# EQUITIES

C|A CAMBRIDGE ASSOCIATES

# Developed Markets Equities

Facts & Figures First Quarter 2024

DM equities returned 8.9% in 1Q and 25.1% in the last 4 quarters for USD investors. The strong performance in 1Q was driven by better-than-expected economic activity data, expectations for central bank policy rate cuts, and continued excitement for companies linked to artificial intelligence. Among major markets, Japan (11.0%) and the US (10.3%) returned the most in 1Q.

- The bloc trades at 16.9x cyclically adjusted cash earnings, which ranks higher than 96% of historical data dating back to 1979. The high valuation level masks dispersion across major DM blocs, with the US trading at levels higher than DM ex US. In particular, the UK's large exposure to cyclical companies has left its equities trading low relative to history.

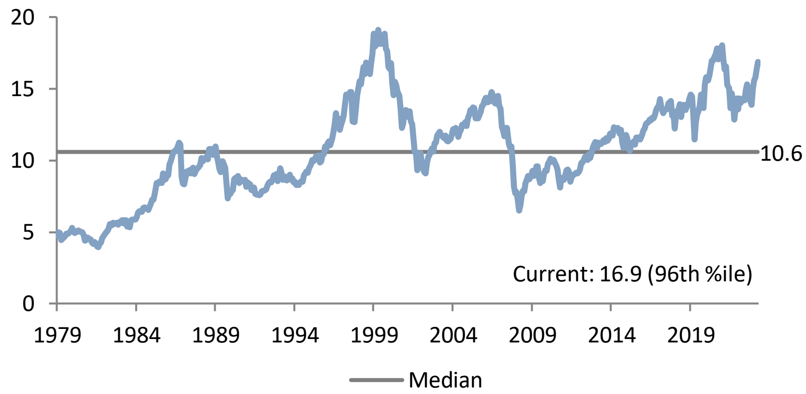
- The global economy is expected to grow by 2.8% in 2024, according to analysts surveyed by Bloomberg in December. Developed economies, which tend to grow at a slower rate than emerging economies, are expected to collectively grow by 1.5%. While low, the 2024 growth expectation is higher than the expectation in December when analysts expected 2024 growth to be 1.2%. Among major developed countries, growth expectations are highest for the US (2.2%), followed by Japan (0.7%), euro area (0.5%), and the UK (0.3%).

- DM corporate earnings are expected to grow by 7.8% in 2024, which is more than the 0.8% pace earnings are expected to have grown in 2023. This year's growth is expected primarily from sales growth, with profit margins expected to remain roughly similar. Among major markets, US and Japanese earnings are expected to grow at levels above DM as a bloc, with the euro area and the United Kingdom below.

- The impact of monetary policy tightening is a key risk for equities. Major DM central banks increased policy rates by considerable amounts in 2022 and 2023. While the market expects key central banks will cut rates in 2024, monetary policy tends to impact economic activity with a lag. If economic growth is lower than expected in 2024, equity performance could be lackluster.

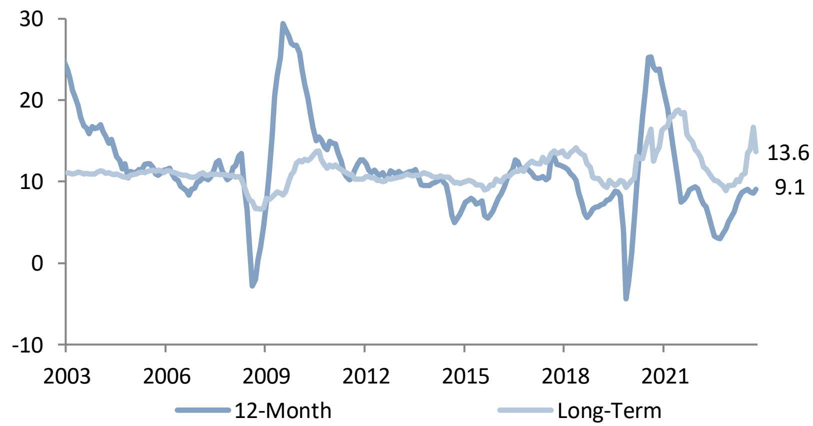
### CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS

Dec 31, 1979 – Mar 31, 2024




### CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Mar 31, 2024 • Percent (%)




Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World Index.

# US Equities

Facts & Figures First Quarter 2024

**US equities outperformed global equities in 1Q 2024, hitting new all-time highs several times during the quarter. The rally was fueled by ongoing positive momentum in AI-related equities and better-than-expected economic data. Growth and large-cap stocks outperformed their value and small-cap counterparts overall but lagged during March, as return contribution for the index broadened over the quarter.**

- US equities' cyclically adjusted price-to-cash earnings multiple edged even higher in Q1 to 21.5x, reaching the 94th percentile of historical data dating back to 1979, but remains lower than the recent high of nearly 24x in 2021. Relative valuation with DM ex US (10.8x) is now at 2.0x, approaching the peak of 2.15x from November 2021. The gap in equity valuations remains stark even after adjusting for sector differences.

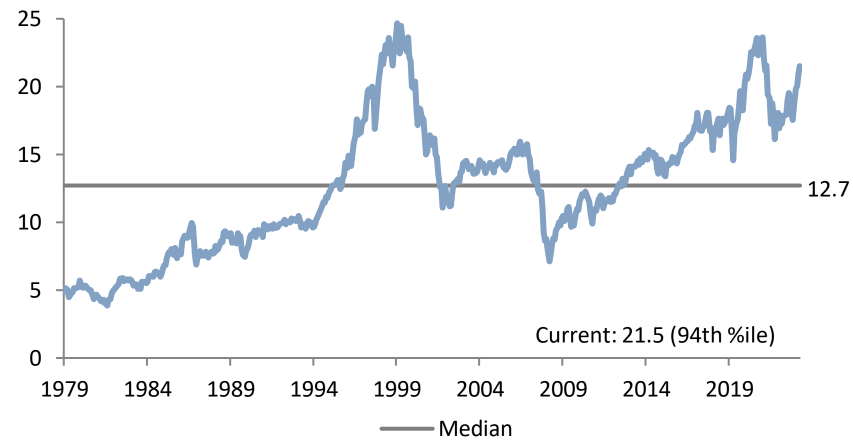
- Latest estimates show that Q4 2023 GDP beat expectations and was revised up to 3.4% and point to 2023 real GDP growth of 2.5% Bloomberg consensus estimates for 2024 and 2025 GDP growth point to a decline in growth rates to 2.2% and 1.7% respectively. However, growth in 2024 is above projections for overall DM GDP growth at 1.5%. In line with positive economic updates, the Fed also raised its outlook for 2024 real US GDP growth in March to 2.1% from 1.4% in December. The Fed's monetary policy response to inflation, amidst labor market strength, remains a focal point for influencing expectations.

- While analyst expectations for 2023 corporate earnings growth fell to as low as -0.4% during last year, March estimates showed 2023 earnings growth estimate of 2.7%. Expectations improved due to ongoing economic resilience and heightened growth from AI-related activity. Furthermore, earnings growth estimates increased to 9.8% and 13.9% for 2024 and 2025, respectively, some of the highest rates across major developed economies.

- The risk of a recession and the pace of monetary policy tightening are key risks for equities. With inflation data exceeding expectations in Q1, investors repriced their policy rate cut expectations down to align with the Fed's outlook of three 25-bp cuts in 2024. This led to higher yields and a negative impact on interest-rate sensitive segments of the market such as REITs. In its March update, the Fed held its expectations for its median policy rate of 4.6% in 2024 steady, while raising it 30 bps to 3.9% for 2025.

### CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS

Dec 31, 1979 – Mar 31, 2024




### CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Mar 31, 2024 • Percent (%)


Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI US Index.

