Beyond the Mag 7: Rediscovering International Alpha

Dave Harrison Smith, EVP,
Chief Investment Officer

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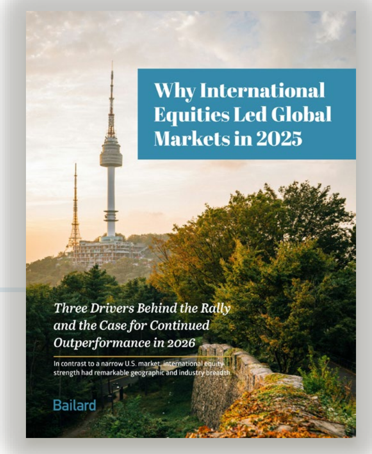
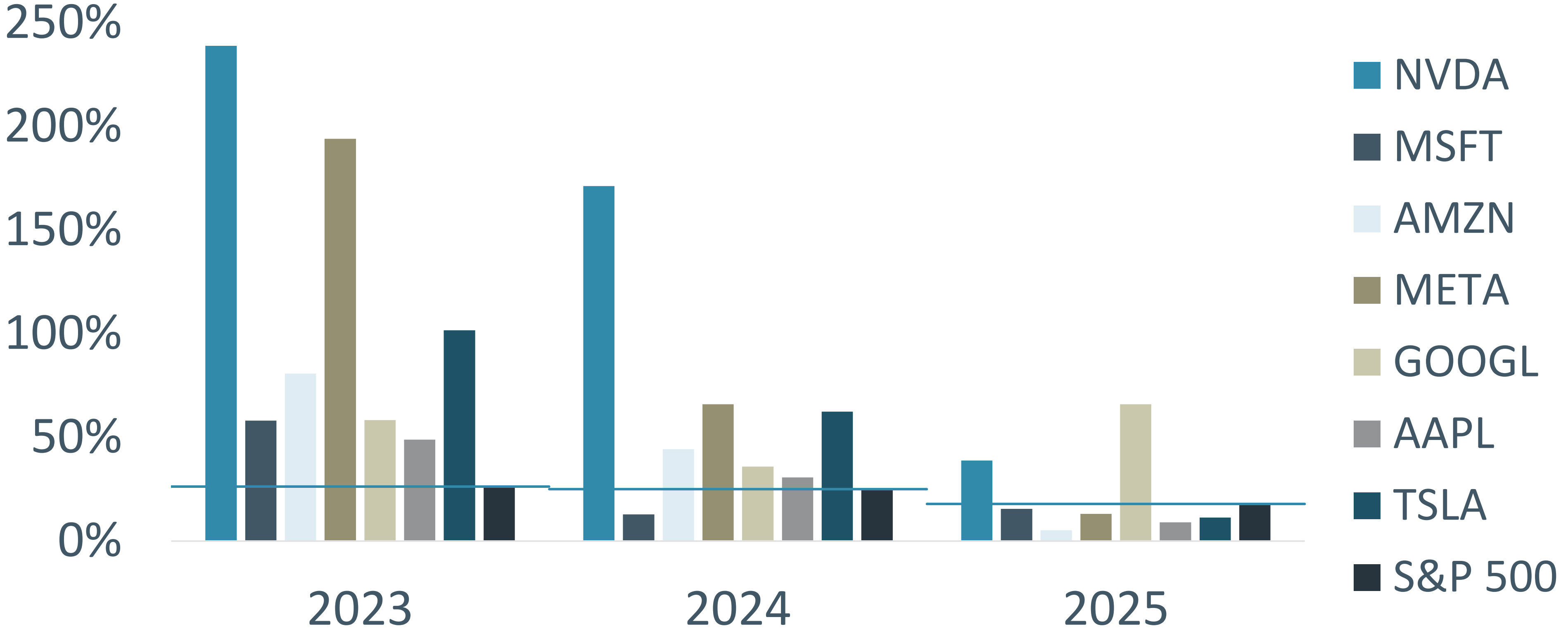
Client Relations

