Quarterly Commentary

EAGLE Asset Management

International ADR

First Quarter | 2024

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Market Overview[1,3]

Global equity markets started 2024 on a high note, with several markets, including in the United States, up double digits. One key to this year's gains has been confidence from investors that the economy is set for a "soft landing," in which inflation moderates and we avoid a severe downturn.

A dovish U.S. Federal Reserve (Fed) meeting in March was encouraging as the U.S. central bank kept its view of three interest rate cuts this year while upgrading its economic outlook. Fed Chair Jerome Powell reiterated that recent high inflation numbers had not changed the underlying "story" of slowly easing price pressures. The Fed also released new economic projections that the economy will grow 2.1% this year, a positive shift from the 1.4% estimate from December 2023. At the same time, forecasts for the unemployment rate remain steady at around 4%. Projections showed the core Personal Consumption Expenditures (PCE) Price Index, excluding food and energy, still rising at a 2.6% rate, above the 2% target, but certainly better than the post-pandemic inflation reading that spiked to a 40-year high.

In the United States, using the S&P 500 Index as a proxy, 10 of the 11 sectors were positive during the quarter (only real estate was down slightly). Outside the United States, as measured by the MSCI EAFE® (Net) Index, the pattern was similar, with 8 of 11 sectors positive, led by information technology.

While all of the "Magnificent Seven" – seven U.S. mega-cap stocks – posted huge gains in 2023,[1] with each of them up at least 49%, this year has seen them go separate ways. The strongest performer in the group was up more than 80% during the first quarter, while two of the seven fell. The Magnificent Seven are responsible for 30% of the S&P 500 Index's year-to-date gain as of the end of the first quarter, compared to more than 60% last year. A key investment theme for this group is artificial intelligence, or AI. While enthusiasm around the potential of AI has clearly been a driver for these seven companies, the long-term productivity gains likely will be felt across the world and across most industries as the benefits play out in the coming years.

Valuations continue to be an area of divergence across asset classes, as U.S. large-cap stocks (the S&P 500 Index) trade at a premium with a 12-month trailing price/earnings (P/E) ratio of 25x, while U.S. small-cap companies (the Russell 2000® Index) appear more reasonable at 16x. Outside of the United States, companies trade at a valuation discount to U.S. indices, with the MSCI EAFE Index trading at a trailing P/E of 14x. No surprise, U.S. growth stocks (the Russell 1000® Growth Index) are the most expensive of all, trading at 34 times earnings. Of course, valuations don't exist in a vacuum, and in cases where earnings growth is high, elevated valuations can be justified. For example, the trailing-year earnings growth for the S&P 500 and Russell 1000 Growth are 18% and 23%, respectively, while outside the

[1] Magnificent Seven refers to the seven largest companies by market capitalization in the S&P 500 Index, as of Dec. 29, 2023: Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

10 Largest Holdings

Novo Nordisk
Rolls-Royce
ASML
SAP
Novartis
HSBC
Toyota
Mitsui & Co.
Tokyo Electron
Itochu

As of March 31, 2024. The information provided herein should not be construed as a recommendation to buy, sell, or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the composite. They are provided for informational purposes only. Eagle, its affiliates, or their respective employees may have a position in the securities listed.

U.S. earnings growth has been slower at +8%, and U.S. small-cap earnings have actually contracted -7%.

China is targeting "around 5%" growth and aims to "transform" its economy in the face of several significant challenges, including a struggling property market, high youth unemployment, and low consumer confidence. Foreign direct investment into China fell to a 30-year low in 2023, an incredible 90% drop since 2021. While the economy faces significant challenges, the auto industry remains a positive. China not only remains the world's largest vehicle market and is a clear leader in the electric vehicle (EV) space, but it also became the world's top auto exporter in 2023.

European markets continue to experience a wide range of economic outcomes driven by regional geopolitical tensions, economic policies, and inconsistent productivity growth. Europe has been hard hit by the global manufacturing downturn and demand weakness from China. The U.K. economy has had a larger inflation shock than others and is still battling the fallout from Brexit, though in general this has been more benign than expected. The hope for 2024 is an ongoing gradual recovery with further price declines and increased domestic and foreign demand.