# Developed Markets excluding US Equities

Facts & Figures First Quarter 2024

DM ex US equities returned 9.6% in 1Q 2024 in LC terms, narrowly lagging the 10.1% return of broader DM. However, the strong dollar saw a wider performance gap in USD terms, with DM ex US equities returning 5.6% versus 8.9% for broader DM. Equities broadly have been supported recently by strong growth expectations for the tech sector and by strong performance from cyclical sectors on the back of rising GDP growth expectations, particularly for the US.

- The bloc trades at 10.8x cyclically adjusted cash earnings. This is in the 80th percentile of historical data dating back to 1979, and above the long-term median of 9.1x. That valuation multiple remains well below the 16.9x CAPCE of broader DM equities, due to the 21.5x CAPCE enjoyed by US equities. While this gap remains below the COVID-era wides reached in late 2021, it has been widening in recent quarters. A material valuation gap remains after adjusting for sectoral differences.

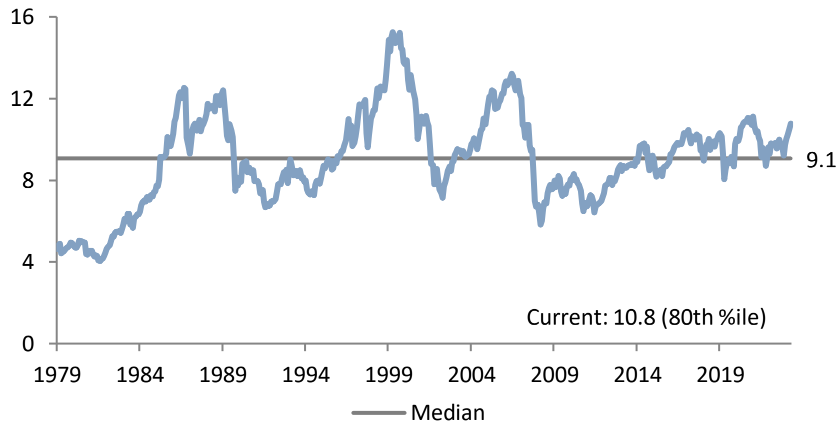
- The global economy is expected to grow by 2.8% in 2024, according to Bloomberg consensus data, up from 2.6% 3 months ago. The perceived odds of a soft landing for the economy, post monetary tightening cycle, has been increasing as economic data has surpassed expectations. The US is expected to continue to outperform the major components of this index. Consensus growth for 2024 is 2.2% for the US, in comparison to 0.7% for Japan, followed by the Eurozone (0.5%) and the UK (0.3%).

- Analysts expect corporate earnings to grow by 6.0% on a 12-month forward EPS basis. This would represent an undershoot of 3.5 ppts to its median long-term expected EPS growth rate. This consensus corporate earnings growth is expected to be driven almost equally by profit margin expansion (from 9.9% to 10.2%) and sales growth (3.0%). This would put the index's profit margin just below the record high-level of 10.3% it reached in 3Q 2022, according to IBES data. But this margin would still be below the current level of the same metric for the US (12.0%).

- EPS expectations for 2024 have been moderating in recent months. On a regional basis, Japan stands out with expected EPS growth of 8.3%, while growth of 4.8% and 3.6% is expected in the EMU and UK.

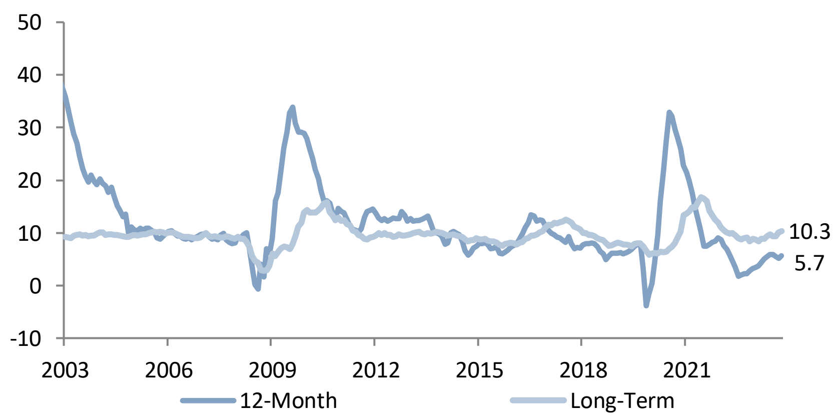
### CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS

Dec 31, 1979 – Mar 31, 2024




### CORPORATE EARNINGS GROWTH EXPECTATIONS

Jun 30, 2003 – Mar 31, 2024 • Percent (%)




Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World ex US Index.

# UK Equities

Facts & Figures First Quarter 2024

UK equities returned 4.0% in 1Q 2024 in LC terms, substantially underperforming the 10.1% returned by broader developed markets. A similar underperformance resulted in USD terms when the UK returned 3.1% versus 8.9% for DM. Partially due to sectoral tilts, the long-term earnings growth of the UK has lagged its peers over a prolonged period and is expected to do so again in 2024.

- The UK's c7yclically adjusted price-to–cash earnings (CAPCE) ratio rose fractionally to 7.3, the 20th percentile. The ratio of the UK's CAPCE to that of DM fell modestly however, to 0.43, in the 1st percentile of observations. When adjusting for the substantial sectoral differences between the indexes, the relative CAPCE stands at 0.63. However, when the weaker expected earnings are considered, i.e., by looking at forward PEs, the ratio of sector-neutral forward PEs stands at 0.80. Overall, the valuation of UK equities remains depressed versus peers.

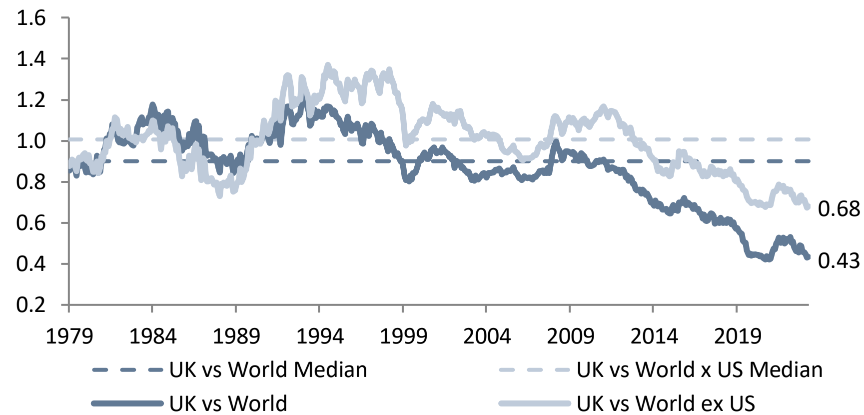
- In general, the UK index has an underweight to growth stocks and an overweight to value stocks. This has been a significant drag on relative performance in recent years. It has proved a headwind once more during 2024, with two of the three top-performing sectors in DM equities during the quarter being the sectors where the UK has the largest relative underweight. In general, these tilts may help the UK in periods of accelerating global growth, particularly when the former are partially driven by rising commodity prices.

- UK EPS are forecast to underperform broader DM by 5.6 ppts over the course of the next 12 months (3.6% vs 9.2%). Sales growth is currently forecast to drive more than all of the EPS growth (4.1%), partially offset by a modest decline in profit margin (11% to 10.9%).

- As with EPS, UK GDP is expected to underperform most peers in 2024. The current consensus for real GDP in 2024 is 0.3% vs 1.5% for developed markets. Though inflation is now easing, the monetary tightening delivered to deal with those pressures, and resultant deceleration in credit growth, in addition to tighter fiscal policy, represent headwinds to UK growth. The uncertainty surrounding a general election at some stage in 2024 could also weigh on confidence. Nonetheless, expectations for the UK are already at a low ebb.