Looking Beyond the Mag 7

Don’t miss our handout exploring this topic →

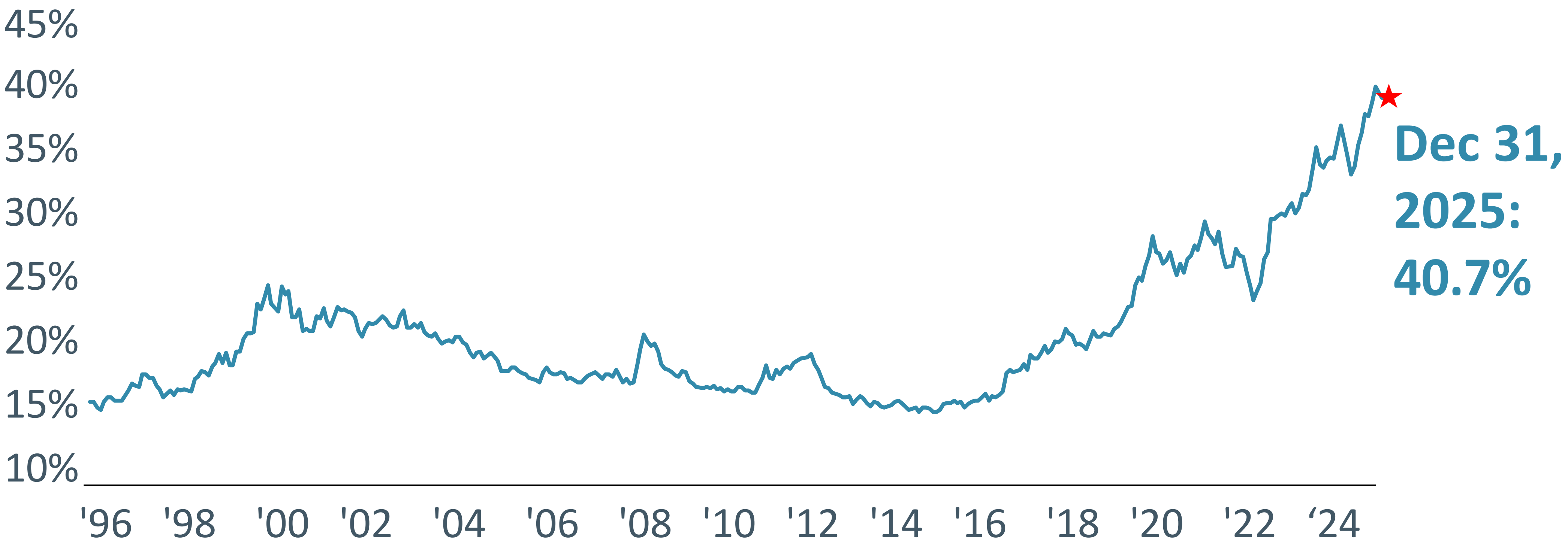




Source: FactSet, as of 12/31/2025. There is no guarantee that a particular strategy will achieve its investment or return objectives or targets.

Concentration Risk is Rising

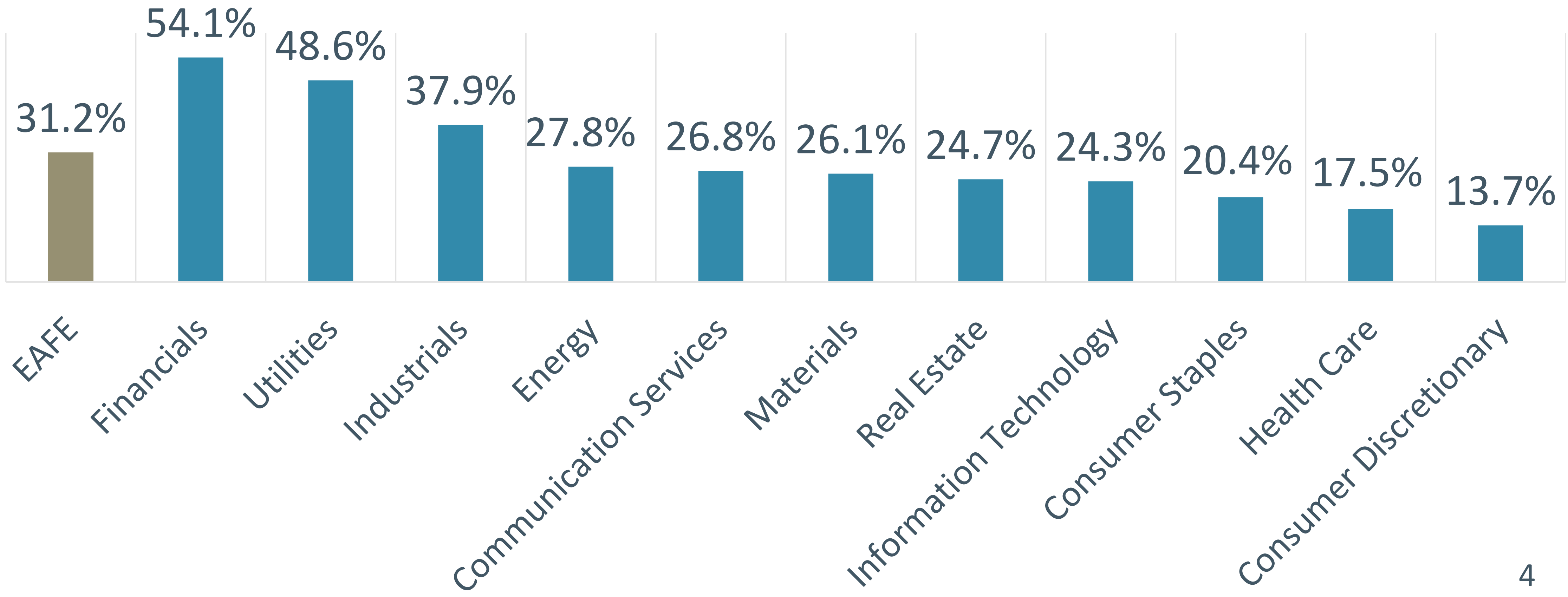
Weight of Top 10 Companies in the S&P 500



Sources: Bailard, JP Morgan Research, as of 12/31/2025. Past performance is no indication of future results. All investments have the risk of loss.

