Broaden Your Horizons

Diverging economic paths and healthier valuations overseas could catalyze a change in market leadership.

In Summary

Diverging economic conditions and healthier valuations overseas may lead to a changing of the guard, with international equities overtaking domestic equities as the market leader.

Stabilizing or appreciating foreign currencies could enhance returns for U.S. investors in international equities, mitigating past headwinds from a strong dollar.

International developed equities are currently trading at discounts to U.S. stocks, and signs of economic recovery in Europe and Japan suggest a favorable risk/reward outlook.

Asset Class Change:
International Developed moved from slightly negative to neutral.

Slightly Negative → Neutral

For more information see page 7.

The United States was quick to recover from the depths of COVID-19, and the economy remained resilient even as monetary tailwinds turned to headwinds. Relative macro strength, significant fiscal stimulus, and the eventual tailwind from the emergence of generative artificial intelligence drove the dominance of U.S. equities over their international counterparts. Although OAM Research remains relatively cautious in our outlook for global equities, as the tides potentially begin to shift, international stocks could be poised for a rebound in relative performance. With investors typically maintaining a home country bias, OAM Research recommends considering diversifying equity exposure and increasing international allocations from slightly underweight to neutral positions.

International Opportunities

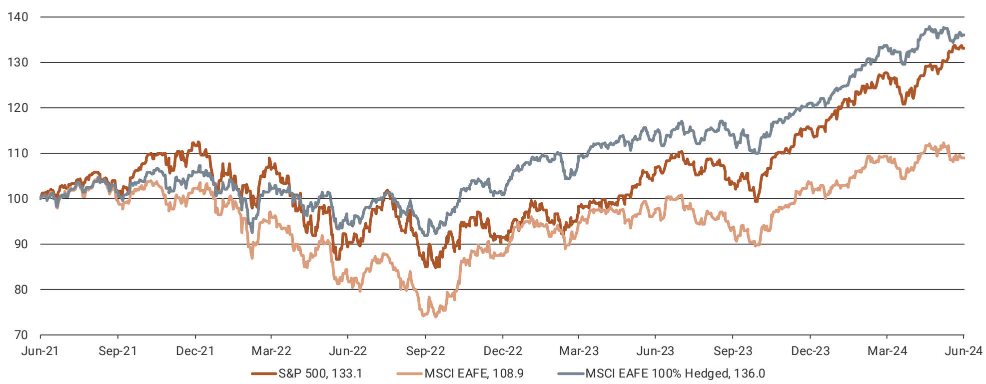
Historically, U.S. stocks have experienced extended periods of outperformance, but these strong market environments do not persist in perpetuity. There are signs that could be pointing to a potential shift in market leadership, and we observe several other factors that could drive superior returns for U.S. investors investing in international developed equities:

Dollar Momentum

International equities have performed well in local currency terms. The MSCI EAFE 100% Hedged Index, which aims to strip out the currency effects, has performed in line with the S&P 500 over the last three years. Non-U.S. developed equities protected much better during the 2022 drawdown and mostly kept pace in the 2023 recovery. However, for U.S.-based investors, the dollar strength has notably hampered the returns of international stocks. The U.S. Dollar Index gained more than 5% over the last three years, rallying significantly as the Fed raised rates more aggressively than many other central banks. The more attractive U.S. Treasury yield, combined with the dollar's safe haven status, led to the depreciation of most other major currencies such as the Euro and the Yen. If these currencies stabilize or even start to appreciate against the dollar, the currency headwind has the potential to become a tailwind for domestic investors in non-U.S. developed stocks.

International Equities Have Performed Well In Local Currency Terms

Investment Growth (3YR through 6/30/24)