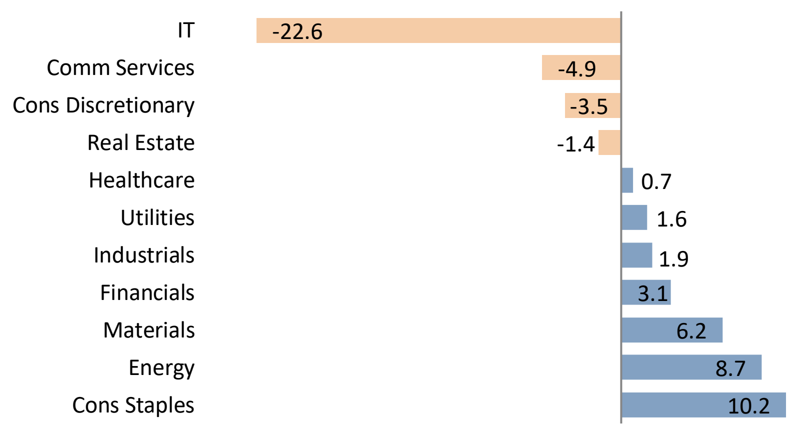
## RELATIVE CAPCE: MSCI UK VS WORLD

Dec 31, 1979 – Mar 31, 2024




## RELATIVE SECTOR WEIGHTS: UK MINUS WORLD

As of Mar 31, 2024 • Percentage Points




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

# Europe ex UK Equities

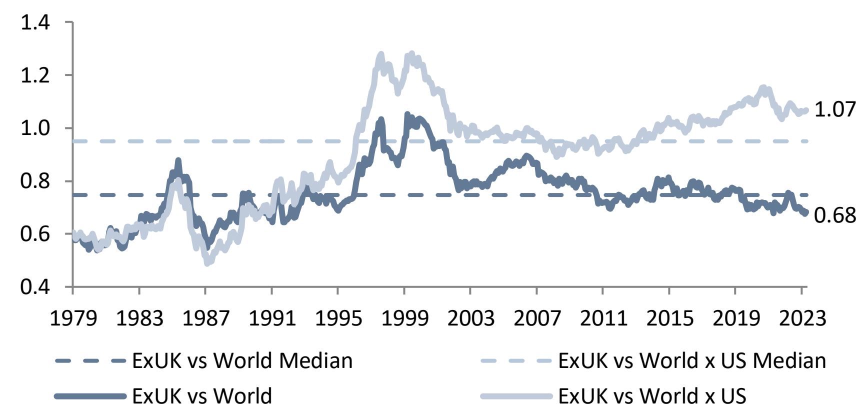
Facts & Figures First Quarter 2024

Europe ex UK equities returned 9.5% in 1Q 2024 in local currency terms, trailing the 10.1% return of DM equities. However, dollar strength against the euro means that the region underperformed to a greater extent in USD terms (5.9% v 8.9%). The underperformance of the region has been driven both by sectoral tilts and idiosyncratic underperformance. Looking forward, earnings growth is expected to continue to lag that of broad DM in the next year.

- The region's CAPCE ratio climbed to 11.5 during the quarter, standing at the 84th percentile of its history. Its CAPCE relative to DM edged slightly lower to 0.68, a little below the long-term median level of 0.75. A large portion of this relative cheapness is due to the comparative richness of the US market, however. The region's CAPCE relative to that of DM ex US remained at 1.07, in the 81st percentile.
- The longer-term underperformance of the Europe ex UK region versus DM more broadly is down to a lower underlying profitability. The return on equity (ROE) for the region has been below that of broader DM for the last decade and the ratio of their ROEs stands at 0.89, albeit that has improved over the past two years and is now just above the long-term median. This is partly due to the region's lower exposures to some of the higher ROE sectors, notably tech. However, sectoral ROEs are lower in ten of the 11 GICS sectors, showing that it's a broader issue. Nevertheless, the region's ROE is greater than that of DM ex US.
- Earnings growth in Europe ex UK is expected to be 6.1% over the coming 12 months, trailing the 9.2% expected of broader developed markets. Sales growth over this period is expected to be 3.0%, while profit margins are expected to expand from 10.0% to 10.3%.
- Consensus estimates of Eurozone GDP growth for 2024 have been stable over the past quarter and stood at 0.5% at year end. This lags the 1.5% growth expected in developed markets more broadly, a slightly improved figure over the quarter based on improving growth expectations for the US. Growth in the Eurozone has been feeble since the end of 2022. Monetary tightening has exerted a greater drag on Europe than elsewhere as seen in weak credit growth. These data started to improve in 4Q, but we would need to see more persistence in this improvement to be confident of a durable recovery.

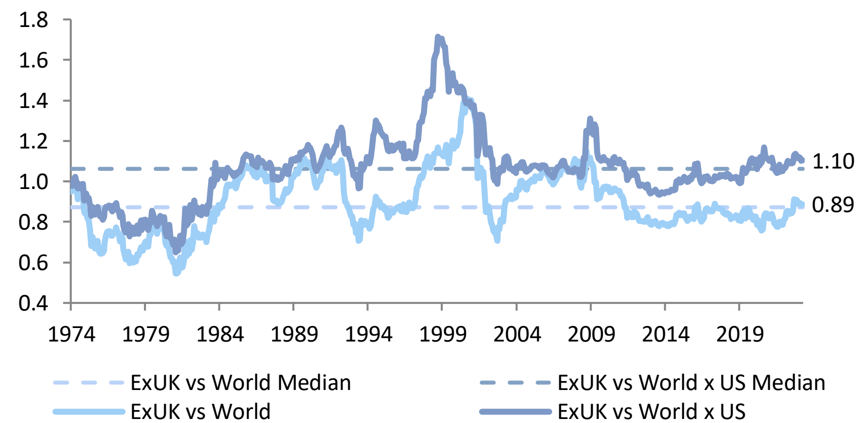
## RELATIVE CAPCE: MSCI EUROPE EX UK VS WORLD AND WORLD EX US

Dec 31, 1979 – Mar 31, 2024




## ROE: MSCI EUROPE EX UK VS WORLD AND WORLD EX US

Dec 31, 1974 – Mar 31, 2024 • Percent (%)




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

# Japanese Equities

Facts & Figures First Quarter 2024

Japanese equities outperformed their developed markets peers in 1Q 2024. Valuations are elevated in absolute terms but below historical median relative to other developed markets. Improving corporate governance and a focus on shareholder returns should help to serve as tailwinds for the market.

- The MSCI Japan Index returned 19.2% in local currency terms and 11.0% in USD terms in 1Q 2024, outperforming DM equities which returned 10.1% and 8.9%, respectively. Over 2023, Japanese equities (28.6%) outperformed DM equities (23.1%) in local currency terms, but underperformed in USD terms (20.3% vs 23.8%) given the yen's weakness.

- The market trades at 12.9x cyclically adjusted cash earnings, which ranks as the 84th percentile of historical observations since 1979. Relative to other developed markets, Japanese equities are at the 40th percentile of historical observations.