Broad International Rally

2025 EAFE sector returns



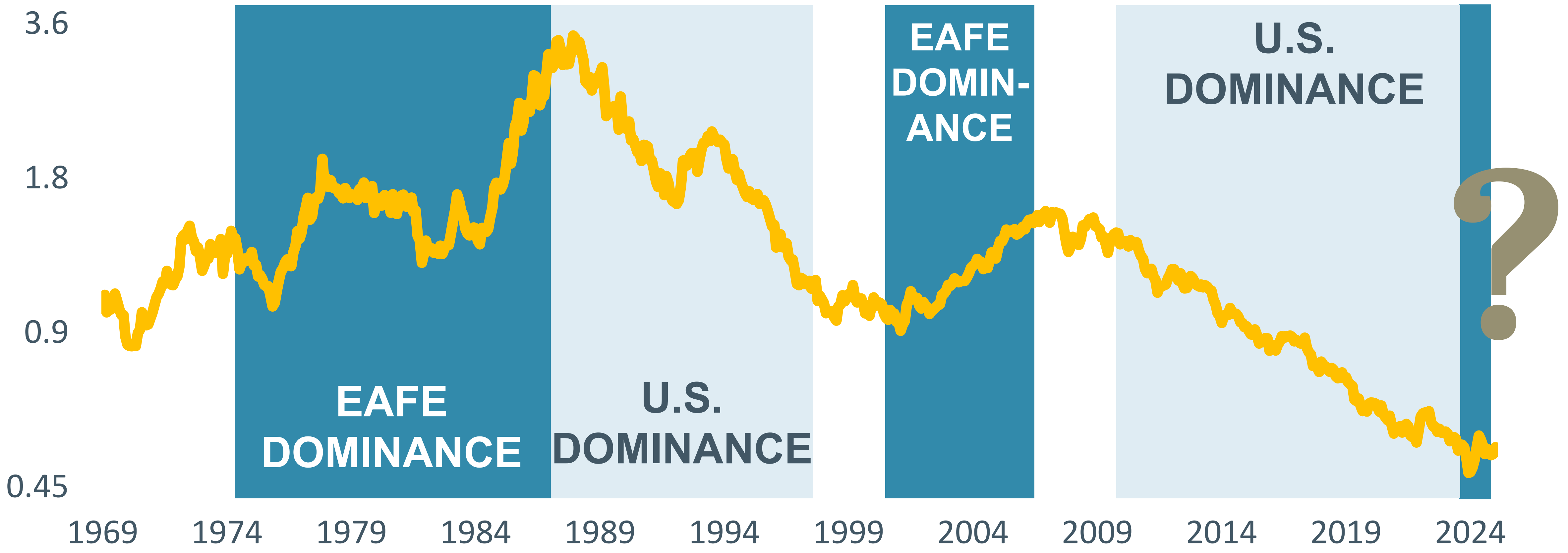
Broad International Rally

About **1/3 of countries***
were up **more than 50%**.
We haven't seen such
widespread growth since
2009.

*among MSCI ACWI ex-US.

Why International, Why Now

MSCI EAFE Index/MSCI USA Index Ratio



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The Big 3 Drivers: U.S. Dollar

YESTERDAY	PRESENT
Strong U.S. Dollar	Dollar Fragility
Expanding U.S. Multiples	Valuation Convergence
Big Tech Leadership	Broader Impacts

- **Weak first half of the year for U.S. Dollar**
- **Macro backdrop**
- **Policy uncertainty** emanating from the U.S.

The Big 3 Drivers: Valuation

YESTERDAY	PRESENT
Strong U.S. Dollar	Dollar Fragility
Expanding U.S. Multiples	Valuation Convergence
Big Tech Leadership	Broader Impacts

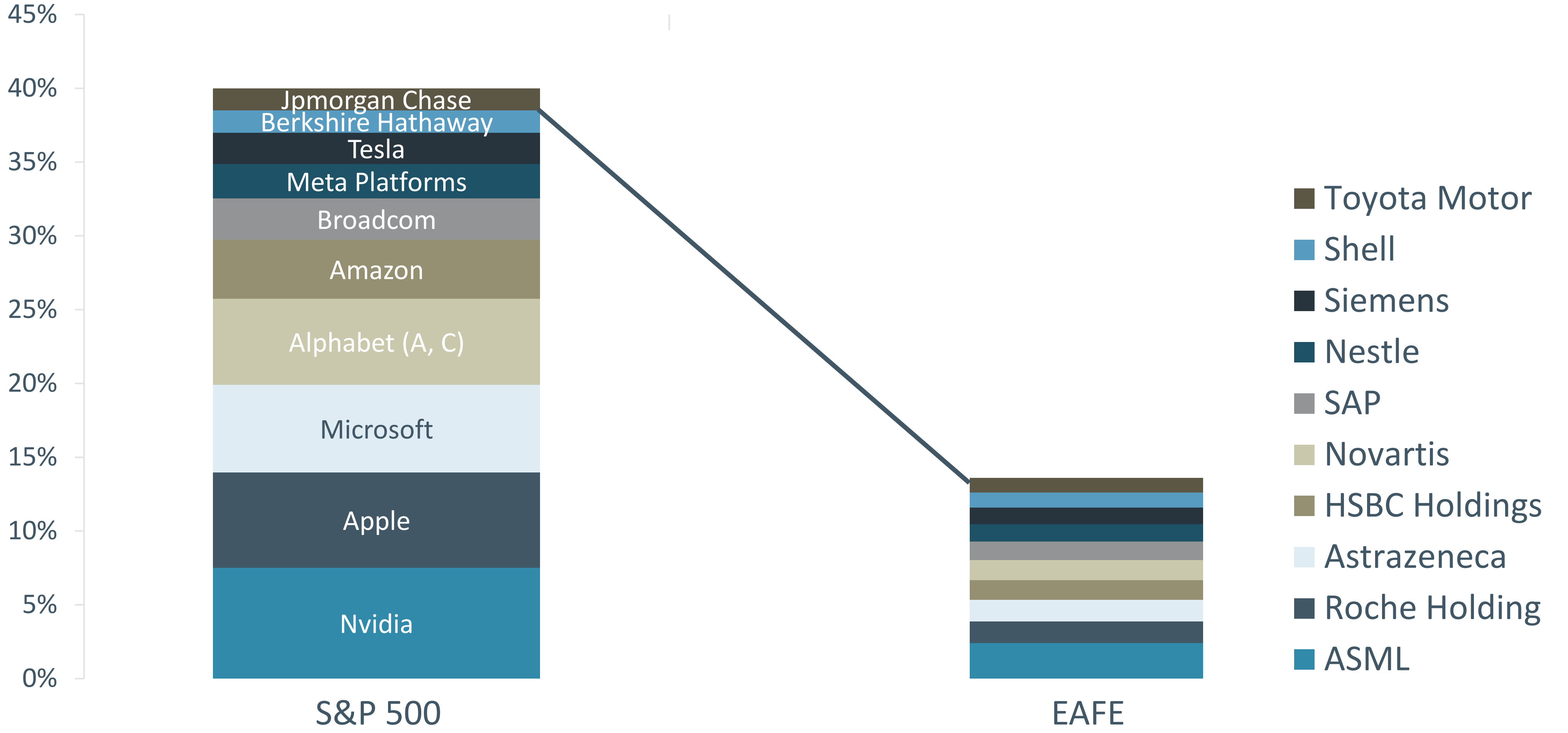
- **Multiple expansion:** Tailwind for EAFE, not U.S.
- Stronger U.S. **earnings growth =/=** stronger **returns**
- **All 11 sectors remain cheaper** for EAFE vs. U.S.

