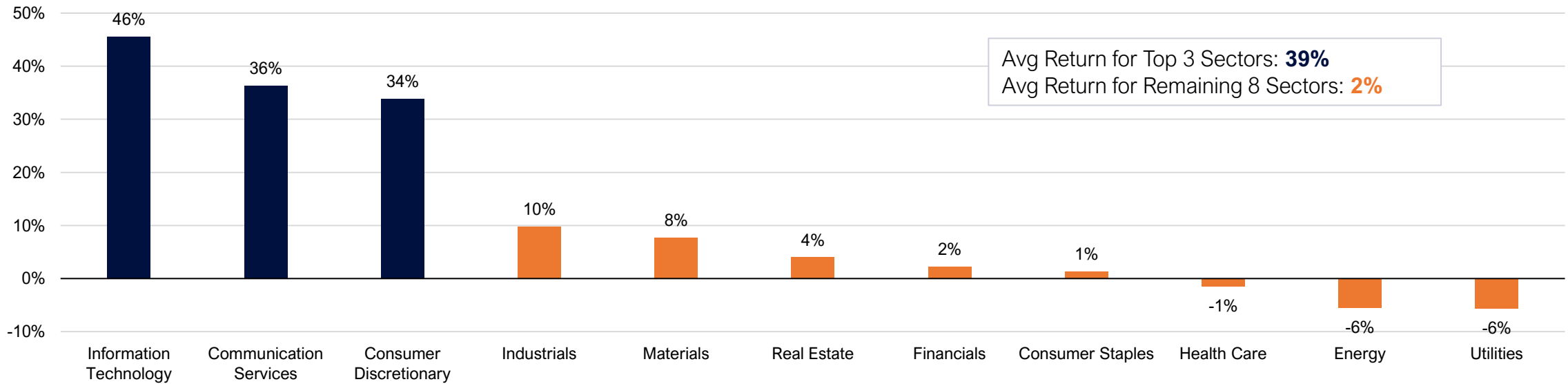
*Past performance does not guarantee future results.*

Source: Bloomberg, as of 6/30/2023



# Narrow Market Breadth: An Extreme Performance Disparity across Sectors

S&P 500: Total Returns by GICS Sector (1H23)



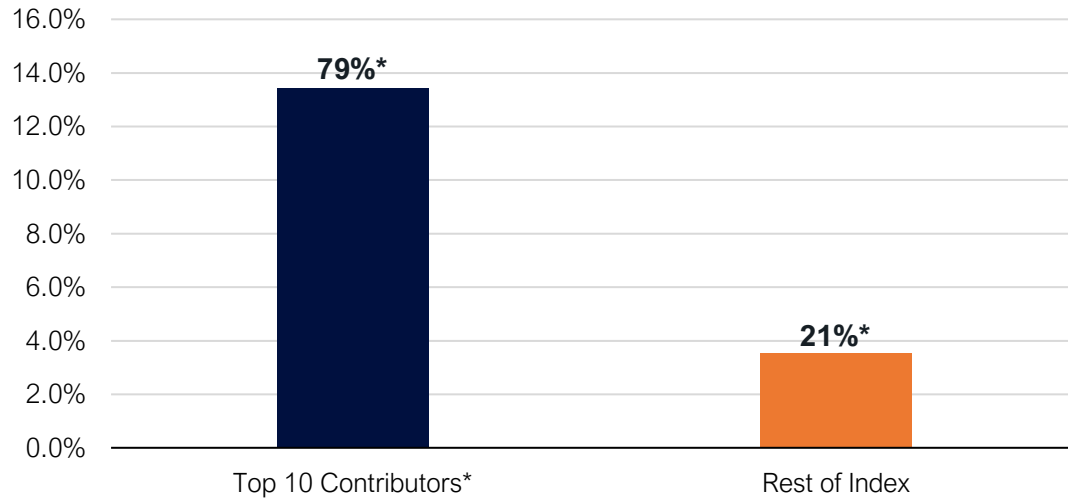
*Past performance does not guarantee future results.*