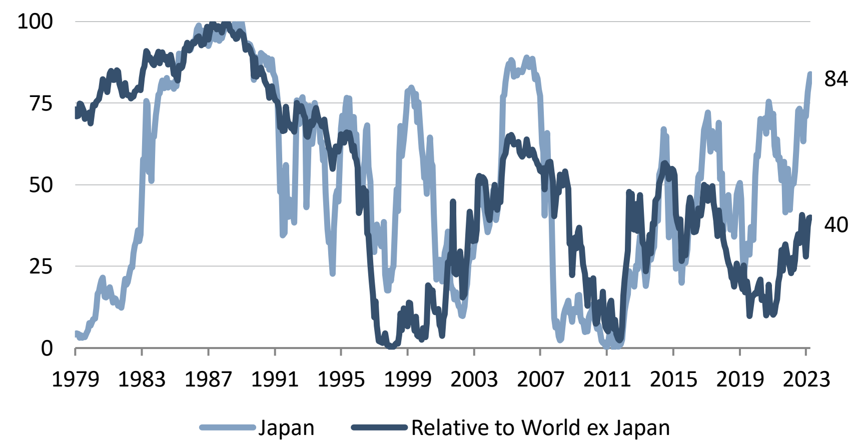
- Accommodative monetary and fiscal policies in Japan have helped to support the market's equity performance in local currency terms, albeit weigh on the yen and erode Japanese equities' outperformance in ~~and~~ USD terms. While the BOJ exited its negative interest rate policy in March, guidance from the central bank indicates further policy tightening will be gradual. Analysts estimates of Japanese EPS growth for FY 2023 (ending March 2024) are high at 13.6%, while EPS growth for FY 2024 (ending March 2025) is forecasted to cool slightly to 8.6%.

- The ROE on Japanese equities currently stands at 9.7%, which is slightly above the historical median. Although Japan's ROE has historically been lower than that of its DM counterparts, an increased focus on corporate governance and shareholder returns in Japan may see this improve.

- As of the end of March, the MSCI Japan Index trailing dividend yield was 1.9%, above the 1.7% historical median. Japanese companies retain significant cash balances and have increased shareholder payouts (dividends plus buybacks) in recent years. Dividend payouts have held up relatively well and may continue to serve as a tailwind for Japanese equities.

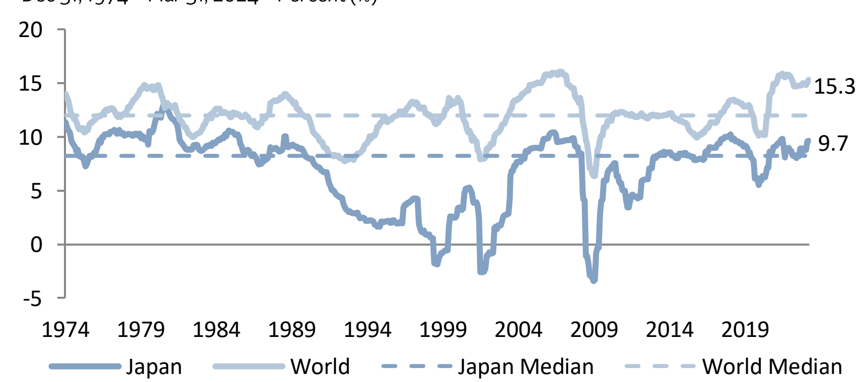
### CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS

Dec 31, 1979 – Mar 31, 2024 • Percentile (%)




### ROE: MSCI JAPAN VS WORLD

Dec 31, 1974 – Mar 31, 2024 • Percent (%)




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

EM equities returned 2.4% in USD terms in Q1, bringing TTM performance to 8.2%. EM has trailed DM in recent years amid global monetary tightening, USD appreciation, and slowing economic activity, particularly in China. China (-2.2%) was once again the primary detractor in Q1, although EM ex China still trailed DM. Taiwan (12.4%), and India (6.1%) were the top contributors to return in Q1.

- EM has trailed DM in recent years, lagging by nearly 14 ppts annualized over the latest trailing three-year period. Recent returns built on an underperformance trend that started in 2010, which has coincided with meaningful USD appreciation. A stronger USD and tightening US financial conditions factored into recent performance as well, along with slowing global economic activity and central bank tightening.

- EM valuations sit near median levels, but exhibit wide dispersion among major countries. A composite valuation metric for Indian equities stands 39% above its 20-year median, whereas the same measure for China trades 24% below median. Broad EM stocks currently trade at a 41% discount to DM, which is near historical lows at the 2nd percentile.

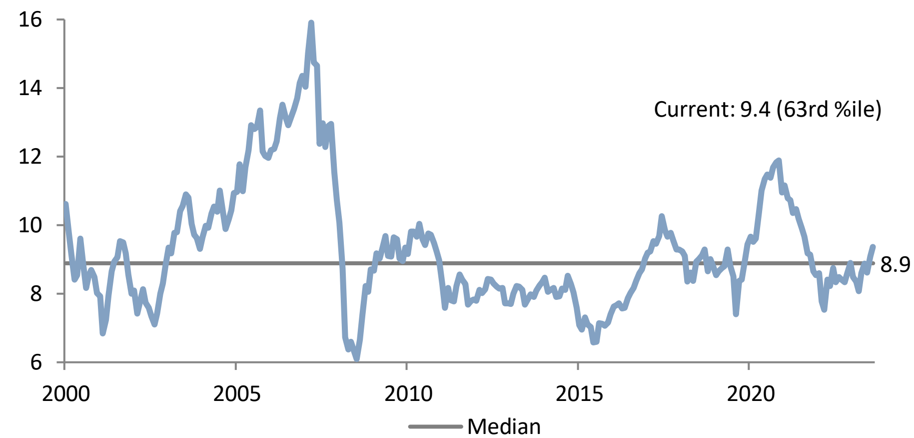
- EM Asia (3.4%) saw divergence in Q1. India was supported by continued robust economic growth (+8.4% YOY in Q4 2023), whereas Taiwan enjoyed the AI-related rally, given its dominance in specialized chip manufacturing. Still, export growth remains weak despite recent stabilization in some markets. Global trade overall—which has been soft in recent months—is key to the outlook for Asian EPS growth.

- LatAm (-4.0%) slumped in Q1, despite resurgent commodity prices. Rate cuts in Brazil and Chile spurred currency depreciation, weighing on returns for non-local investors. EMEA (1.0%) lagged as South Africa (-6.8%) continued to struggle amid ongoing economic challenges.

- Although aggregate EM valuations are low—and expected 2024 EPS (20%) and GDP (4.1%) growth would outperform DM—the outlook for EM stocks is tenuous. The USD may remain strong given expectations for shallow Fed rate cuts and US economic outperformance. Further, lagged impacts of EM central bank tightening and recently weak trade data suggest risks to the EM growth outlook are skewed to the downside. In general, EM equities remain at risk of broader risk aversion, particularly in today's macro and geopolitical environment.

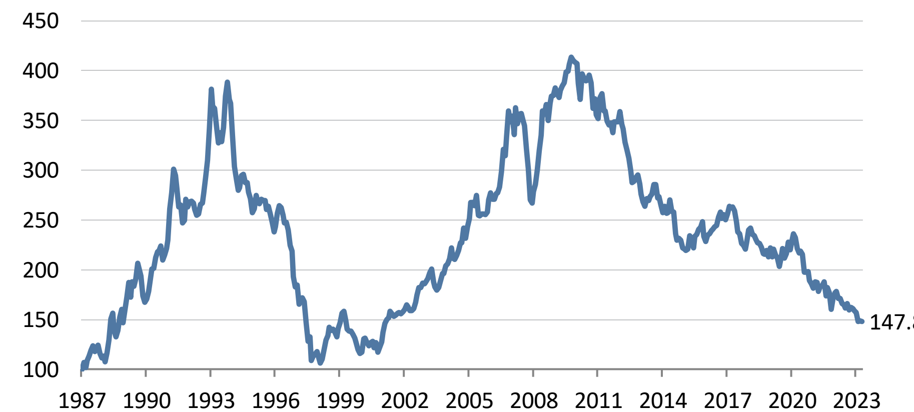
### CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS: MSCI EM

Aug 31, 2000 – Mar 31, 2024




### EM/DM EQUITY RELATIVE CUMULATIVE WEALTH

Dec 31, 1987 – Mar 31, 2024 • US Dollars




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: EM CAPCE based on five-year average real cash earnings. Total returns are gross of dividend taxes prior to January 2001 and net thereafter. EM and DM equities based on the MSCI Emerging Markets Index and MSCI World Index, respectively.