The Big 3 Drivers: Broadening

YESTERDAY	PRESENT
Strong U.S. Dollar	Dollar Fragility
Expanding U.S. Multiples	Valuation Convergence
Big Tech Leadership	Broader Impacts

- **Yes, and…:** International doing well despite continued strength of Mag 7
- **Bottlenecks to AI** risk disruption
- **Wide Breadth of Drivers** for international stocks

Concentration Risk Revisited



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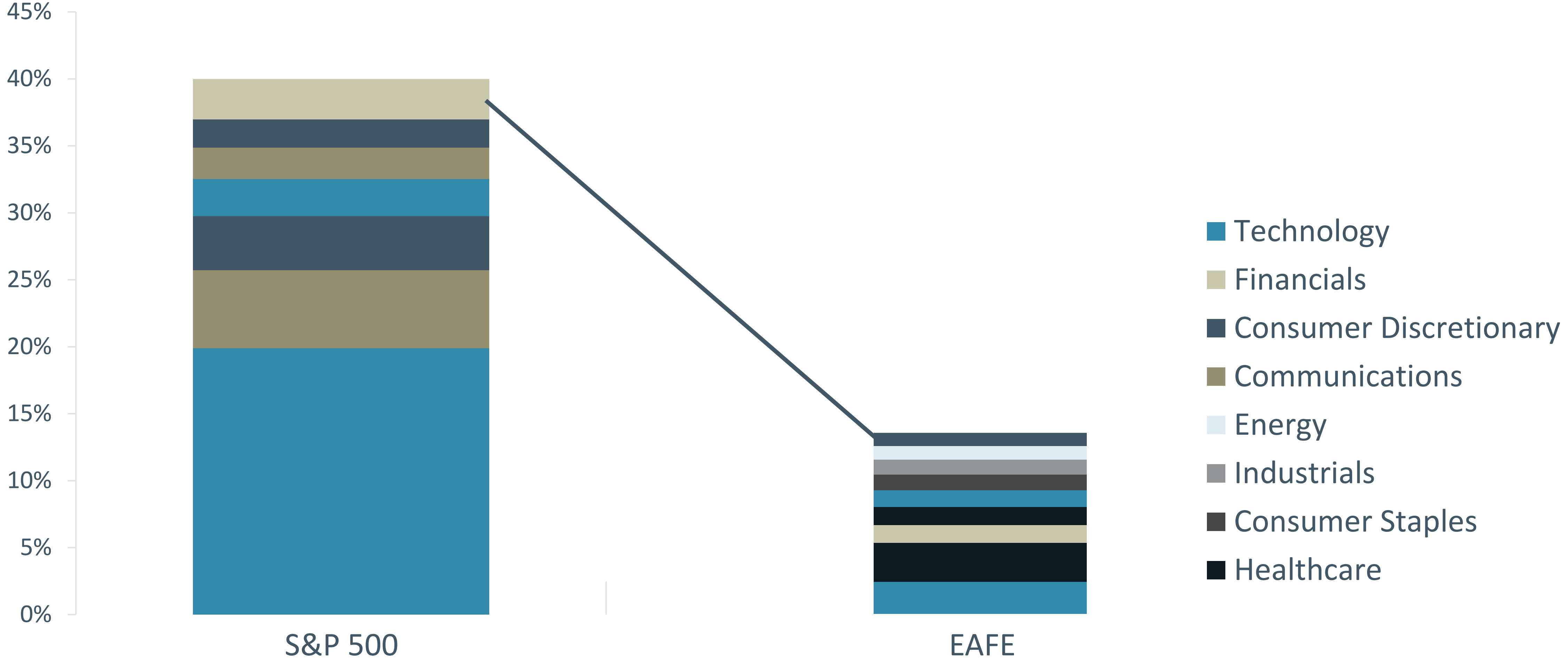
Concentration Risk Revisited