Source: Bloomberg as of 6/30/2024

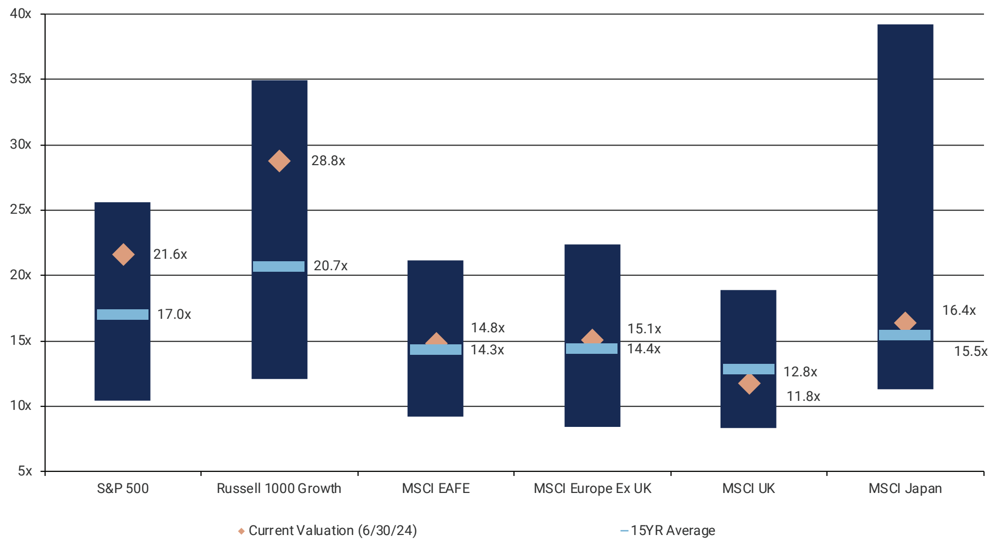
Index performance is not indicative of the performance of any particular investment. Indexes are unmanaged and their returns do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index. Past performance is not indicative of future results.

Valuation Discount

International developed equities trade at considerable discounts to U.S. stocks, despite valuations that are in line with longer-term averages. U.S. large cap indices, particularly the growth benchmarks, appear expensive after the significant appreciation of a number of heavily-weighted positions. Large cap growth equities are trading at a 37% premium to their 15-year average, while European and Japanese equities are trading at their 15-year average. In an environment where most risk assets are trading at rich valuations, reasonably priced non-U.S. developed market stocks appear to have a favorable risk/reward outlook.

US Equities are Overvalued while International Equities are Fairly Valued

12M Forward P/E (Current vs 15-Year Historical)



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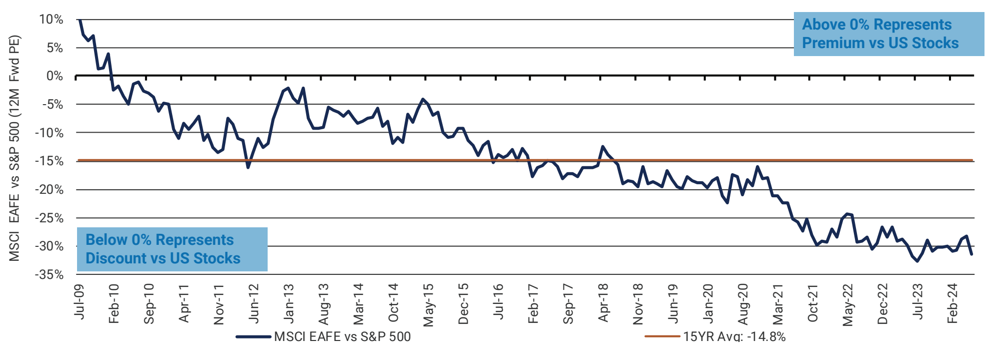
International Valuation Discount vs U.S. Has Widened

MSCI EAFE vs S&P 500 12-Month Forward PE



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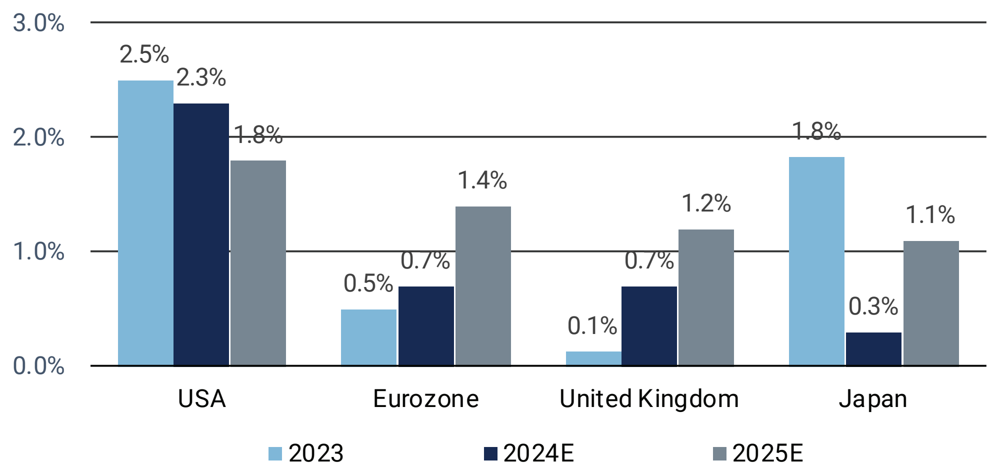
Economic Divergence