# Asia ex Japan Equities

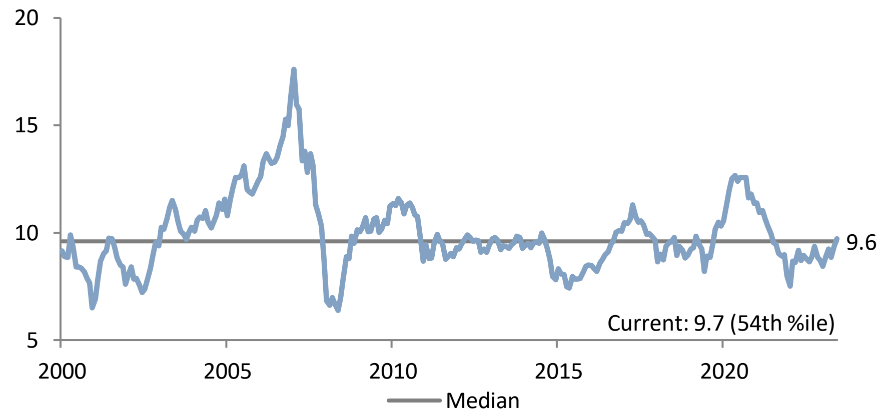
Facts & Figures First Quarter 2024

**Asia ex Japan equities trailed global equities in 1Q 2024 and over 2023. As of the end of March, the index remains down more than 25% from its February 2021 peak in USD terms.**

- Asia ex Japan equities returned 2.4% in USD terms in 1Q 2024, compared to global equities which returned 8.2%. Over 2023, Asia ex Japan equities returned 6.0%, trailing global equities which returned 22.2%.
- Over 1Q, regional and sectoral performance was mixed in USD terms. Taiwan (12.4%) led gains amid a broader rally in IT stocks. Indian equities also posted gains (6.1%) amid more resilient domestic growth activity, while Hong Kong equities (-11.7%) meaningfully underperformed. Across sectors, energy (13.0%) and information technology (9.9%) outperformed, with the former supported by a rise in oil prices. In contrast, real estate (-11.0%) and materials (-5.9%) were the two key sectors which detracted from performance the most.
- Asia ex Japan valuations have risen from their October 2022 lows. The index's CAPCE metric trades at 9.7x, which is the 54th percentile of historical observations. Relative to DM equities, however, Asia ex Japan trades lower at the 4th percentile of historical observations.
- There is wide dispersion among Asia ex Japan country valuations. Most countries currently trade at a discount to historical medians valuations, with the P/B ratio in Hong Kong near its lowest levels on record. Taiwan and India are exceptions where valuations are very elevated.
- Asia ex Japan equities have been impacted by the ongoing weakness in Chinese equities performance. However, China's equity market has shown signs of stabilization in 1Q 2024, and despite the slower-than-expected economic recovery in China, Asia ex Japan real GDP growth expectations for 2024 remain resilient at 4.8%, higher than the growth forecasts for the United States and Europe. Latest analysts' expectations of forward 12M EPS growth for Asia ex Japan continue to move upwards, sitting at 21.2% as of the end of March, topping global counterparts.
- Yet, key risks to these estimates are if global growth and trade volume growth weakens, given the export-oriented and cyclically sensitive nature of most Asia ex Japan markets.

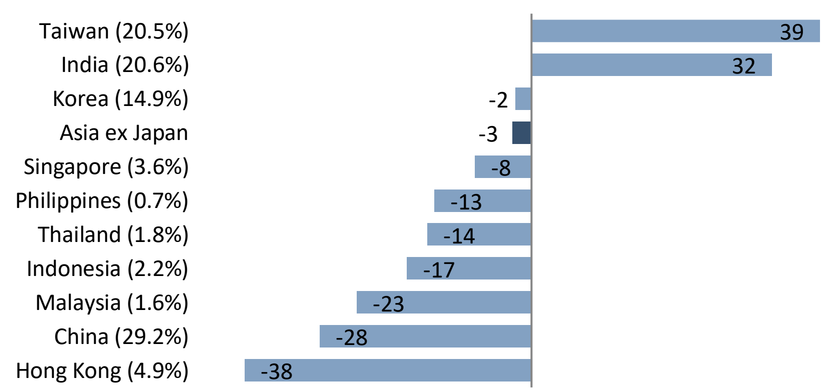
**CYCLICALLY ADJUSTED PRICE-TO–CASH EARNINGS: MSCI ALL COUNTRY ASIA EX JAPAN**

Oct 31, 2000 – Mar 31, 2024




**COUNTRY P/B % DEV FROM HIST MEDIAN: MSCI AC ASIA EX JAPAN**

As of March 31, 2024 • Index Weight in Parentheses




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: CAPCE based on five-year average real cash earnings. Totals may not sum to 100% due to rounding.

# Chinese Equities

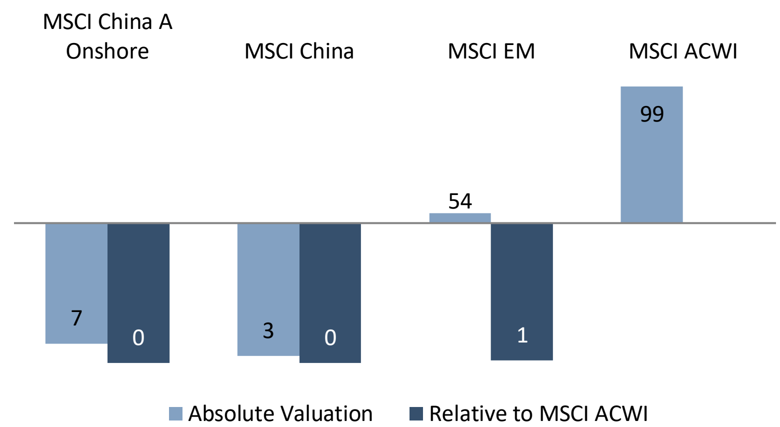
Facts & Figures First Quarter 2024

Chinese equities continued to underperform their global peers in early 2024, although the market showed signs of stabilization in 1Q amid improving economic data and increased stimulus measures. Valuations for Chinese equities remain depressed.

- Chinese A-shares, as measured by the MSCI China A Onshore Index, gained 1.2% in 1Q 2024 in local currency terms, while the MSCI China Index, which consists mostly of offshore Chinese equities, declined 1.7%. In comparison, global equities returned 9.5% in 1Q in LC terms. Over 2023, A-shares and the MSCI China Index returned -9.9% and -10.7%, respectively, in LC terms versus 21.6% for global equities.
- Chinese equities bottomed in October 2022 but subsequently rebounded sharply as the government pivoted from its zero-COVID policy. However, performance over 2023 was negative given a slower-than-expected economic recovery arising from weakness in China's real estate sector and manufacturing/exports sector, which weighed on investor sentiments. While Chinese equities sold off further in January, the market has since showed signs of stabilization amid improving recent economic data and increased government stimulus measures.
- Valuations for the MSCI China A Onshore Index, which is tilted towards cyclical sectors, are very low both in absolute terms and relative to global equities. Valuations for MSCI China are similarly depressed. The offshore Chinese stocks are more sensitive to geopolitical concerns and were also hit harder by China's 2021's tech reforms given their overweight to tech.
- Chinese equities consist of mainland China-listed A-shares, Hong Kong-listed Chinese companies, and US-listed Chinese companies. The MSCI China Index, which is the China equity universe of the MSCI EM Index, is tilted towards Hong Kong-listed (74%) and US-listed (8%) securities, with just a 17% weight to A-Shares.
- Active China-dedicated managers have historically demonstrated an ability to add value over the A-share index, given the retail-driven nature of the market. However, the A-share market is underweight the technology sector, with most Chinese tech companies listed offshore in Hong Kong or the US. Managers with flexible "All China" mandates can offer exposure across the China equity universe.