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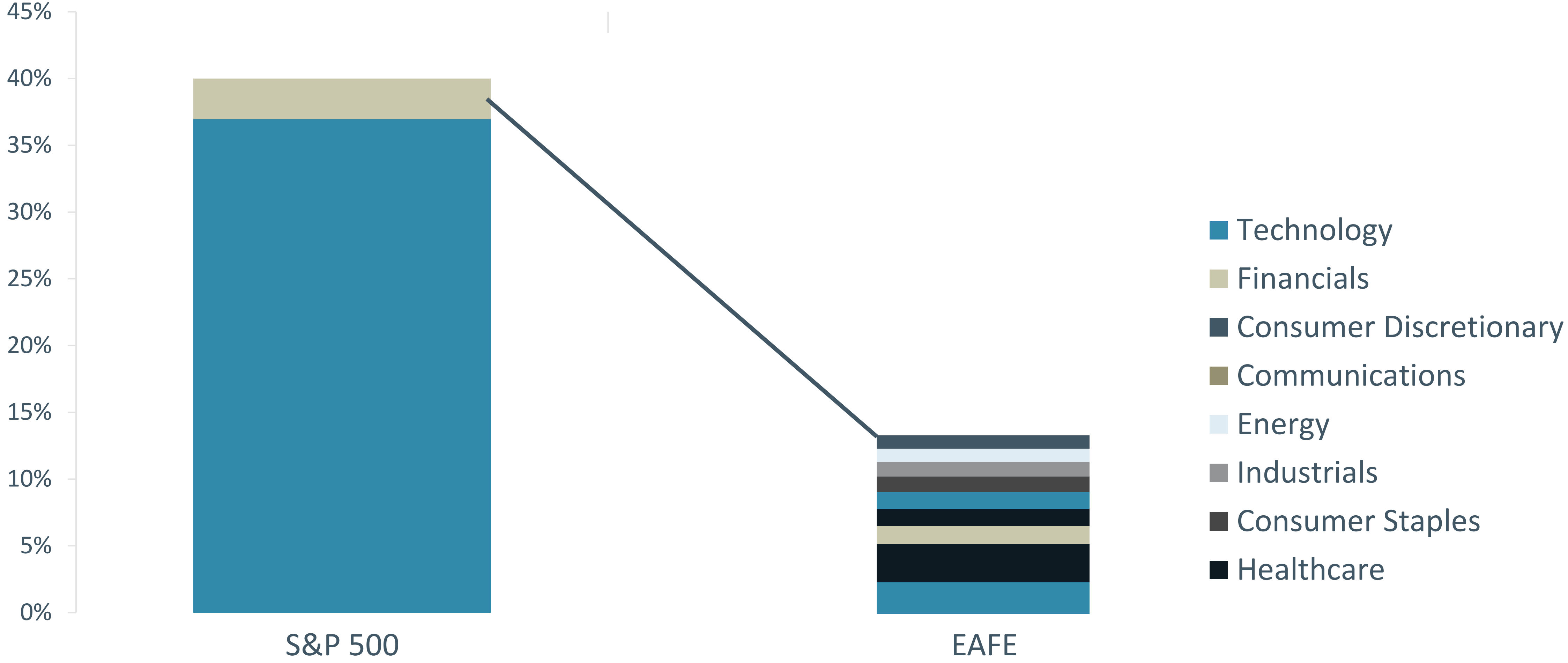
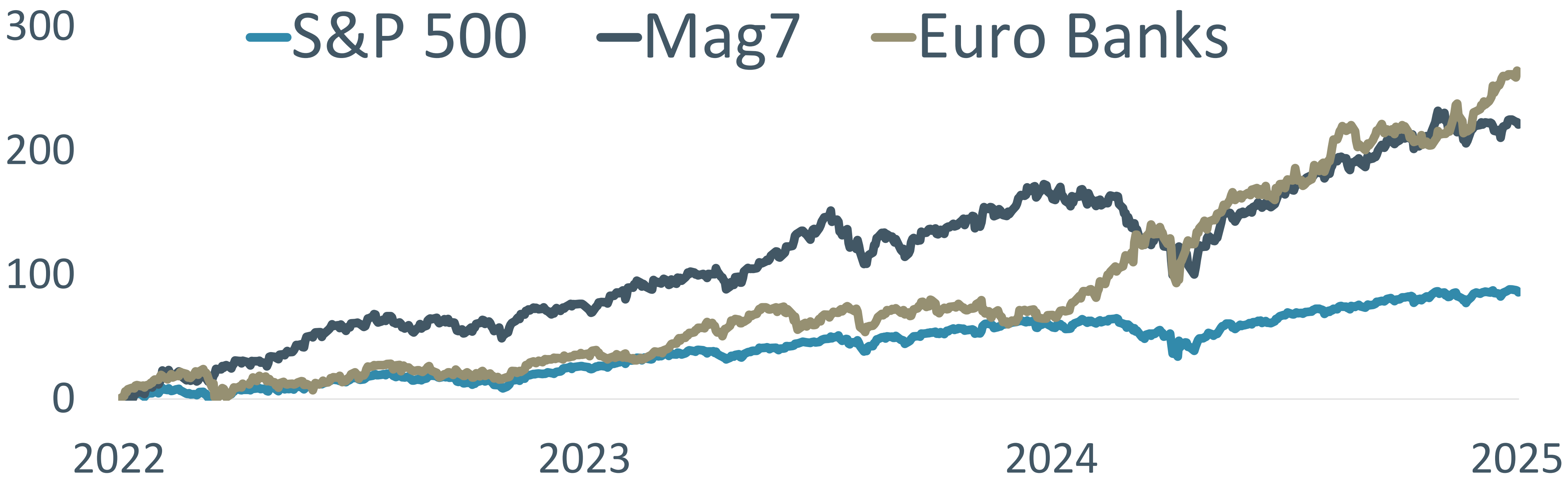
Concentration Risk Revisited