The U.S. economy has thus far weathered the combination of inflation and interest rate hikes, and even emerged much stronger than many expected. However, there are an increasing amount of cautionary signs that could indicate weakness on the horizon. Disappointing GDP growth in Q1, a weakening consumer, tighter lending standards, and a rising unemployment rate all point to a domestic economy that is cooling, albeit from robust levels.

Diverging Expected Growth Trends

Real GDP YoY%



Source: Bloomberg as of 6/30/2024

By contrast, several European countries, including the U.K., experienced zero to negative GDP growth in 2023, and Japan's economy was similarly weak in the back half of last year. These economies are more cyclical than the U.S. (and therefore more sensitive to rising interest rates), did not experience the same level of stock performance from AI compared to the U.S., and lacked the magnitude of fiscal spending that occurred domestically. However, more recent data show that growth may have troughed and that recoveries may be underway. If this positive momentum can be sustained, it may indicate the start of the next cycle for these regions.

Central Bank Divergence

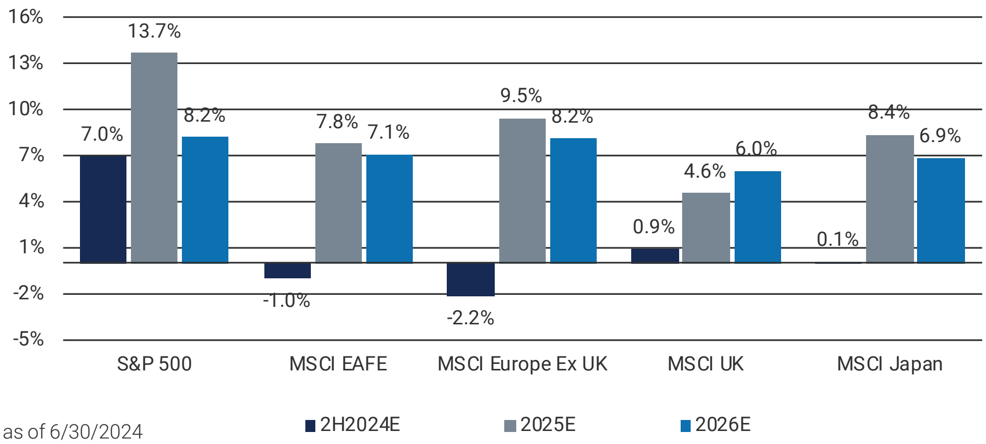
Monetary policy is expected to be less restrictive overseas. The European Central Bank, as well as other central banks in the region, have begun to cut rates, and the Bank of Japan remains extremely accommodative. On the other hand, inflation in the U.S. has remained sticky, and the expectations for rate cuts domestically have been tempered. A more restrictive Fed should pressure U.S. equities, while non-U.S. stocks can benefit from some interest rate relief if other central banks continue to diverge.

Earnings Growth Inflection

International corporate profits in recent years have been disappointing, as these businesses tend to be more cyclical, and earnings were curtailed by a pullback in spending overseas. In the U.S., meanwhile, staggering earnings growth from just a few large companies has masked more muted growth for the other areas of the domestic market. Going forward, international corporate profits are expected to rebound meaningfully.

