

# International Small Cap Equity Quarter-End Review—2Q2024



International equities rose for the third consecutive quarter, helped by decelerating inflation, an interest rate cut by the European Central Bank (ECB), and stepped-up support from the Chinese government for its beleaguered property market. Emerging markets outperformed developed markets by the widest margin since the third quarter of 2020 and now lead developed markets year to date. Meanwhile, the U.S. dollar continued to rise during the quarter, boosted by the continued depreciation of the Japanese yen.

Elections in Mexico, India, and Europe caused bouts of volatility during the quarter. In Mexico, current president Andres Manuel Lopez Obrador's (AMLO) protégé, Claudia Sheinbaum, won the presidential election, marking the first time a woman has been elected president in the country. However, Mexican stocks and the peso sold off as AMLO's Morena party performed better than expected in the election and may continue to push through some of the controversial reforms that AMLO sought to implement during his presidency. Notably, markets also sold off in 2018, as it became clear that AMLO would be elected president but subsequently recovered, posting good returns over the next five years. Sheinbaum's more business-friendly tone should help drive investor confidence when she takes office in October. In India's general election, Prime Minister Narendra Modi's BJP party lost its majority in the lower house of parliament and will be forced to rely on the support of its allies to pass legislation as Modi tries to make good on his promise to turn India into the world's third-largest economy. While Indian stock markets endured wild swings following the election, they ultimately continued their march higher to new all-time highs. France also entered a period of uncertainty following the surprise decision by President Emmanuel Macron to call for snap elections after the poor performance by centrist parties in the European Union's parliamentary election. The far-right National Rally party

## GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES <sup>(1) (2)</sup>

Region	Ending Weight <sup>(3)</sup>	Change from 3/31/2024	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
Asia/Pacific	30.3%	-2.0%	(Alps Alpine)
North America	29.8%	+4.2%	Fidelis Insurance Holdings, Obsidian Energy
Western Europe	22.8%	+0.9%	Cimpress, Valeo (International Game Technology)
Middle East & Africa	7.9%	-1.2%	(Perion Network)
Central & South America	7.0%	-1.9%	
Cash	2.1%	0.0%	
Eastern Europe	0.0%	0.0%	
Developed Markets	75.1%	+3.1%	
Emerging Markets	22.8%	-3.2%	
Cash	2.1%	0.0%	

<sup>(1)</sup>Based on a representative account of the strategy discussed. Portfolio characteristics (e.g., sector weights, valuation, growth rate) are based on a representative account that we believe is illustrative of the strategy. All accounts in the strategy are invested identically in the same securities unless a client has imposed restrictions. Characteristics and/or holdings on a given date may vary due to pending trades.

<sup>(2)</sup>Renaissance determines an issuer's country classification based on company filings and data provided by third-party sources such as Bloomberg or FactSet. Renaissance considers an issuer to be located in an emerging market country if the issuer is domiciled or incorporated in an emerging market country (as defined by the iShares MSCI Emerging Markets ETF) or exhibits risk characteristics (e.g., economic, geopolitical and regulatory risks) similar to emerging market countries.

<sup>(3)</sup>Weights as of the end of the presentation period. Cumulative total weighting may not add up to 100% due to rounding of percentages to the nearest decimal place.

<sup>(4)</sup>Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities represent a portion of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold, or recommended for this strategy. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

Sources: Renaissance Research, FactSet

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## CONTRIBUTORS TO RETURN<sup>(1)(2)</sup>

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
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### TOP FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

CAMT	Camtek	2.30%	0.90%
YUEIY	Yue Yuen	1.88%	0.65%
GLNG	Golar LNG	2.13%	0.61%
CLS	Celestica	2.23%	0.52%
PRMW	Primo Water	2.49%	0.45%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

ASAI	Sendas Distribuidora	1.68%	-0.72%
PERI	Perion Network	0.22%	-0.67%
THKLY	THK	1.81%	-0.47%
INDV	Indivior	1.59%	-0.46%
EBCOY	Ebara	2.22%	-0.41%

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<sup>(2)</sup>The securities listed should not be considered a recommendation to purchase or sell a particular security. These securities represent the top five and bottom five contributors by weight to the performance of a representative account in this strategy as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold, or recommended for this strategy. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

<sup>(3)</sup>Average weights over the presentation period.

Sources: Renaissance Research, FactSet

appears likely to secure the most votes in France's two-round election process that ends on July 7. While the party has pushed a more moderate, business-friendly tone, much of its platform outside of border tightening is unclear. It is unlikely that global election volatility will be ending soon, as voters head to the polls in the United Kingdom in early July and the United States in November.

Inflation continues to dominate headlines, with central bankers increasingly pushing back on aggressive rate-cut predictions. Core inflation in the Eurozone dropped from its peak of 7.5% in March 2023 to under 3% year-over-year (y/y) for the past three months, which allowed the ECB to cut interest rates in June for the first time since 2019. Lower interest rates should support a rebound in the European economy, which has recently shown signs of emerging from its slump which began after Russia's invasion of Ukraine. The Swiss National Bank and the Bank of Canada are two other major central banks that cut interest rates this year, while the U.S. Federal Reserve held interest rates steady, as the deceleration of inflation slowed in the United States. The Fed's lack of rate cuts has put upward pressure on the U.S. dollar, with the U.S. Dollar Index appreciating 4.5% this year. A significant amount of this appreciation has been against the Japanese yen, which has reached its lowest level against the dollar since 1986. Although the Bank of Japan raised interest rates in March, the yen has been at the mercy of the Federal Reserve, which began the year with markets expecting four rate cuts in 2024. However, the Fed has held rates steady and is now expected to cut rates only twice, maintaining a wide interest rate differential between Japan and the United States and imposing consistent downward pressure on the yen.