Portfolio Review[1,2,3]

During the first quarter of 2024, the International ADR portfolio outperformed its MSCI EAFE benchmark on a gross and net basis. In terms of sectors, stock selection contributed the most, while allocation was also positive. An overweight to information technology and an underweight to consumer staples were rewarded, while underweights to financials and healthcare detracted. Stock selection was strongest within financials and industrials and weakest within information technology and energy. With regard to countries, allocation was the main driver of outperformance while stock selection was also positive. An underweight to Hong Kong and an overweight to the Netherlands contributed positively, while an overweight to South Korea and an underweight to Israel detracted from performance. Stock selection was strongest within the United Kingdom and Denmark and was weakest within Italy and Japan.

At the start of the quarter, as compared to the MSCI EAFE Index, the International ADR portfolio was most overweight the information technology and consumer discretionary sectors and most underweight the consumer staples and financials sectors. By the end of the quarter, the portfolio remained most overweight information technology and consumer discretionary and was most underweight consumer staples and industrials. Among countries, at the start of the quarter, the portfolio was most overweight the Netherlands and China and was most underweight Australia and Hong Kong. By the end of the quarter, the portfolio was most overweight the United Kingdom and China and most underweight Australia and France. Within the MSCI EAFE Index, information technology and consumer discretionary performed the best while utilities and consumer staples lagged. In terms of countries, the Netherlands and Denmark performed the best while Portugal and Hong Kong lagged.

Top-performing securities

Rolls-Royce, a U.K.-based manufacturer of aero, marine, and industrial gas turbines, reported full-year earnings that exceeded

International ADR

Performance[2] as of March 31, 2024

		First Quarter	Year to Date	One Year	Three Years	Five Years	10 Years	Since Inception (Jan. 1, 2013)
Eagle International ADR	Gross	8.02%	8.02%	19.07%	7.09%	9.20%	6.03%	7.24%
Eagle International ADR	Net	7.23%	7.23%	15.60%	3.94%	6.00%	2.90%	4.09%
MSCI EAFE® (Net) Index (Net of Dividend)		5.79%	5.79%	15.32%	4.78%	7.33%	4.80%	6.23%

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please call your financial professional or visit eagleasset.com.

Past performance is not a guarantee of future results. The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). The net returns reflect the application of the highest wrap fee of 3% annum.

Performance Disclosures [2]

The calculation of the performance data includes reinvestment of all income and gains and is depicted on a time-weighted and size-weighted average for the entire period. Performance is shown after deduction of transaction costs and both "gross" (before the deduction of management fees) and "net" (after the deduction of management fees). Performance figures include all internal, retail International ADR accounts of Eagle Asset Management, a St. Petersburg, Florida-based firm. Eagle Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Eagle Asset Management, Inc. has received a firm-wide verification for the periods January 1, 1982 through December 31, 2022. Performance data for 2023 and the current year may be revised, and Eagle will publish any revised performance data. The compound impact on performance of the deduction of fees is determined by the account size, the amount of the fee, the time period and the gross investment performance. This compounding effect is generally reflected in the Annualized Performance chart. Because accounts are individually managed, returns for separate accounts may be higher or lower than the average performance stated in the charts.

Securities shown should not be considered recommendations or solicitations and may not have been, or in the future be, profitable. Investing in equities may result in a loss of capital. Past performance is not a guarantee of future results.

expectations as the company benefitted from increased defense spending, the recovery in travel, and stronger demand for power.

Novo Nordisk is a pharmaceutical company based in Denmark. U.S. sales accelerated for its glucagon-like peptide 1 (GLP-1) offerings, Ozempic and Wegovy, driven by strong demand for anti-obesity treatments.

ASML, a semiconductor company based in the Netherlands, reported a record quarterly order intake, underpinned by a significant improvement in orders for extreme ultraviolet lithography systems used to make advanced chips.