International Earnings are Expected To Rebound

EPS Growth Estimates



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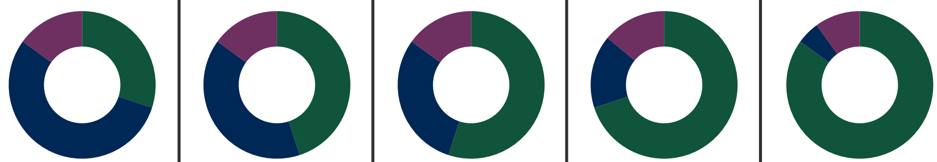
Risks to our Outlook

In tandem with upgrading our outlook for International Developed Equities to neutral this quarter, it is important to consider potential risks that could be disruptive for global equities. There has been a downshift in global growth this year, and even if international economies remain on solid ground, a slowdown in other regions will likely have ripple effects across the world. Inflation has also remained stubborn in a number of areas, and if inflation remains above target it will limit how much room central banks have to cut. Outside of the macro picture, geopolitical risks also remain heightened, and escalations of existing foreign conflicts or upcoming elections could trigger more volatility.

Given these risks, OAM Research remains relatively cautious in our allocation to and positioning within global equities overall, with neutral to slightly underweight allocations relative to our targets, and a bias towards higher quality strategies that should provide better downside protection in a more volatile environment. Investors should remain aware of potential concentration in portfolios to a given style, geography, or handful of stocks moving forward. We also continue to emphasize the importance of remaining diversified through allocations to high quality core fixed income and other diversifying strategies such as real assets and event driven, which continue to be attractive with interest rates remaining elevated, and could provide a cushion to portfolios in the event of a pullback in equities.

While this cycle of U.S. outperformance has been much longer than past periods, the stated potential catalysts could spark the broadening of market leadership to include international developed equities. Given that many investors' portfolios are overweight to U.S. equities, we believe that now is an opportune time to revisit allocations and consider a rebalance to add more international exposure. Please refer to OAM's Strategic Asset Allocations to identify an appropriate allocation to international equities based on your risk profile.



	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive
Equity Strategies	30%	45%	55%	70%	85%
US Large Cap	12%	18%	22%	28%	33%
US Small-Mid Cap	5%	7%	9%	11%	14%
International/Global Equity	11%	17%	20%	26%	32%
Emerging Markets Equity	2%	3%	4%	5%	6%
Fixed Income Strategies	55%	40%	30%	16%	5%
US Core Fixed Income	47%	32%	22%	8%	0%
High YIeld Credit	6%	6%	6%	6%	5%
International/Global Fixed Income	2%	2%	2%	2%	0%
Diversifying Strategies	15%	15%	15%	14%	10%
Reaal Assets	5%	5%	6%	7%	5%
Event Driven/Uncorrelated	10%	10%	9%	7%	5%

For illustrative purposes only. Asset allocations are current as of 1/1/2024 and subject to change at any time without notice.

Asset Class Detail

This chart outlines OAM Research's macroeconomic and asset class views.

Negative · Slightly Negative · Neutral · Slightly Positive · Positive

Global Equity

U.S. Large Cap
Large cap fundamentals appear healthy, though earnings growth outside of the mega-cap stocks has been more subdued. The market seems to be underappreciating tail risks such as sustained inflation or a slowdown in growth. Growth equity valuations remain very stretched, but value stocks are not as extended. Higher-quality companies with pricing power should be more resilient, and investors may benefit from allocating to strategies focused on quality and downside protection.

U.S. Small-Mid Cap
Small and mid-cap stocks are trading at significant discounts relative to large caps, and valuations appear reasonable on a historical basis. Smaller companies are facing the same headwinds as their larger counterparts, primarily due to the impact of higher interest rates, higher cost of labor and lending pressures but are navigating the environment with less diversified product lines. Smaller cap stocks tend to underperform as economic growth slows, so neutral positioning is warranted despite more attractive valuations.

International Developed
While most major economies outside of the U.S. experienced weak growth in 2023, more recent activity data has begun to inflect higher. Central banks have made progress on inflation and have begun to cut interest rates, which may provide some relief to more cyclical markets. International equities continue to trade at meaningful discounts compared to U.S. stocks. Although a more pronounced U.S. slowdown could have global implications, we believe an underweight to international developed equities is no longer warranted.

