

## **Shifting Tides: Why the Smart Money Is Moving Beyond the U.S**

Our fund aims to keep things simple: find companies with durable fundamentals, align with structural tailwinds, and let momentum do the heavy lifting. While we don't chase headlines, we do pay close attention when the macro landscape shifts in ways that materially alter the playing field for global capital—and right now, it's doing just that.

In this letter, we walk through three powerful developments that reinforce our core thesis: that non-U.S. developed markets are entering a period of relative strength, driven by policy divergence, geopolitical realignment, and valuation support. Europe's central bankers are loosening the reins just as the Fed digs in its heels. Defense spending across Europe and Asia is moving from rhetoric to reality. And the U.S.—long the gravitational center of global capital—is taking a step back from openness, raising tariffs to levels not seen since the Great Depression.

We don't pretend to know where markets will be next quarter. But we do know that momentum tends to favor regions with improving fundamentals and expanding capital flows. That's exactly what we see taking shape outside the U.S.—and why we remain confidently overweight non-U.S. developed market equities in our portfolio.

### **ECB's Aggressive Rate Cuts Set the Stage for European Equity Outperformance**

In a pivotal move just last week, the European Central Bank cut its deposit rate for the eighth time since last June, lowering borrowing costs to 2% even as inflation reached its 2% target. This persistent monetary easing—especially in the face of ongoing U.S. trade hostilities and policy uncertainty—has decisively shifted the landscape for global investors. While whispers of a summer pause are swirling in Frankfurt, President Lagarde's reassurance that the ECB is “in a good position” speaks volumes: European monetary policy is now fueling a distinct revival in the continent's economic prospects. This stands in marked contrast to the U.S., where the Federal Reserve—still wrestling with stubbornly high inflation—remains reluctant to loosen the reins, keeping rates north of 4%. With European equities underpinned by a tailwind of low funding costs and renewed global investment flows, this differential provides fertile ground for sustained outperformance relative to the U.S. market, reinforcing our central thesis that non-U.S. developed markets are poised for a re-rating that investors would be wise not to ignore.

### **European and Asian Defense Build-Up Brings Opportunity for Global Champions**

A pivotal shift is underway in developed markets, as European leaders confront new realities brought on by the war in Ukraine and renewed threats from Russia. Just this week, NATO's Secretary-General Mark Rutte called for an unprecedented “quantum leap” in defense spending, suggesting members spend up to 3.5% of GDP on military needs and an

additional 1.5% on broader defense infrastructure—targets widely expected to be adopted later this month. In parallel, escalating military activity by China in the Pacific has put both Japan and its allies on high alert, spurring Tokyo to enhance its own defense posture. This new era of rearmament stands in stark contrast to the U.S., where political gridlock and inflationary pressures have hampered similar fiscal mobilization. The scale of investment anticipated for European and Japanese defense sectors will reverberate across a range of industries—from aerospace to semiconductors—directly benefiting nimble, innovative companies like Rolls Royce, Safran, ASML, Nokia, and Tokyo Electron, which anchor key positions in our portfolio. As the world reallocates resources to ensure collective security, these trends create a uniquely fertile environment for non-U.S. developed market equities, underscoring our conviction that these regions are poised to reap outsized returns relative to their American counterparts.

### **U.S. Tariffs Hit Highest Levels Since Great Depression, Undermining Dollar Flows and Domestic Growth**

Today's global markets are shaped by decisions that echo across borders—and nowhere is this more apparent than with the United States' current tariff regime. As of June 1, 2025, the average effective U.S. tariff rate has surged to 15.6%, a level not seen since the late 1930s. According to analysis from The Budget Lab at Yale, this environment is inflicting a double blow: U.S. households are absorbing an average \$2,500 annual hit to purchasing power, while real GDP is projected to shrink by 0.3% over the long run. Perhaps more importantly for global investors, these tariffs and the ensuing retaliation are stifling the flow of U.S. dollars into global trade, reducing demand for U.S. financial assets, both stocks and bonds. With less foreign capital circulating into U.S. markets and economic growth prospects dimming, the case for non-U.S. developed market equities strengthens considerably. As companies and investors increasingly look abroad for stability and opportunity, these shifts—amplified by persistent U.S. protectionism—are setting the stage for a sustained reallocation of capital to regions better positioned for growth and openness in the years ahead.

### **Leaning Into the Turn: Positioning for a Global Rerating**

In moments of transition, markets often hesitate before catching up to reality—and therein lies the opportunity. With Europe and key Asian allies embracing pro-growth policies and strategic investment, the foundations for outperformance are being quietly but firmly laid. Meanwhile, U.S. policy drift and protectionism risk turning tailwinds into headwinds for domestic assets. For disciplined investors, this is not the time to double down on the familiar, but to lean into the momentum building abroad.

