

2024 mid-year investment outlook Wasatch Global Investors | Renaissance Global Small-Cap Fund

[Energetic music]

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[Global small-cap equities : 2024 mid-year recap and outlook]

[Paul Lambert, an adult male wearing a suit jacket, button-up shirt and headset, sitting in an office and addressing the camera.]

[Paul Lambert
Lead Portfolio Manager, Global Small-Cap
Wasatch Global Investors]

Paul Lambert (onscreen) : To recap the January outlook, we pointed out a couple of things that we thought were particularly interesting for our view on global small-caps. The reasons included: small-caps haven't been this cheap relative to large-caps going back 20 years, or the early 2000s. Also, small-caps tend to go in and out of cycles about every ten years.

[The Wall Street financial district. The Wall Street street sign. A blurry stock ticker. A stock ticker.]

Paul Lambert (offscreen) : We are currently in the longest extended period of large-cap outperformance, going on about 14 years.

Paul Lambert (onscreen) : And while large-caps have performed well, that performance is highly concentrated in a handful of names, and with it comes increasing risk when those names start to top out.

While we don't know what the exact catalyst is going to be to change that trajectory, we do know that small-caps can be set up for spectacular forward returns, even with the small reallocation from large down capitalization. So we think it is a very interesting time to be looking at your small-cap allocation and taking the weight up.

So far in '24, we see similar returns in '23, and that is large beating small and growth beating value.

[A person sitting at a desk, looking at a computer monitor, which has text appearing onscreen. A laptop monitor with text appearing onscreen. A person looking at a monitor with text appearing onscreen.]

Paul Lambert (offscreen) : AI continues to be the dominant theme, and this has actually played out much stronger in large-cap versus small.

Paul Lambert (onscreen) : The other thing to recap from our January outlook is that with all the uncertainty in the world right now, we really felt that quality growth would be a great place to be. Looking at the first five months of the year from a global small-cap perspective, this has not played out. Factor returns have been dominated by momentum, pro-cyclicals and size. Unfortunately, quality and growth have been towards the bottom of the pack.

So overall, I would recap that our January outlook is a bit mixed, and that the trends we saw in '23 are clearly continuing to play out here in '24.

[Energetic music]

[How are you positioning your investment strategy to align with your current outlook? (Renaissance Global Small-Cap Fund)]

Paul Lambert (onscreen) : As a reminder, the Renaissance Global Small-Cap portfolio is a “best of Wasatch” portfolio, and represents our highest conviction ideas around the world. This is a highly concentrated list of companies; it's an alpha-oriented portfolio and one with high active share. We are a fundamental, “bottoms up” shop with one team, one process and one philosophy, and that is focusing on high-quality, long-duration growth companies.

As we look toward the rest of the year, we see a very choppy backdrop with a tug of war in macro factors both positive and negative.

[The US Capitol building. Lapel pins inspired by the US flag with « 2024 » written in the middle. The United Nations building with many flagpoles in the foreground, featuring the flags of different countries.]

Paul Lambert (offscreen) : There's a big election coming up in the US, we also see geopolitical tensions around the world. We continue to see an inverted yield curve.

Paul Lambert (onscreen) : So there's just a lot of moving pieces in the macro backdrop. However, we remain extremely excited about the portfolio and think it can do well in both good times and bad.

Our excellent management teams have an incredible track record of navigating the opportunities and headwinds around them. Having recently come out of Q1 earnings, we own a strong portfolio of companies with great growth prospects. Coupled with the fact that we see the large-cap outperformance cycle being long in the tooth, we think this is a great time to be reallocating large-cap gains into high-quality, long-duration small-cap growth companies.

[Energetic music]

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