Emerging Markets
Valuations remain reasonable and look attractive in our view relative to developed equities. China's economy continues to face headwinds, but other emerging economies have been resilient. Active managers can seek to take advantage of bifurcated performance by allocating to countries with more promising growth prospects.

Global Equity - Alternatives

Long/Short Equity is considered part of the strategic asset allocation for equities based on each fund's underlying investments.

Long/Short Equity
We believe equity long/short strategies should benefit from increased dispersion and market dislocation, leveraging active management of both long and short positions. However, if a broad downward revision of earnings across sectors were to occur, it would likely adversely impact strategies.

Global Fixed Income

U.S. Core Fixed Income
Interest rates remain elevated as the market repriced overly rosy expectations for rate cuts at the start of 2024. Sticky inflation may further delay Fed action, but we believe today's yields offer attractive current income with significant capital appreciation potential when the Fed eventually moves. Investment-grade credit spreads are tight, but corporate balance sheets are generally healthy. In our view, spreads for high-quality securitized products represent attractive entry points.

High Yield Credit
Spreads remain tight and could be subject to meaningful widening if U.S. growth stalls. Defaults have picked up since 2022 and could accelerate if the economy worsens. Absolute yields today remain attractive, but the yield pickup relative to investment-grade doesn't appear to adequately compensate for the extra credit risk.

International Fixed Income
Yields in most developed markets remain less attractive than U.S. yields, though international bonds may benefit from earlier central bank rate cuts. Emerging market debt looks more attractive within the non-U.S. market, both from a yield perspective and as a portfolio diversifier, though the asset class may suffer if global growth slows meaningfully.

Diversifying Strategies

Real Assets
Midstream energy infrastructure has remained resilient through a commodity reversal given strong fundamentals and elevated yields. Utilities can continue to benefit from thematic tailwinds relating to AI and clean energy, in our view. REIT valuations are attractive in our view and we believe the sector can outperform if interest rates are near their peak.

Event Driven/Uncorrelated
Event-driven strategies have rebounded from volatility in 2023 and continue to perform well as deals continue to see completion despite heightened regulatory scrutiny and deal flow has begun to recover. Managers with opportunistic credit exposure may additionally benefit from stressed and distressed situations that arise. Other strategies such as multi-manager continue to provide uncorrelated and steady returns with their ability to flexibly lean on multiple sub-strategies amid elevated volatility and higher rates.

Authors

Anusha Rodriguez, CFA, CAIA
Head of OAM Research and OAM Alternatives
Managing Director

Christopher Barsky, CFA
Head of OAM Consulting
Managing Director

Edita Raslova, CFA
OAM Consulting
Senior Director

Marlo Palumbo, CAIA
OAM Alternatives
Executive Director

Michael Deo, CFA
OAM Consulting
Senior Director

Sanjana Krishnakumar
OAM Alternatives
Senior Director

Kole Henry
OAM Market Strategy
Associate Director

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Adopting a fee-based account program may not be suitable for all investors; anticipated annual commission costs should be compared to anticipated annual fees.

S&P Equal Weighted is the equal-weight version of the S&P 500. The index is comprised of the same stocks of the S&P 500, but each company is allocated a fixed percentage (.2%) of the total index.

MSCI AC World ex-USA Index captures large- and mid- cap representation across 22 of 23 developed-market countries (excluding the U.S.) and 24 emerging-market countries.

MSCI EAFE is an index in U.S. dollars based on the share price of companies listed on stock exchanges in 21 developed countries outside of North America. This Index is created by aggregating the 21 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

MSCI EAFE 100% Hedged to USD Index represents a close estimation of the performance that can be achieved by hedging the currency exposures of its parent index, the MSCI EAFE Index, to the USD, the "home" currency for the hedged index. The index is 100% hedged to the USD by selling each foreign currency forward at the one-month Forward rate. The parent index is composed of large and mid cap stocks across 21 Developed Markets (DM) countries and its local performance is calculated in 13 different currencies, including the Euro.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index. Frank Russell Co. ranks the U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period. The Russell 2000 Index represents a very small percentage of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of U.S. Equity Small and Mid Cap performance.