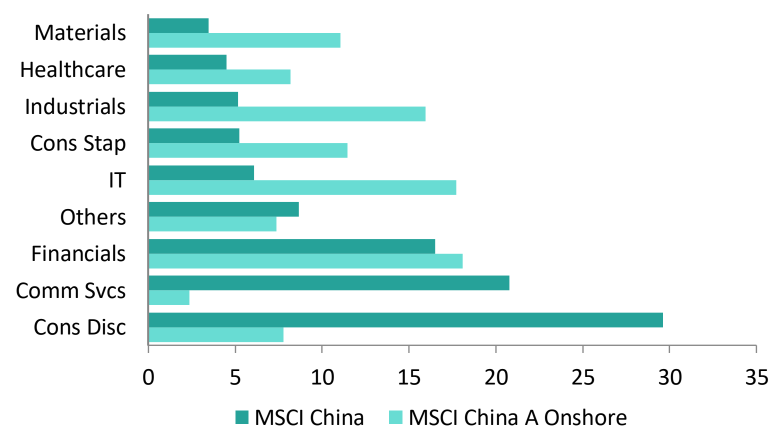
### ROE-ADJUSTED P/E: PERCENTILE

Mar 31, 2005 – Mar 31, 2024




### SECTOR WEIGHTS

As of Mar 31, 2024 • Percent (%)




Sources: FactSet Research Systems, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Sector weight for "Others" consists of Real Estate, Utilities, and Energy. Totals may not sum to 100% due to rounding.

# US Small-Cap Equities

Facts & Figures First Quarter 2024

US small-cap equities returned 5.6% in 1Q, trailing their mid- and large-cap peers (10.3%). Over the past 12 months, small caps trailed large caps by nearly 10 ppts.

- Small-caps' relative performance in 1Q was due solely to performance in January, during which small caps trailed broader equities by 5 ppts. Large-cap tech stocks powered higher as strong economic data keep investors optimistic that a soft landing was achievable. In February and March, small caps bested large caps, but by negligible amounts.

- The key headwind for small caps this year has been the repricing of rate cut expectations. Late last year, investors had expected the Fed to cut rates substantially, but better-than-expected economic data has tempered these expectations. While small caps are typically closely tied to the health of domestic economy, higher interest rates can provide a difficult backdrop for their profitability, given that small caps often rely more heavily on floating-rate debt than their large cap counterparts.

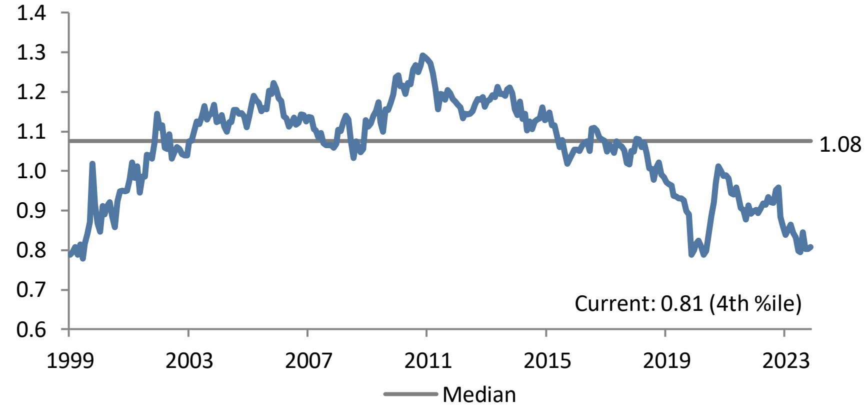
- Relative valuations between small caps and mid- to large-cap peers remain sharply discounted, in just the 4th percentile of historical observations based on a CAPCE ratio. Since 1999, small caps have traded at an 8% premium versus large caps, as opposed to the 19% discount they are trading at today.

- The US small-cap segment is overweight cyclical sectors and underweight technology compared to the mid-/large-cap universe. As such, small caps tend to be more sensitive to the economic cycle and have a better track record during economy recovery phases.

- Recent US government initiatives, such as the Infrastructure Act, the CHIPs Act, and the Inflation Reduction Act, could provide incentives for some reshoring of supply chains that would benefit certain sectors overweight in small-cap stock indexes. US small-cap indexes have higher relative weightings to the industrials and materials sectors, both of which could benefit from greater spending on infrastructure projects.

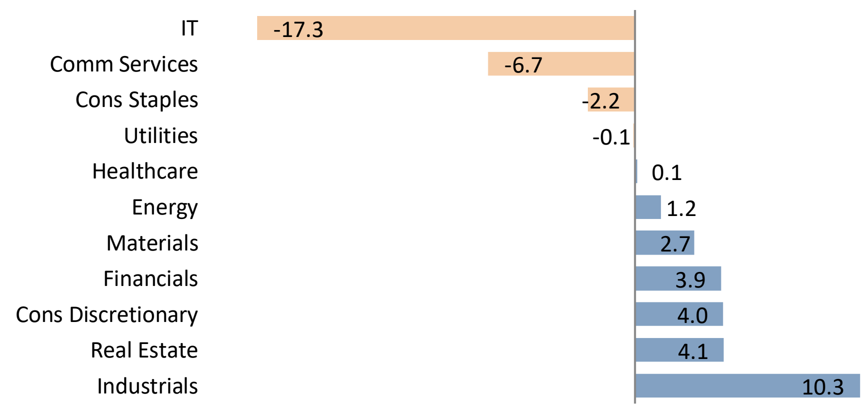
### RELATIVE 5-YR CAPCE: MSCI US SC VS US LC/MC

May 31, 1999 – Mar 31, 2024




### RELATIVE SECTOR WEIGHTS: US SC MINUS US LC/MC

As of Mar 31, 2024 • Percentage Points




Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios based on five-year average inflation-adjusted earnings.

# Developed ex US Small-Cap Equities

Facts & Figures First Quarter 2024

**Developed ex US small caps rose 7.0% in 1Q, lagging their mid- to large-cap peers by 258 bps. Over the past 12 months, small caps have trailed mid- to large-caps by 381 bps.**

- Non-US small caps again failed to keep pace with their large-cap counterparts in 1Q. Large-cap IT stocks again surged in 1Q relative to their small-cap peers, outpacing all other sectors and driving relative outperformance. On the flip side, the small-cap real estate sector stumbled, weighing down the broader index.

- Developed ex US small-cap valuations crept higher in 1Q but remain steeply discounted relative to their large-cap peers. As of March 31, developed ex US small-cap valuations were trading at a 9.5x cyclically adjusted price-to–cash earnings (CAPCE) ratio, in the 38th percentile of historical observations. On a relative basis, small-cap valuations are in the 12th percentile versus their large-/mid-cap counterparts.

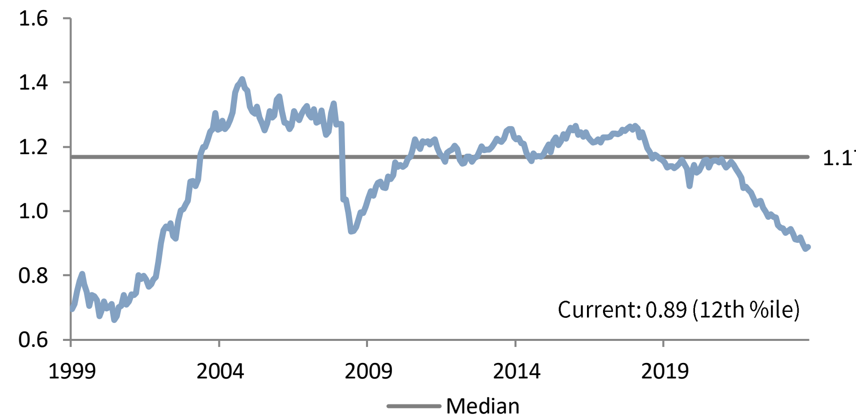
- From a relative sector exposure standpoint, the developed ex US small-cap segment is overweight cyclicals—particularly real estate and industrials—vis-à-vis its large-/mid-cap counterpart, though this is partially offset by a large underweight to financials. However, the defensive and higher-quality consumer staples and healthcare sectors are meaningfully underrepresented in the small-cap universe.