SAP, a Germany-based enterprise application software, analytics, and business intelligence company, raised guidance after experiencing increased demand for its cloud-based software.

Toyota, Japan's largest automaker, beat expectations and raised guidance, supported by price hikes, rising demand for hybrid electric vehicles, and a weak yen.

Bottom-performing securities

Infineon Technologies, a German semiconductor manufacturer, reduced its full-year earnings guidance due to currency headwinds and a slowdown of demand in its end markets.

Rio Tinto is an international metals and mining company headquartered in the U.K. The share price declined as iron ore prices fell amid low demand from Chinese steel producers.

Nestle, a multinational packaged food company based in Switzerland, reported full-year earnings that missed expectations due to declining volumes as inflation has decreased consumer buying power.

Enel SpA is an Italy-based multinational energy company that distributes electricity and gas. The share price fell as investors worried that rapidly falling European power prices could hurt earnings.

STMicroelectronics, a Netherlands-based semiconductor company, reported guidance that lagged expectations due to weak industrial and personal electronics markets.

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Outlook[1,2,3]

Markets expect the Fed to potentially lower U.S. borrowing costs starting in June and also for the European Central Bank (ECB) to cut its deposit rate from 4%. However, central banks could realistically ease and then pause depending on growth, labor markets, wages, and inflation. The unknowns outweigh the knowns, so don't expect a linear path for interest rates.

With the prospect of falling rates, the attractive yields on cash stand to fall. This "wall of cash" could act as a catalyst for stock markets (and other risk assets) as money moves from money markets into equities.

While the Fed has clearly made significant progress on inflation, some worry that so-called "sticky" inflation will make getting rates down to the 2% long-term target challenging. For example, shelter prices continue to rise, up 5.7% on an annual basis as of February.

The U.S. Bureau of Economic Analysis reported annualized U.S. gross domestic product (GDP) growth of 3.4% in the fourth quarter, suggesting elevated interest rates aren't hurting U.S. corporations as much as some economists had feared. In addition, elevated interest rates increase borrowing costs for consumers, typically putting pressure on the economy and the stock market.

Certainly, the upcoming U.S. presidential election will be a source of volatility (and endless debate) for the remainder of 2024. Globally, more voters than ever in history will head to the polls this year, covering at least 64 countries (plus the European Union) and representing roughly half of the people in the world!

For ages, Japan (the world's fourth-largest economy) wasn't a favorite among investors given its demographic headwinds and low growth, but it has been a very strong performer year to date. The country is shifting to an inflationary environment after years of deflation, and the Bank of Japan (BOJ) is likely to begin normalizing rates with hikes this year, having recently approved its first hike in 17 years. In addition, corporate governance reforms are taking root; for example, the Tokyo Stock Exchange's new policies encourage companies to improve their return on equity (ROE) and price to book (P/B) ratios or be demoted! In response, crossholdings, excess cash, and surplus assets are being reduced. Given deep-seated investor biases against Japan, paired with improving country fundamentals, we continue to see the opportunity to capture underappreciated growth.

The International Monetary Fund (IMF) raised its outlook for global economic growth, with increases for both the United States and China. The IMF noted inflation easing more quickly than expected, with its chief economist saying that a "soft landing" was in sight and "the global economy continues to display remarkable resilience, with inflation declining steadily and growth holding up … very far from a global recession scenario." The IMF is now forecasting global growth of 3.1% in 2024, up 2/10ths of a percentage point from its October forecast. It expects unchanged growth next year, at 3.2%. From 2000 to 2019, global growth averaged 3.8%.

The outlook for 2024, while cautiously optimistic, suggests moderate economic growth and potential easing of monetary policies. Investors and policymakers alike will obviously need to remain vigilant, keeping a close eye on geopolitical tensions and policy changes that could impact the global markets.

1. The MSCI EAFE® (Net) Index, the strategy's benchmark index, measures the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the United States. and Canada. The MSCI EAFE (Net) Index subtracts any foreign taxes applicable to U.S. citizens but not applicable to citizens in the overseas country.

2. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results. Opinions and estimates offered constitute Eagle's judgment and are subject to change without notice as are statements of financial-market trends, which are based on current market conditions. Investing involves risk, including the possible loss of principal.

3. Source: Bloomberg.

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards, and potential political and economic instability. These risks are further accentuated in emerging market countries, where risks can also include possible economic dependency on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, and liquidity risks related to lower trading volumes. The portfolio may invest in small- and mid-cap stocks, which may involve greater risks than investing in larger, more established companies. These companies often have narrow markets and more limited managerial and financial resources.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Definitions

A beat is when a company's reported earnings or other business results exceed or are better than the expectations of analysts and others who follow the company's stock.

Core inflation is measured by the Personal Consumption Expenditures (PCE) excluding Food and Energy, Price Index, also known as the core PCE price index, is a measure of the prices that U.S. consumers pay for goods and services, not including two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices. The core PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, measures inflation trends and is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

Cross holding describes the practice of a publicly traded firm owning stock in another publicly traded firm. In Japan, companies have used cross holdings to protect themselves from market uncertainty and takeover attempts, but the practice has been criticized as one that slows reform and inhibits equity performance.

Dovish, hawkish, and centrist are terms used to describe the monetary policy preferences of central bankers and others. Doves tend to support maintaining lower interest rates, often in support of stimulating job growth and the economy more generally. Hawks prioritize controlling inflation and may favor raising interest rates to reduce it or keep it in check. Centrists tend to occupy the middle of the continuum between tight (hawkish) and loose (dovish) monetary policy.

The European Central Bank (ECB) deposit rate is set by the Governing Council of the ECB and is the rate on the deposit facility, which banks can use tomake overnight deposits with the Eurosystem.

GLP-1 weight-loss drugs, formally known as glucagon-like peptide 1 agonists, comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss. The drugs mimic the action of a hormone called glucagon-like peptide 1 by stimulating the body to produce more insulin when blood sugar levels start to rise after someone eats. The additional insulin helps lower blood sugar levels, which helps in controlling type 2 diabetes. How GLP-1 agonists lead to weight loss is less clear.

Growth investing is a stock-buying strategy that focuses on companies expected to grow at an above-average rate compared to their industry or the market.

Guidance is statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses.

Headwind is a term used to describe events or market forces that hinder the prospects for performance in an individual investment or group of investments.

Magnificent Seven refers to the seven largest stocks by market capitalization in the S&P 500 index, as of Dec. 29, 2023. They are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock. It is calculated by multiplying a company's current stock price by its total number of outstanding shares.

Mega-cap tech stocks are the technology companies with market capitalizations that are in the trillions or hundreds of billions of U.S. dollars, levels that far exceed many of the other stocks in the S&P 500 Index.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

The price to book (P/B) ratio measures the market valuation of a company relative to its book value. Investors use the metric in their search for potential investments. Typically, a company's market value is higher than the book value of its stock. Value investors generally view P/B ratios under 1.0 as a potentially solid investment.

Price-to-earnings (P/E) ratios measure a company's current share price relative to its earnings per share. The ratio is used to help assess a company's value and is sometimes referred to as the price multiple or earnings multiple.

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity.

A soft landing is a cyclical slowdown in economic growth that avoids a recession.

Sticky is a term used to describe measured data that is slow to change, in contrast to faster-changing or more variable data.

Trailing indicators are data or measurements that reflect events, trends, results, or developments that took place in the past. Trailing indicators typically refer to a specific time period for which the data in question is aggregated, summed, or averaged. Trailing indicators help reflect trends that occur over specified periods of time.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The Russell 1000® Growth Index measures a growth-oriented subset of the Russell 1000® Index, which tracks approximately 1,000 of the large-sized capitalization companies in the United States equities market.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 7% of the total market capitalization of the Russell 3000® Index.

Indices are unmanaged and have no expenses. One cannot invest directly in an index.

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