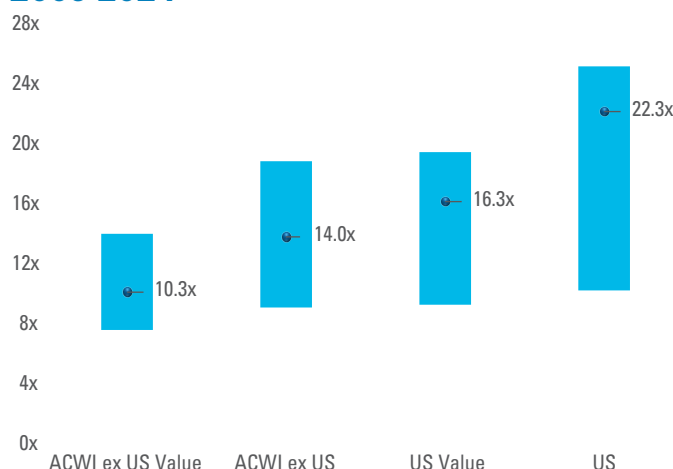


WHY INVEST OUTSIDE THE US

CHEAPNESS OF NON-US VALUE STOCKS

Across the global investment universe, a large valuation disparity remains between US and non-US markets. Non-US stocks are not only trading at a significant price-to-earnings (P/E) discount to US stocks, but they are also trading at the lower end of their forward P/E range over the past 15-years, while US stocks are trading toward the top of their range for the same period (Exhibit 1).

Exhibit 1: Forward P/E Ranges, 2009-2024



Source: FactSet, Pzena analysis
ACWI ex US Value = MSCI ACWI ex USA Value Index. ACWI ex US = MSCI ACWI ex USA Index. US Value = Russell 1000 Value Index. US = Russell 1000 Index. Monthly consensus FY1 (current fiscal year) P/E estimate data from February 28, 2009 – June 30, 2024. Blue dots = FY1 P/E ratios as of June 30, 2024.

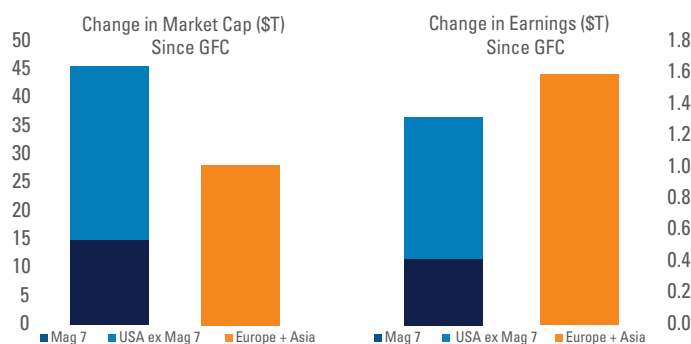
DISCONNECT BETWEEN EARNINGS AND MARKET CAP

The stark valuation difference between US and non-US stocks invites investigation of the prolonged underperformance outside the US. Since February 2009, non-US equities' annual earnings have risen by \$1.6 trillion while adding \$28.3 trillion in market capitalization. In contrast, earnings of US equities rose by \$1.3 trillion and added \$45.8 trillion in market capitalization during the same period (Exhibit 2). While non-US equities have delivered solid earnings, their share prices have not been rewarded commensurately.

Disaggregating the so-called "Magnificent 7", which made up approximately one-third of the market cap and earnings gains, from the rest of the US makes the disparity even more striking. Excluding the Magnificent 7, the market cap of US equities has risen just 8% more than non-US equities since the end of the Global Financial Crisis in 2009, while generating a hefty 44% less in earnings growth. Essentially, the existence of the

Magnificent 7 is the main reason we have seen a pro-US cycle over the past 15 years.

Exhibit 2: Total Market Cap Diverged After the GFC



Source: FactSet, Pzena analysis
Earnings calculated as latest reported annual ex unusual items. Earnings and market cap comparison data based on June 30, 2024 vs. February 28, 2009. Analysis based on MSCI indices that includes large and mid cap stocks (covers approximately 85% of the free float-adjusted market capitalization in each country). USA = MSCI USA Index. Europe = MSCI All Country Europe Index. Asia = MSCI All Country Asia Index. Mag 7 stocks = Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. Meta Platforms and Tesla did not exist in the MSCI USA Index on February 28, 2009. All data in US dollars. Past performance is not indicative of future returns.

GET MORE FOR YOUR MONEY IN NON-US STOCKS

While US and non-US equities are priced much differently today, non-US equities have the same historical return on equity and slightly lower historical revenue growth when compared to the US market (Exhibit 3). However, non-US equities trade at a discount of 40%. We believe this makes it a particularly good time to add non-US stocks to a diversified portfolio.

Exhibit 3: Non-US Stocks Cheaper with Similar Fundamentals

	Historical Return on Equity	Historical Revenue Growth	Price to		
			Earnings	Sales	Book Value
International Market	13%	11%	13.5x	1.5x	1.8x
US Market	13%	12%	22.7x	2.6x	4.6x

Source: FactSet, Pzena analysis
Cheapest quintile basket of stocks based on Pzena's price-to-normalized earnings estimates. P/E and P/S ratios are calculated using consensus FY1 estimates. Return on equity and revenue growth average calculated over trailing 10-year period. US market is the largest ~1,000 stocks ranked by market capitalization. International market is the largest ~1,500 stocks outside the US ranked by market capitalization (includes both developed and non-developed stocks). Data as of June 30, 2024. Does not represent any specific Pzena product or service.

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