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Investing for a  
world of change



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## Micro still matters

### How have international quality equities performed versus the broader market in 2022?

Overall, performance has been in line with the broader market and better than growth. Quality as a style favors unlevered capital-light businesses which have low cyclicalities. On a relative basis, a lack of exposure to some of the sectors which have benefited from inflation or tightening supply dynamics – such as energy, commodities and banking – has been a strong headwind. In addition, quality equities were priced at a premium coming into this year and were thus more affected by rising interest rates and discount factors, which has also led to volatility in quality being higher than usual. Offsetting these two factors has been resilient fundamentals, which you would expect from these types of businesses.

### Will the key headwinds for markets in 2022 remain in situ for 2023?

Clearly, in 2022, macro has dominated the narrative, but earnings season in the fourth quarter showed that the micro still matters. We saw divergence from company to company, based on how they performed operationally. However, the macro dynamics will continue to remain prominent because they remain unresolved. The Ukraine war; the 'zero-COVID' status policy in China; inflation and monetary policy are all very significant factors that have increased risks and slowed growth, with the exception of a few narrow parts of the market. The resolution of any one of these issues – China reopening; an end to the war; inflation subsiding or certainty on peak Fed rates – could be a real positive catalyst for markets to price in better days to come.

## Where do you see the opportunities and risks in 2023?

The future does feel uncertain, especially because of the headwinds discussed above, but this speaks to the investment philosophy we follow; the opportunity always lies in individual companies with attractive opportunities. When these companies have low exposure to risk outside of their control and outside of their ecosystems, such companies are very well positioned to continue to compound their fundamentals. Over any reasonable time horizon – more than five years – that fundamental progression is going to overwhelm any of these macro factors year to year.

## Is international quality equity an attractive option to diversify a traditional US equity-orientated portfolio?

Clearly the US has outperformed for a long period, but that has not always been the case. International markets have led for sustained periods as well. Beyond preparing one's portfolio for regular shifts in high-level US/ex-US market leadership, it is important to keep in mind that some of the best businesses in the world are based internationally. So, even if one preferred a narrow exposure to only the US economy, many of its largest and most successful participants are international businesses. For any investor, expanding one's opportunity set opens up the opportunity for better risk-adjusted returns. Therefore, there is always an argument to think about things globally as opposed to artificially narrowing one's opportunity set.

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