Source: FactSet

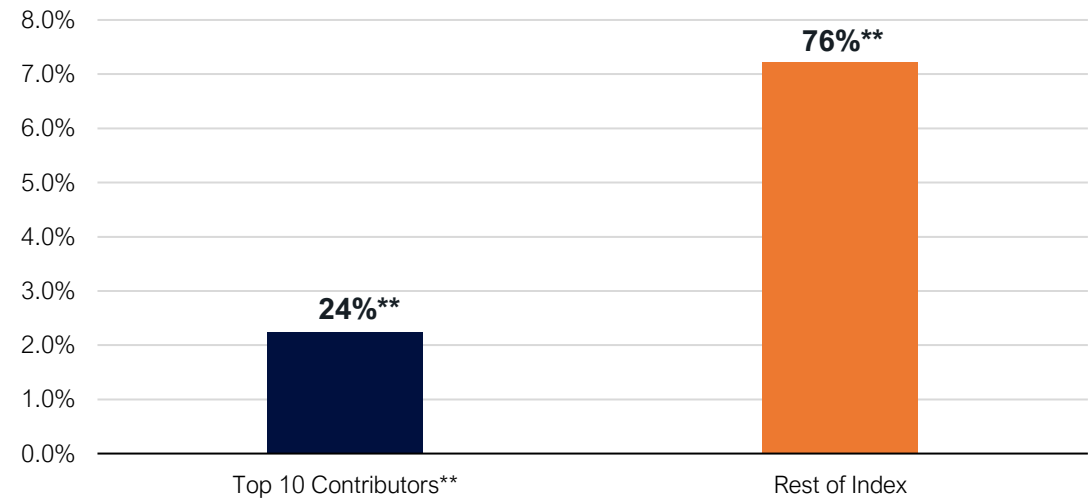
# Narrow Market Breadth: Top Stocks Explain Most of U.S. Returns

Rebound in the S&P 500 has been driven by a handful of mega-cap tech stocks

**Contribution to S&P 500 1H23 Return**



**Contribution to MSCI ACWI ex-US 1H23 Return**



*Past performance does not guarantee future results.*

Source: FactSet

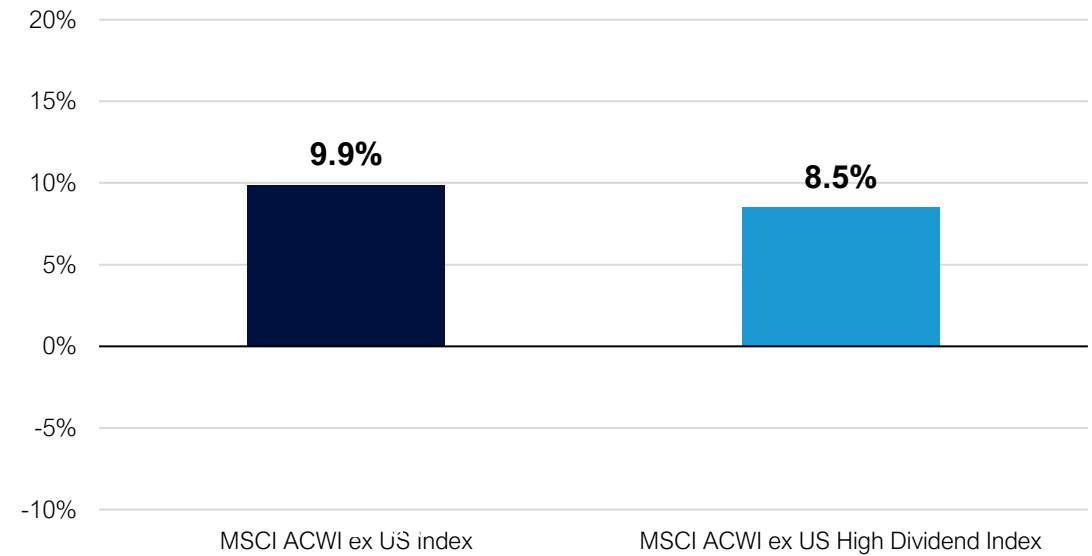
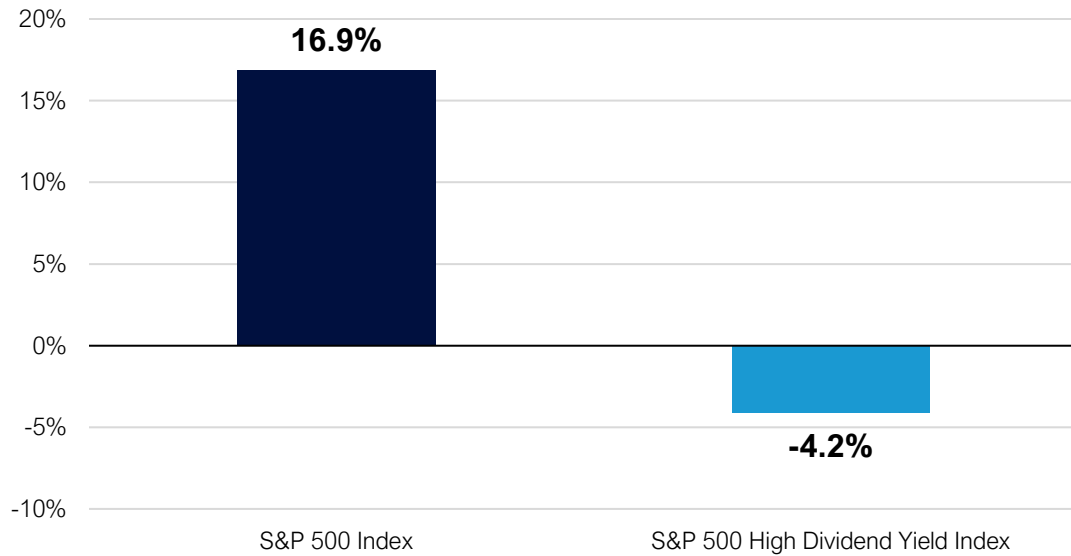
\*Includes percentages of the contribution to return represented by Apple, Microsoft, Nvidia, Tesla, Meta, Amazon, Alphabet, Salesforce, AMD and Broadcom and the rest of the index.

