MARKET COMMENTARY

EYES OVERSEAS

With 2022 in the rearview mirror, we have hit the ground running, eager to shake off the previous year's dour market mood. Despite the prospects of recession, persistent (albeit declining) inflation, and restrictive central bank policies, we see pockets of momentum and optimism in 2023, particularly in foreign developed markets. For the past decade, U.S. equities dominated and were the most sought after markets for risk assets. However, this situation is changing.

RISING RETURNS

One month into the New Year, we are seeing strong gains across the board in foreign markets. The following table provides local currency and USD returns for several overseas stock markets. While the S&P 500 has enjoyed a rise of 6+% year to date, it has taken a back seat to the likes of Europe, Australia, and South Korea.

Index*	Local Return %	USD Return %	% MSCI
MSCI Europe	6.7%	8.3%	55%
MSCI Australia	6.5%	10.1%	7%
MSCI Japan	4.6%	5.3%	20%
MSCI UK	4.0%	6.0%	13%
MSCI S. Korea	9.5%	12.1%	5%
S&P 500	5.9%	5.9%	0%

CURRENCY ~~HEADWINDS~~ TAILWINDS

When investing overseas, we are not only investing in local markets, but also the local currency. In addition to the stock gains mentioned above, foreign currencies have appreciated vis-à-vis the USD, further boosting returns for U.S. investors. We believe there is continued momentum favoring foreign markets as the value of the dollar weakens. As a result, our WCA Conquest Tactical Asset Allocation Portfolio weightings in foreign developed markets went from underweight, to neutral, to overweight over the past nine months.

BETTER VALUE OVERSEAS

Foreign developed and U.S. stocks now trade at Enterprise Value to EBITDA multiples of roughly 8x and 12x, respectively (see Chart A on the next page). Of note, overseas markets have not traded at such a low multiple in the past 15+ years. Taking it one step further, we compare the U.S. to foreign EV/EBITDA multiple in Chart B on the next page. Today, foreign stocks trade at a 35% discount relative to the U.S. The disparity between foreign and U.S. valuations point to better value overseas.

IMPROVING OUTLOOK

China's recent decision to scrap their draconian "Zero-Covid" policy and fully reopen their economy to the world has many excited about a spike in growth for the world's most populous country. An unexpectedly mild winter throughout Europe and extensive government subsidization efforts have lessened the blow of expensive oil and natural gas as a result of Russia's war with Ukraine. This has meant more money in consumers' pockets to spend on other things, improving the outlook in Europe.

CONCLUSION

Indeed, many are focusing their attention on foreign developed markets due to the attractive entry valuations, potential for earnings growth, and momentum. While this doesn't signal an immediate withdrawal from U.S. stocks, it cannot be ignored. At Washington Crossing Advisors, our Conquest ETF Asset Allocation strategy makes portfolio weight changes based off of a myriad of economic readings and indicators, such as the currency exchange rates and foreign valuations mentioned above. By remaining disciplined and letting data inform decisions, we believe we can better tactically manage the portfolio from a top-down perspective as the global economy continues to evolve in front of our eyes.