Source: FactSet, as of 12/31/2025. There is no guarantee that a particular strategy will achieve its investment or return objectives or targets.

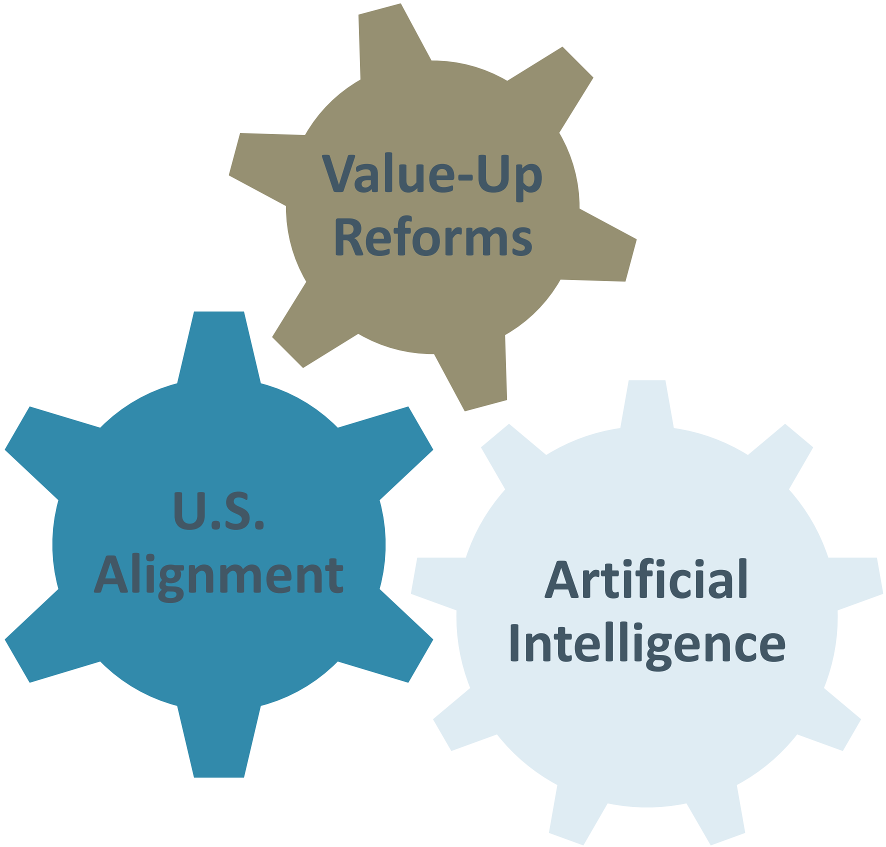
Looking Elsewhere: Euro Banks

European Bank Returns Outpaced the Mag 7



Source: Bloomberg, as of 12/31/2025. Total returns inclusive of dividends. There is no guarantee that a particular strategy will achieve its investment or return objectives or targets.

