

Wasatch Global Investors 2025 investment outlook: Global equities Renaissance Global Small Cap Fund

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[Featuring Ken Applegate, CFA, CMT Portfolio Manager, Wasatch Global Investors]

[A headshot of Ken Applegate]

[An image of a modern office building]

>>Ken Applegate: When we look at our 2025 outlook, there's a couple of key points I'd like to make, and we can start at the Asset Class level, as small caps tend to work in cycles. For example, you hear global small cap that outperforms for a long period of time, and then you get a shorter period of time where large cap tends to outperform. I like to think about it as an escalator-up and elevator-down type situation. Now, recently in the last three years, we've gone through a period of large cap outperformance. A lot of this has been driven by the likes of the Mag 7 in the US. If you look at global small cap at a performance level in the last three years, global small caps are up about 2% per year, versus, global all cap indices is up about 9% per year. So from our perspective, there's an extremely compelling risk-reward as we look out over the long term.

Now the second point is, I like to think about in 2025, there's been a lot of geopolitical change during the year. And we think some of the impact that we've had, for example, on the US elections will continue into 2025. Now, one of the ways this is manifesting itself is through currencies. You know, for example, you've seen the US dollar, which has continued to strengthen, since President Trump won the election. But currencies also work in cycles. So, one needs to remember, the US dollar has been strong for quite some time. So we're no currency experts per se, but our belief and the research we've seen points to the next 5 to 10 years, it's very unlikely that you're going to see a US dollar that continues to strengthen. In fact, it's more likely that you'll go through a US dollar weakening cycle in the next 5 to 10 years. I think a great way to illustrate this is through the global indices. If you look at the US allocation and the large cap index, it's got about a 75% weighting today. This is the largest percentage allocation ever. If you're looking at history with these types of extremes that we've seen in indices, they seldom persist over the long term. Now I will note that in the global smallcap index, the US allocation is about 65%. So it's about 10% lower within the smallcap index as compared to the large cap index.

I guess the final point would just like to make in regards to tariffs, which again, is another, you know, election dynamic that has occurred. And there's a lot of uncertainty as to, what tariffs that

will be implemented by President Trump, when they'll be allocated, who will be, and which industries, and such. However, our perspective is, this is just part of a bigger underlying trend towards de-globalization.

So in terms of our positioning for 2025 and beyond, I'd like to start with the final point I made before, which is about tariffs and this de-globalization trend that we have been seeing. We actually like to call this localization because that's where we see the opportunities. Now, small caps tend to be much more domestic-oriented in nature, so they'll actually benefit from this localization trend because entire industries are developed from this trend, and also that they're selling more to a domestic economy. The large cap companies tend to be more multinational in nature and can be impacted more by things like tariffs. Maybe a couple of examples: supply chain management is a big trend that has been going on and will continue to be a big thematic.

There's a company we own in Japan called MonotaRO. They sell MRO, so essentially maintenance, repair and operations. They sell and they distribute products for industrial companies within Japan. Now, because of this scale and the network effect they have, they've got this access to all this inventory and they can provide this to customers very, very fast. So they are winning market share from a lot of the small players and a lot of the big multinational players, because they're focused on Japan. Another trend would be automation to improve efficiencies for businesses. And an obvious one would be technology companies. Sugi is a drug and pharmacy company, so think like a Walgreens in the US. Now what we've seen globally is the cost of doing business has been going up. Part of this is driven by the inflation costs. Now, what we've seen is that direct inflationary costs can usually be passed through to customers. But it's those indirect costs, things like electricity that's really hard to pass through. But great companies adapt. So Sugi has been investing back into their business with quite simple things like their lights. They're adding dimmers on their lights. They're putting in more LED lights, which are much more energy efficient. The fridges they've been putting in, they're more energy efficient as well. So Sugi is constantly reinvesting back into their business. Sugi is one of the largest chains within Japan, they have about 5% market share, so the mom and pop stores, those one- or two-person stores, they're going out of business because they can't reinvest back in their business. So Sugi is a market share beneficiary during this time of uncertainty.

And just the other big point is: opportunities always exist. Now for us, it's all about stocks. It's all about active management. You know, we're looking for earnings growth, for companies that can double their earnings in the next five years, and then double again. And we're also investing in high-quality companies, so companies with strong balance sheets that are self-funding in their growth. And importantly, the quality of their management team is critical to us. You know, we spend a lot of time meeting with management teams and assessing the quality of these companies. And the quality is really important for us because it provides downside protection in times of uncertainties. It enables companies to reinvest back in their business so that over the long term, they can continue to grow their earnings. So as investors, we're super excited about all the opportunities out there that we can invest in.

Now, clearly there's a lot of uncertainties out there and there often are many uncertainties. But most of these are known. They're known by us. They're known by our management teams in

which the companies that we invest in, and we have conversations with these companies about these things as well. And so if we think about 2025, one thing we have been doing is shifting our portfolio from the US into international markets. So some of these companies that I talked about in Japan today, are ones that we have been investing in throughout the year, and we think they're going to be big winners for us in 2025 and beyond.

[Inspiring music]

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