- Superior long-term earnings growth has helped developed ex US small caps outperform their large-/mid-cap counterparts over time. Over the last 15 years, world ex US small caps compounded real cash earnings per share grew by 2.7% per annum, while real EPS for large-/mid-caps has been flat.

- The developed ex US small-cap universe is arguably less efficient than the larger-cap space. Therefore, the former may provide more opportunities for active managers to add value over time.

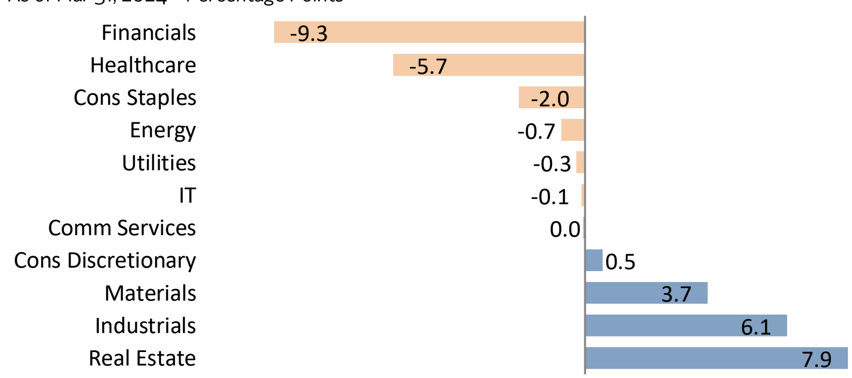
**RELATIVE 5-YR CAPCE: MSCI WORLD EX US SC VS LC/MC**

May 31, 1999 – Mar 31, 2024




**RELATIVE SECTOR WEIGHTS: MSCI WORLD EX US SC MINUS WORLD EX US LC/MC**

As of Mar 31, 2024 • Percentage Points

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Note: CAPCE ratios based on five-year average inflation-adjusted cash earnings.

# US Growth and Value Equities

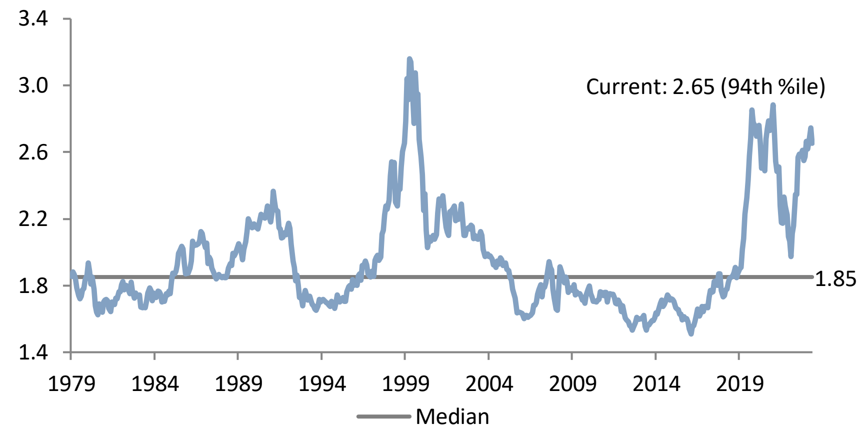
Facts & Figures First Quarter 2024

**US growth stocks gained 11.7% in 1Q, besting value stocks (8.9%) for the fourth time in the past five quarters. Over the past 12 months, growth bested value by 20 ppts, driven by a surge in technology stocks.**

- Growth stocks added another impressive quarter to their track record of recent dominance versus value stocks. Performance was again boosted by the surge in a subset of large-cap tech stocks, though the market rally showed signs of broadening out near the end of the quarter, as value saw an uptick in March.
- Based on the cyclically adjusted price-to–cash earnings (CAPCE) ratio, the MSCI US Growth Index trades at 2.7 times the valuation of the MSCI US Value Index. That relative ratio is in the 94th percentile of historical observations. Investors have also demonstrated a willingness to assign a higher multiple to expected earnings for growth-oriented stocks compared to value stocks. The price-to–forward earnings multiple for the MSCI US Growth Index trades at 30x, which is 1.8 times higher than that for value stocks. This ratio is 33% higher than the median ratio of 1.35 that has been observed over the past 20 years.
- Growth stocks have traditionally generated higher return on equity (ROE) than value counterparts. Today's wide ROE spread is partly driven by differences in sector exposures—technology and financials most prominently—and helps to explain the current valuation disparity between the growth and value indexes.
- Technology stocks have largely driven the US market's profitability, growth, and price performance over the past decade. Today the IT sector plus just two other stocks (Amazon and Alphabet) make up more than 60% of the growth index. In comparison, IT is just 12% of the value index. However, the value index has a much higher weighting to the financials sector, which could see an increase in profitability if rates rise and the slope of the yield curve steepens.

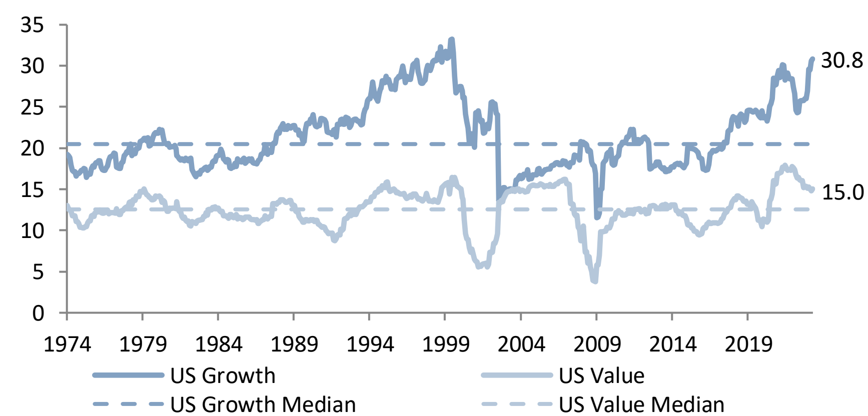
**RELATIVE 5-YR CAPCE: MSCI US GROWTH VS US VALUE**

Nov 30, 1979 – Mar 31, 2024




**ROE: MSCI US GROWTH VS US VALUE**

Dec 31, 1974 – Mar 31, 2024 • Percent (%)

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# Developed Markets Equity Factors

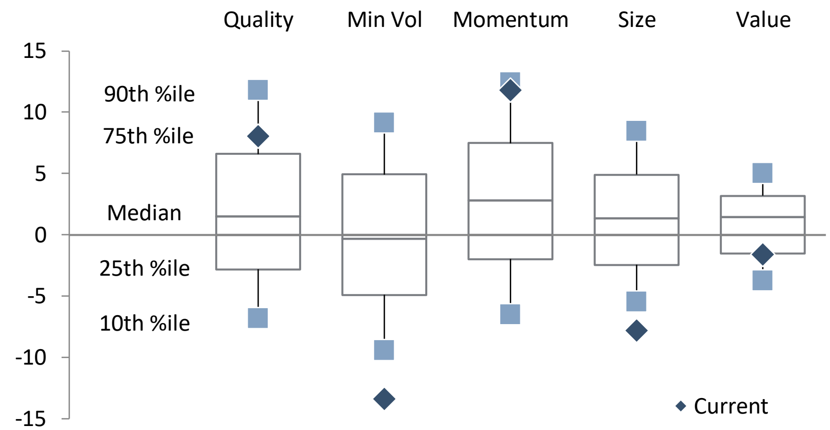
Facts & Figures First Quarter 2024

Momentum (22.2%) was the top-performing major equity market factor in 1Q, handily outpacing all other factors. Quality (12.6%) was the only other factor that bested the broader MSCI World Index (10.1%). Value (9.6%), size (7.4%), and minimum volatility (7.3%) all lagged. In the past 12 months, momentum's 38.0% return has topped all other factors.