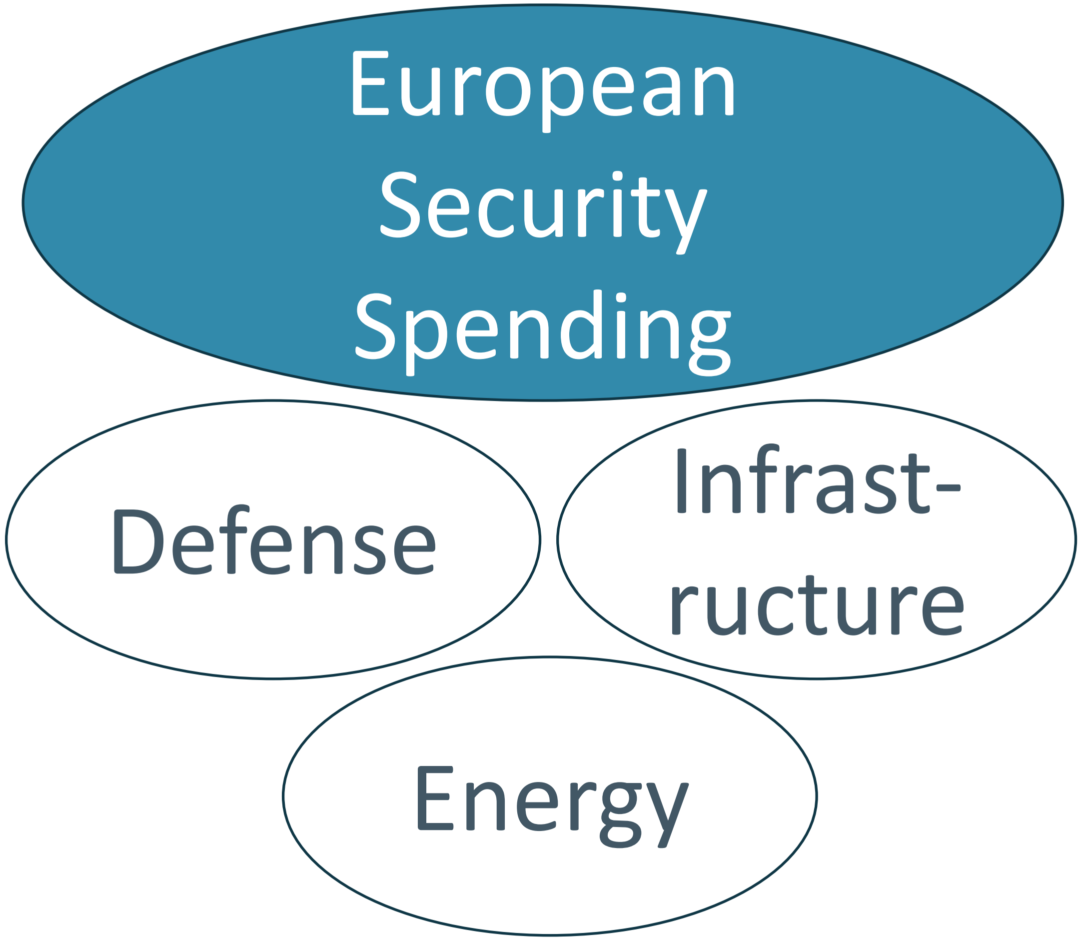
Looking Elsewhere: Korea



- AI engine accelerating Korea’s earnings power
- U.S. alignment strengthens strategic position
- Value-Up reforms target long-standing discount

There is no guarantee that a particular strategy will achieve its investment or return objectives or targets.

Looking Elsewhere: Security



- Record European security spending in 2025
- Investment broadens beyond defense into critical infrastructure
- Structural pivot with multi-year time horizon

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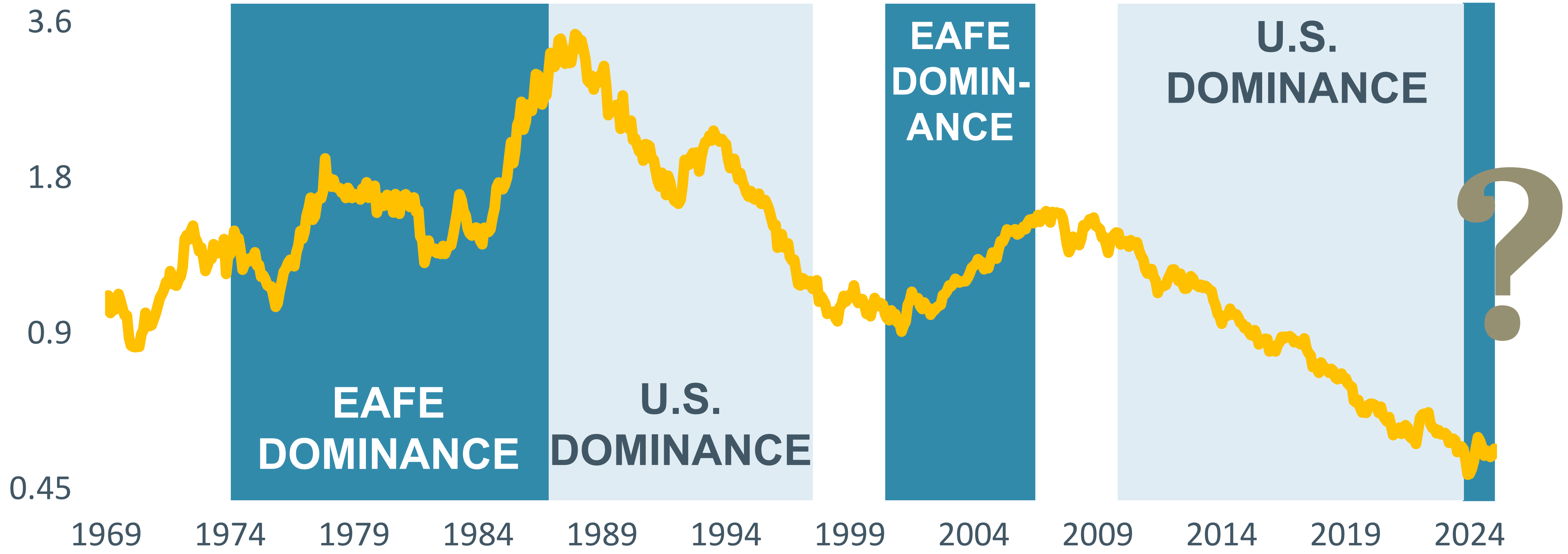
What Does International Have?