\*\*Includes percentages of the contribution to return represented by TSMC, ASML, LVMH, Novo Nordisk, HSBC, Samsung, Shopify, SAP, Novartis and Siemens and the rest of the index.

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# U.S. Dividend Stocks have Lagged the Rally, but Non-U.S. Dividend Stocks Have Kept Pace

## 1H23 Performance of Select Indices

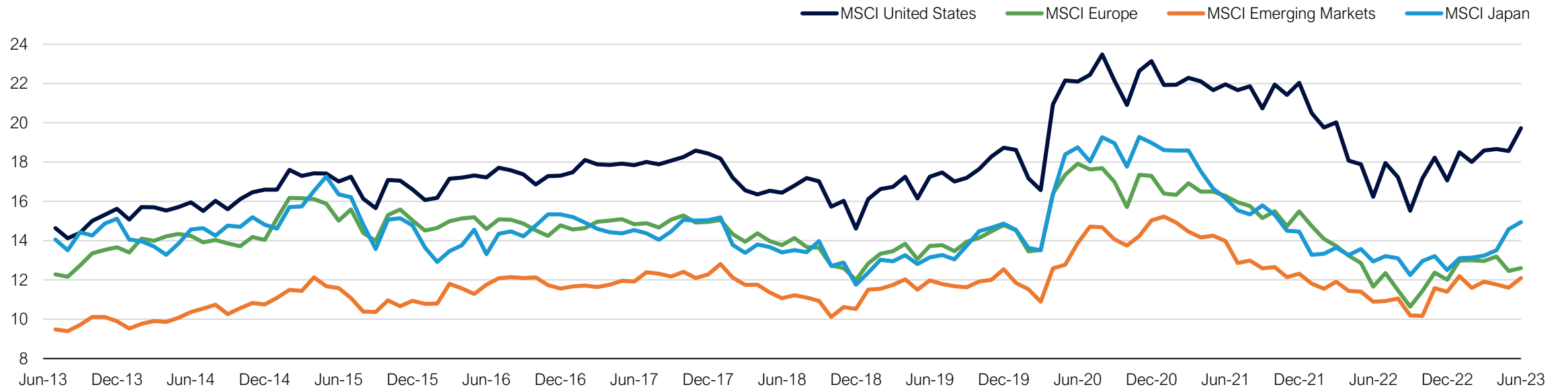


Past performance does not guarantee future results.