Russel 1000 Value Index measures the performance of the Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

MSCI Emerging Markets Index is a market capitalization weighted Index in U.S. dollars representing 26 emerging markets in the world. The Index is created by aggregating the 26 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

Russel 1000 Growth Index measures the performance of the Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Sector/Information Technology TR Index consists of stocks chosen for their representation in the Info Tech industry. Companies considered are involved in technology software and technology hardware and equipment. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

LTM PE Ratio is the last 12-month price-to-earnings ratio.
Indices are unmanaged, do not reflect the costs associated with buying and selling securities and are not available for direct investment.

Risk Factors

The success of an investment program may be affected by general economic and market conditions, such as interest rates, the availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses. Investing in securities is speculative and entails risk. There can be no assurance that the investment objectives will be achieved or that an investment strategy will be successful.

Special Risks of Foreign Securities

Investments in foreign securities are affected by risk factors generally not thought to be present in the United States. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Special Risks of Small- and Mid-Capitalization Companies
Investments in companies with smaller market capitalization are generally riskier than investments in larger, well established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger, more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small- and mid-capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the investment manager may be required to sell these securities over a longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small- and mid- capitalization companies may be more volatile than those of larger companies.

Special Risks of Fixed Income Securities
For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time. Liquidity risk is the risk that you might not be able to buy or sell investments quickly for a price that is close to the true underlying value of the asset. When a bond is said to be liquid, there's generally an active market of investors buying and selling that type of bond. Fixed income securities markets are subject to many factors, including economic conditions, government regulations, market sentiment, and local and international political events. Further, the market value of fixed-income securities will fluctuate depending on changes in interest rates, currency values and the creditworthiness of the issuer.

High Yield Fixed Income Risk
High yield fixed income securities are considered to be speculative and involve a substantial risk of default. Adverse changes in economic conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher-grade debt securities. In addition, the market for high yield debt may be less attractive than that of higher-grade debt securities.

Special Risks of Event-Driven Strategies
Investing in event or disruption driven strategies carries the risk of the unforeseen nature of events, such as corporate transactions falling through or changes in the economic or political environment. A reduction in money market liquidity or pricing inefficiency, as well as other market factors, can potentially reduce the scope for these investment strategies. Such funds may be adversely affected by unforeseen events, including forced redemptions of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment.

Special Risks of Long/Short Equity
Long/short equity strategies utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. Hedging and selling securities short entails losing an amount greater than proceeds received or possible default by the other party to the transaction.

Special Risks of Uncorrelated Strategies
Strategies such as multi-strategy, macro and CTA utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. Hedge funds, commodity pools and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. In addition, they may be subject to commodity risk, derivatives risk, foreign investment risk, foreign currency risk, and credit risk. Many hedge funds employ a single investment strategy. Thus, a hedge fund or even multi-strategy hedge funds may be subject to strategy risk, associated with the failure or deterioration of an entire sub-strategy. Strategy specific losses can result from excessive concentration by multiple hedge fund managers in the same investment or broad events that adversely affect particular strategies.

Special Risks of Alternative Investments
Alternative investments are not appropriate for all investors and only may be offered to certain qualified investors. Investors must be able to bear the economic risk of such an investment for an indefinite period and can afford to suffer the complete loss of investment. An Investor's ability to redeem from such investments is limited to specific time periods (e.g. monthly, quarterly, semi-annually, annually) with certain notice requirements. Investing in securities is speculative and involves substantial risk. There can be no assurance that any investment strategy will be successful. This information is provided for informational purposes only and should not be construed as an endorsement of or a solicitation to invest in any specific program. There is a substantial risk of loss when investing in alternative investments and, for each specific fund, the risk of underperforming the general markets or other funds.

Special Risks of Real Assets
Master limited partnerships are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPs are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPs include concentration risk, illiquidity, and exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPs are not suitable for all investors. Common risks associated with an investment in a REIT include, but are not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), general economic risk, market and liquidity risk, interest rate risk, sector diversification and geographic concentration risk, leverage risk, distribution risk, capital markets risk, growth risk, counterparty risk, conflicts of interest risk, key personnel risk, and structural and regulatory risk.

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Oppenheimer & Co. Inc.
85 Broad Street
New York, NY 10004
(212) 668-8000
(800) 221-5588

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