- Momentum's strong performance in 1Q, and in the past 12 months, owes to the continued outperformance of a subset of IT stocks. Momentum strategies ride the wave of recent price performance, so sustained upward price trends can lead to outperformance. NVIDIA, which is the largest component of the MSCI World Momentum Index, has seen six consecutive quarters of outperformance, amounting to a 644% cumulative gain during that span.
- Valuations increased across all factors in 1Q. Quality still commands the richest valuations among major factors, based on three different multiples. The value factor generally trades at the lowest multiples.
- The P/B ratio tends to have the strongest relationship to subsequent five-year returns across factors, but the strength of the relationship varies by factor. For instance, the relationship between starting valuation and subsequent returns is weak for the momentum factor, which overweights recent outperformers and has an exceptionally high turnover ratio (111% as of December).
- Because the excess returns across several strategies have low or negative correlations with each other, combining these factors can add a diversification benefit. For example, value and momentum had strongly negative correlations over the trailing five-year period, suggesting that certain combinations of factors may work together to smooth out the overall pattern of portfolio outperformance over time.
- Quality, minimum volatility, momentum, size, and value are five factors primarily cited in academic research. These factors represent market premiums that have all shown superior risk/return characteristics compared to broad-market benchmarks.

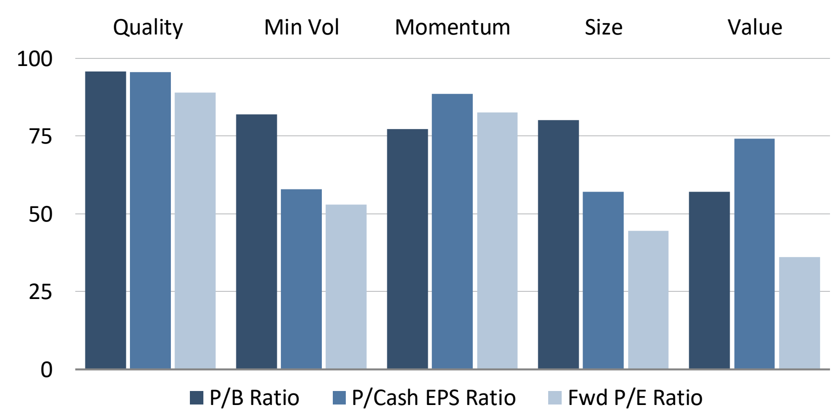
## FACTOR RETURNS IN EXCESS OF DEVELOPED MARKETS EQUITIES

As of Mar 31, 2024 • Rolling 12M • Percent (%)




## CURRENT VALUATION PERCENTILE RANKING BY FACTOR

As of Mar 31, 2024

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# Hedge Funds

Facts & Figures First Quarter 2024

Strong markets globally provided a favorable backdrop for hedge funds as all the major strategies produced positive results in 1Q, especially quant and long/short equity funds.

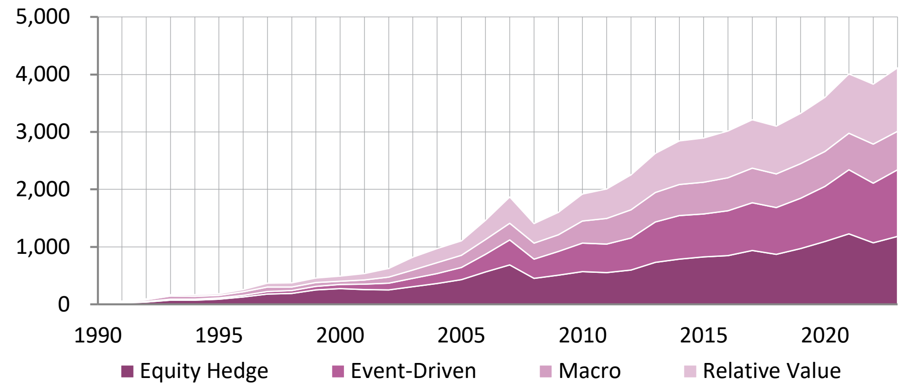
- Quantitative strategies snapped back sharply from the prior quarter's losses, with the HFRI Macro Systematic Diversified Index returning 9.4%. Macro funds also started the year off strong, as the HFRI Macro (Total) Index gained 6.2%. Relative value hedge funds continued to post steady gains, notching another quarter of positive returns, with the HFRI Relative Value (Total) Index up 2.5%. Trend following strategies benefited from strong movements in equities and commodities markets, particularly Cocoa, which went parabolic, while macro strategies took advantage of movements within equities, rates, and FX markets. Uncertainty around inflation and central bank policy is creating an attractive environment for macro and relative value managers.

- Long/short equity funds, participating alongside rising equity markets, continued their strong run into 2024 as the HFRI Equity Hedge (Total) Index returned 5.2% in 1Q. While technology-focused funds benefited from renewed excitement around artificial intelligence (AI), generalist managers saw broad and diversified contributions across industries. Technology and communications services led the way from a sector standpoint, but the broader industrials and energy sectors also generated solid results. In a welcome reversal of the melt-up experienced in 4Q 2023, managers witnessed a return of positive short alpha generation. For instance, the Russell 2000® Biotechnology Index generated a gain of 8.8% in the quarter, but that masked underlying sector dispersion that many healthcare specialists were able to exploit.

- The HFRI Event-Driven (Total) Index returned 2.5% for 1Q. Merger arbitrage continued to be a return driver and source of capital allocation for event-driven managers as M&A activity has picked up, although some managers who benefited from US steel exposure late last year failed—to their detriment—to anticipate protectionist rhetoric from the White House this quarter. Within credit, tight spreads have reduced the opportunity set; however, managers report the early stages of credit spread dispersion across industries and issuers and an uptick in defaults and distressed exchanges. Participation in the Talen Energy restructuring, which encompassed prominent market themes around AI, data storage, and clean energy, proved profitable for several funds as AWS agreed to purchase Talen's nuclear-powered data center campus in Pennsylvania.

### HFRI HISTORICAL ASSET GROWTH BREAKOUT

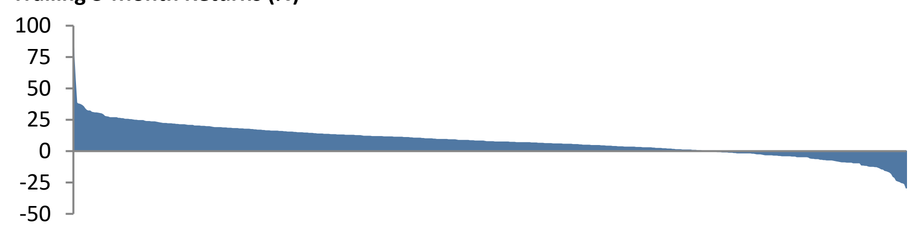
1990–2023 (Dec) • US$B




### EQUITY DISPERSION: TOTAL RETURNS FOR THE S&P 500 CONSTITUENTS

As of Mar 31, 2024

**Trailing 3-Month Returns (%)**




**Trailing 12-Month Returns (%)**


Sources: Hedge Fund Research, Inc., FactSet Research Systems, and Standard & Poor's.

C|A