Source: FactSet, as of 6/30/2023

# Relative Valuations Support Non-U.S. Assets

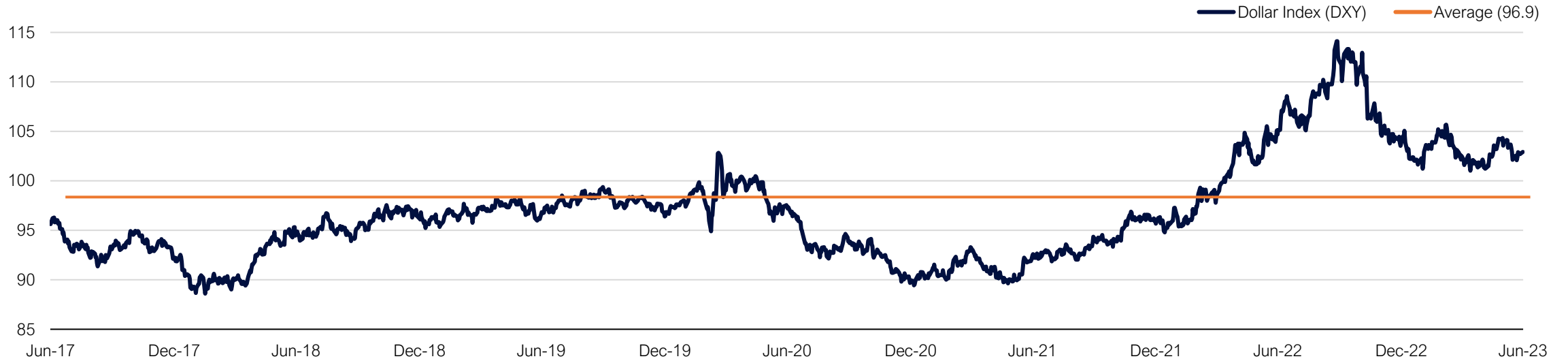
12-Month Forward P/E Ratio



Source: Bloomberg, as of 6/30/2023

# Has the U.S. Dollar peaked?

U.S. Dollar Index (DXY) has weakened against foreign currencies but remains above its longer-term average



Source: Bloomberg, as of 6/30/2023

# Relative Value Assessment

## Global Equity Markets

Market	Outlook	Positioning
Macro	Volatility in equity markets has calmed but risks remain in play. Aggressive policy tightening by the Fed exposed stresses in the banking system, but the full impact to the economy will likely play out over years. We expect to see increasing bifurcation in company-level results as economic activity likely slows.	Amid slowing global growth. We continue and favor structurally durable companies with pricing power and the ability to navigate a variety of market environments.
U.S. Equities	Valuations remain elevated relative to non-U.S. assets. Growth leadership has been particularly one-sided in the U.S., and we remain cautious given historically narrow market breadth, a more complicated corporate earnings outlook, and tighter credit standards that will likely remain in place through all of 2023.	Given high relative multiples vs international markets, earnings resilience remains especially key for U.S. stocks through the remainder of 2023. We continue to be selective and favor firms we believe can effectively navigate an environment of lower growth.
International Equities	While sentiment for non-U.S. equities has improved significantly over recent quarters, we continue to see pathway for continued improvement.	Relative valuations in Europe look increasingly attractive as energy supply concerns moderate and the economic outlook improves.
Emerging Market Equities	Despite a lag in recovery versus developed markets and equal exposure to inflation and macroeconomic uncertainty, many long-term structural drivers remain intact. A continued China reopening may be a catalyst for global growth.	Economic growth potential appears stronger relative to many developed markets. Select emerging market countries provide pockets of opportunity not currently reflected in valuations.

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The MSCI China Index captures large- and mid-cap representation across China H shares, B shares, Red chips, P chips, and foreign listings (e.g. ADRs). With 461 constituents, the index covers about 85% of this China equity universe.

The MSCI Brazil Index is designed to measure the performance of the large- and mid-cap segments of the Brazilian market. With 54 constituents, the index covers about 85% of the Brazilian equity universe.

The MSCI World Net Total Return USD Index is an unmanaged market-weighted index that consists of securities traded in 23 of the world's most developed countries. Securities are listed on exchanges in the U.S., Europe, Canada, Australia, New Zealand, and the Far East. The index is calculated with net dividends reinvested in U.S. dollars.

The MSCI AC World ex USA (Gross/Net) Index is a market capitalization weighted index representative of the market structure of 46 developed and emerging market countries in North and South America, Europe, Africa, the Middle East, and the Pacific Rim, excluding securities of United States issuers. Beginning in January 2001, the index is calculated with net dividends reinvested in U.S. dollars. Prior data is calculated with gross dividends.

The MSCI World Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed markets countries.

The MSCI World Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across 23 developed markets countries.

The S&P 500 Total Return Index is an unmanaged broad measure of the U.S. stock market.

S&P SmallCap 600 Index is designed to measure the performance of 600 small-size companies in the U.S., reflecting this market segment's distinctive risk and return characteristics. To be included in the index, a stock must have an unadjusted market capitalization that ranges from \$400 million to \$1.8 billion.

CBOE Volatility Index (VIX Index) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. This volatility is meant to be forward looking and is calculated from both calls and puts.

Gross Domestic Product (GDP) - A country's income minus foreign investments: the total value of all goods and services produced within a country in a year, minus net income from investments in other countries.

P/E - Price/Earnings ratio (P/E ratio) is a valuation ratio of a company's current share price compared to its per-share earnings. P/E equals a company's market value per share divided by earnings per share. Forecasted P/E is not intended to be a forecast of the fund's future performance.

Dividend Yield - A ratio that shows how much a company pays out in dividends each year relative to its share price.

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