Turning Tides

MSCI EAFE Index/MSCI USA Index Ratio



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What's Changing This Cycle

Geopolitical Risks Will Remain Heightened

Country Focus

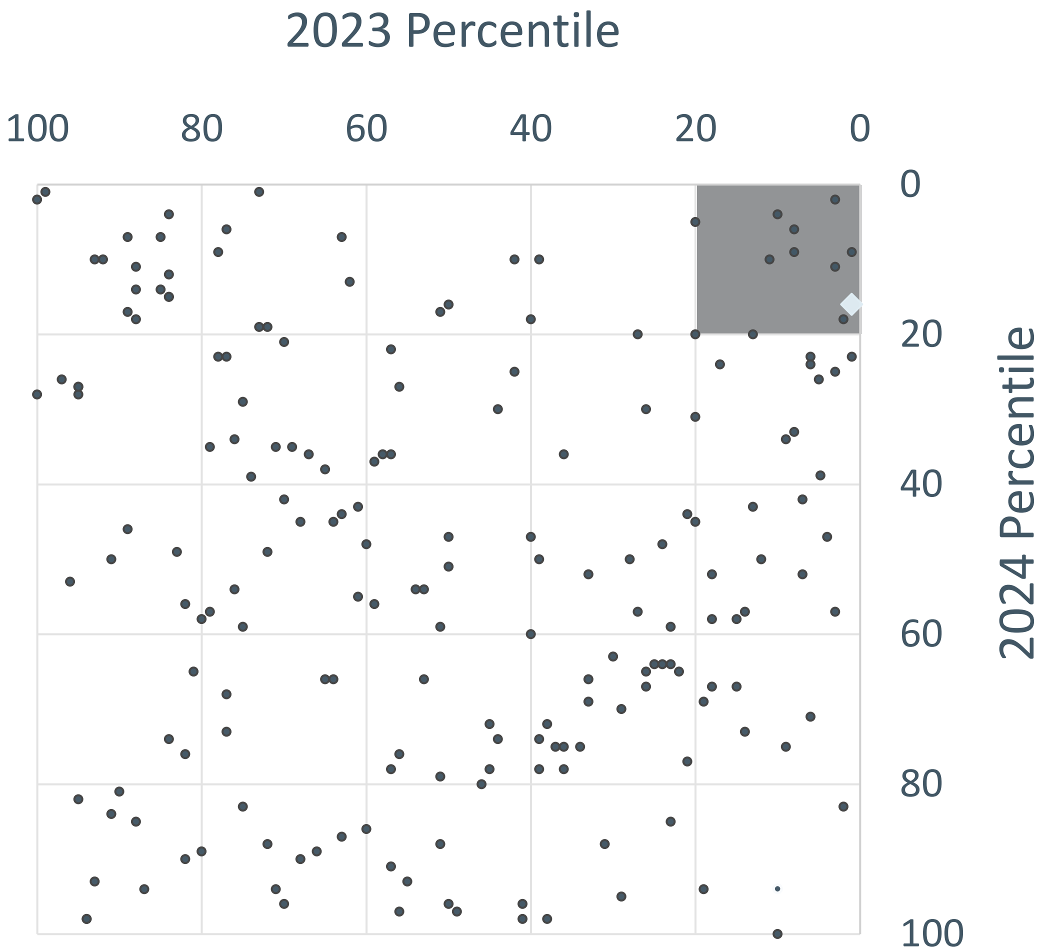
Headlines Will Continue to Drive **Market Volatility**

Agility

Global Themes Will Present Opportunities and Risks

Fundamental Understanding

In Search of Consistency



- Currency hedging: 2023/24 vs 2025
- Value vs Growth
- Country shifts in leadership: India in 2023/24, Korea in 2025

Source: Morningstar, as of 12/31/2025. Morningstar Category depicted in the above chart is Foreign Large Blend, showing the oldest share class; 192 funds were in the category for 2023-2024.Total returns inclusive of dividends.

Why it Matters

- International is more than just a diversifier
- Drivers look in place in ‘26
- Dynamic, complex markets create risks and opportunities for agile active managers

Dave Harrison Smith
EVP, Chief Investment Officer

- 16 years experience, 16 with firm
- Leads Bailard's research teams across all asset classes and acts as co-portfolio manager for the firm's technology strategies
- BA, Business Administration & Economics, University of California at Berkeley
- MBA, University of California at Berkeley

Ben Lathrop
SVP, Director, Business Development & Client Services

- 26 years experience, 6 with firm
- Former Managing Director, NewOak Capital; Prior roles at Franklin Templeton Investments, Apollo Global Management, Citi Property Investors, Bear Stearns Asset Management, U.S. Trust, State Street Research
- BA, History, Hamilton College

As of 12/31/2025

Disclosures

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Disclosures

<u>Market Indices:</u> The MSCI Europe, Australasia, Far East Index, “MSCI EAFE” index is a free float-adjusted market capitalization index that is designed to measure developed market (ex-US & Canada) equity performance. The MSCI ACWI ex USA Index is a free float-adjusted adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index includes developed and emerging market country indices. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 576 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. All MSCI indices are presented U.S. dollar terms on a total return basis, assuming the reinvestment of dividends after the deduction of withholding taxes. All indices are unmanaged, uninvestable, and do not reflect any transaction costs.

The Mag 7 is the Magnificent Seven: Nvidia (NVDA), Alphabet (GOOG) (GOOGL), Microsoft (MSFT), Meta (META), Tesla (TSLA), Apple (AAPL), and Amazon (AMZN).