The investment case for emerging markets has long been twofold—discounted valuations and faster economic growth than their developed-market peers. However, the growth gap between

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emerging and developed markets shrank during 2019-2022. A pick-up in GDP growth in emerging markets and slower growth in developed markets caused this gap to widen again in 2023, and growth is expected to continue at a steady rate over the next several years. The valuation discount for emerging markets also nearly disappeared in early 2023, with emerging markets nearly reaching parity with developed markets. Yet, the discount has expanded back to over 10%, making emerging markets more attractive as the faster growth and cheaper valuation narratives have returned. China weighed negatively on emerging markets over the past three years, as the country's property market bust led to economic turmoil. However, China's central government recently made its most meaningful attempt yet to stabilize the property market, as it targeted both demand and supply by relaxing mortgage rules and urging local governments to buy unsold homes to alleviate oversupply. All eyes will be on the third plenum of the Chinese Communist Party's Central Committee in mid-July. The event has typically been used to announce reforms and address structural issues in the economy. Investors will be looking for policy announcements that address the property sector, local government debt, and weak domestic consumption.

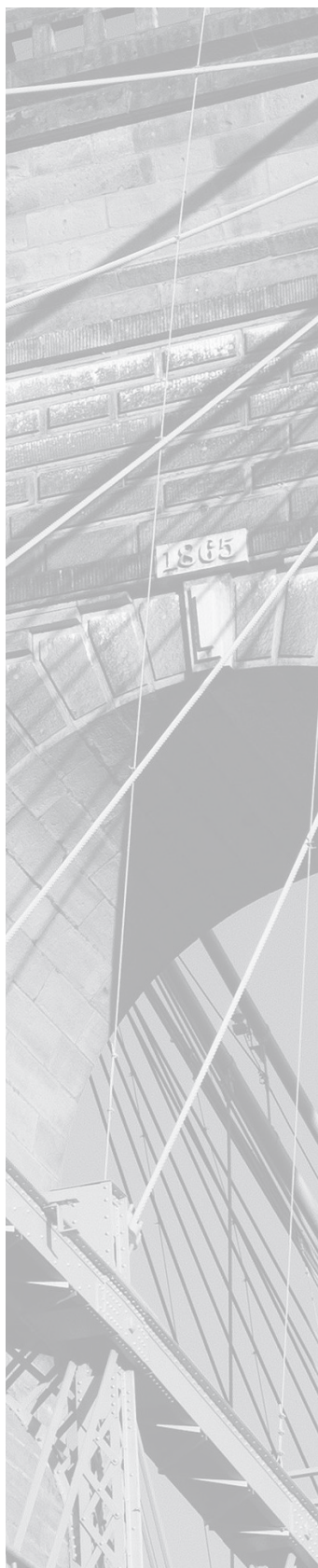
Our portfolio returns were negative on an absolute basis and lagged our benchmark in the second quarter. Stock selection detracted from performance during the quarter, as negative selection in Industrials offset strong selection in Information Technology. Our overweight allocations in Mexico and France, two under-performing countries, and our underweight allocations in India and Taiwan, two top performers, led country allocation to detract from relative performance during the month.

Our best contributing stock during the quarter was **Camtek** (Israel), as the manufacturer of inspection and metrology tools continues to see strong order growth for advanced packaging applications that can be used in the production of AI semiconductors. Another strong performer was **Yue Yuen** (Hong Kong), one of the world's largest manufacturers of athletic and casual shoes. The global footwear industry faced significant headwinds in 2023 due to an inventory destocking cycle. However, Yue Yuen management recently indicated that this destocking cycle appears to be largely over and guided for strong earnings growth, which has propelled the stock higher. Our biggest detractor from performance was wholesale grocer **Sendas Distribuidora** (Brazil). Although recently acquired stores are performing well, the company used debt to finance the acquisition. The Central Bank of Brazil has been reluctant to continue cutting interest rates while the Federal Reserve holds steady, causing interest expenses for Sendas to remain high. Another weak performer was **Perion Network** (Israel), a digital advertising solutions provider. Management shocked investors in April by announcing that recently implemented changes to Microsoft Bing would dramatically impact Perion's ability to derive revenue through the web browser, which accounts for nearly a third of the firm's business. Furthermore, management had not made any indication of these developments during their February earnings call. We opted to sell our shares.

During the quarter, we purchased **Obsidian Energy** (Canada), an oil and gas exploration and production company. Successful exploration has allowed the company to post seven straight years of greater than 100% reserve replacement and a reserve life of fourteen years. The growth profile of the company is also strong, with production expected to grow from 36,000 barrels of oil equivalent per day (boe/d) in 2024 to 50,000 boe/d in 2026.

The global economy has been surprisingly resilient in the face of higher interest rates, with both the global services and manufacturing PMIs moving further into expansionary territory, reducing pressure on central bankers to quickly cut interest rates and continue their fight against inflation. Yet, with inflation continuing to decelerate, it appears to be only a matter of time before the Fed and the Bank of England join the ECB in cutting rates. This should boost economic growth and investor sentiment, which may help serve as an offset to the political and election risk that looks to remain elevated in the back half of the year.

*Continued*



## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of June 30, 2024 and are subject to change at any time due to changes in market or economic conditions.

## GICS<sup>®</sup> SECTOR INFORMATION

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**iShares MSCI Emerging Markets ETF**—The iShares MSCI Emerging Markets ETF seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities.

## REFERENCED INDICES

**Purchasing Managers Index**—The Purchasing Managers' Index (PMI) measures the activity level of purchasing managers. A reading above 50 indicates expansion, while a reading below 50 indicates contraction.

**U.S. Dollar Index**—The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners.

## STOCK REFERENCES

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