** Sources: Bloomberg, Washington Crossing Advisors*

CHART A | COMPARING EV/EBITDA MULTIPLES FOR USA vs. FOREIGN DEVELOPED (EAFE) Source: WCA, Bloomberg

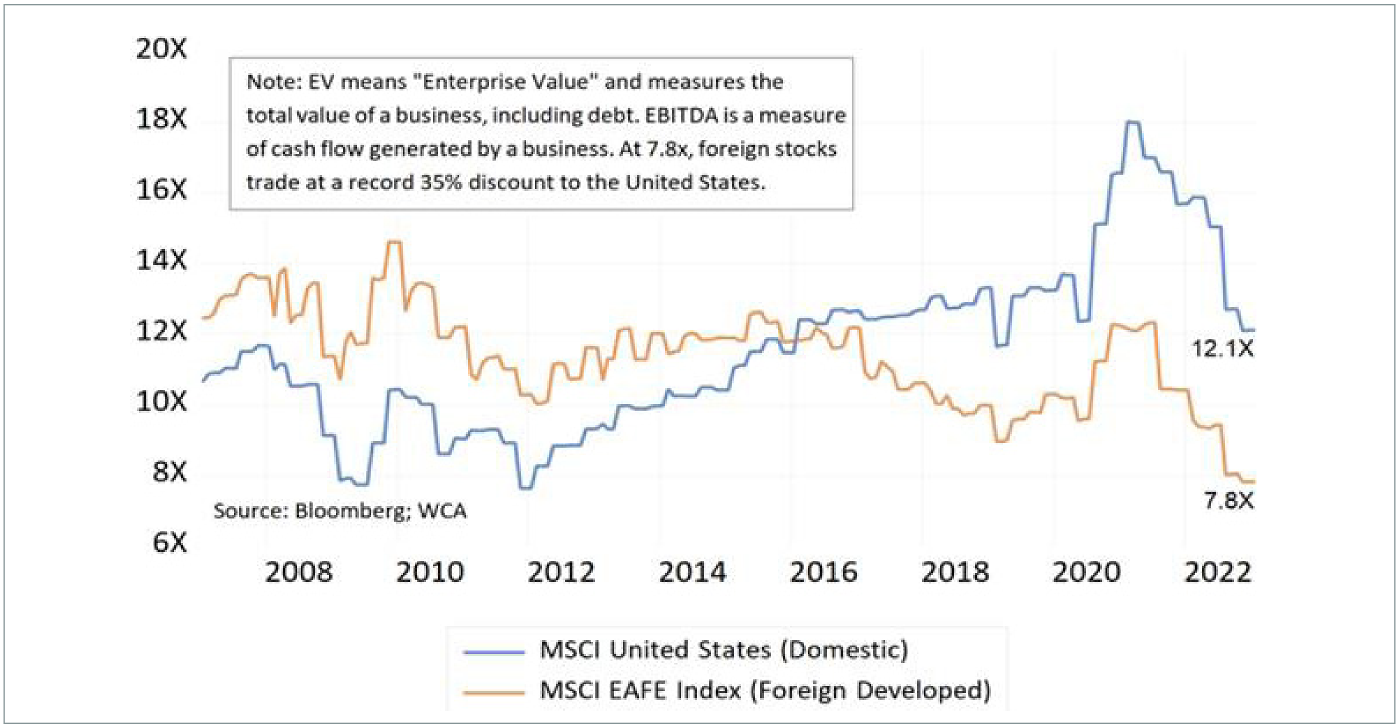
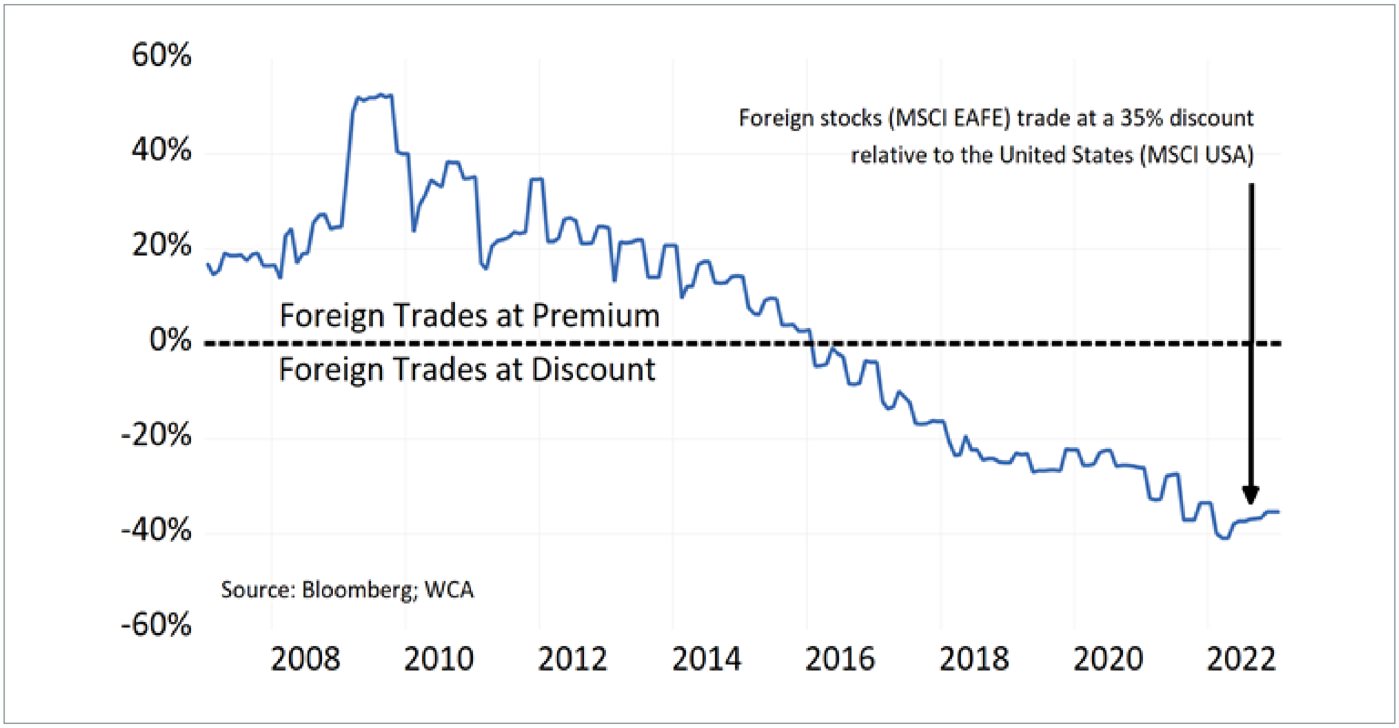


CHART B | U.S. vs. EAFE PREMIUM/DISCOUNT (Based on Relative EV/EBITDA Multiple) Source: WCA, Bloomberg



WCA Fundamental Conditions Barometer Description: We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. The analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

WCA Quality Indices are based on Washington Crossing Advisors' quantitative analysis of firms along three dimensions: asset profitability, consistency, and leverage. Higher quality companies are defined as those which fall in the top quintile of largest-cap U.S. companies and tend to have higher average profitability, greater than normal consistency, and low leverage. Lower quality companies are defined as those which fall in the lowest quintile based on the same criteria. Indices are reconstituted annually, continuously rebalanced, and presented on a total return basis, as calculated by Bloomberg. Indices are unmanaged and do not represent performance of any actual portfolio or portfolio strategy offered by Washington Crossing Advisors, LLC.
Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. S&P 500 Growth Index and S&P 500 Value Indices are designed to provide a comprehensive measure of global equity growth and value performance.
S&P High Beta Total Return Index is designed to measure the performance of the constituents of the S&P 500 that are most sensitive to changes in market returns.
S&P Low Beta Total Return Index is designed to measure the performance of the constituents of the S&P 500 that are least sensitive to changes in market returns.

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About Washington Crossing Advisors | Washington Crossing Advisors a wholly owned subsidiary of Stifel Financial Corp. (NYSE-SF). The WCA team has been helping individual and institutional investors build wealth for more than 25 years. www.washingtoncrossingadvisors.com

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