

Stock markets around the globe have rallied since last September, with international markets generally outperforming U.S. stocks. Some of this outperformance may be due to a contraction in the valuation discount of international markets versus U.S. markets, but the relative valuation of overseas markets continues to remain very attractive.

INDEX PERFORMANCE AS OF 2/28/2023⁽¹⁾

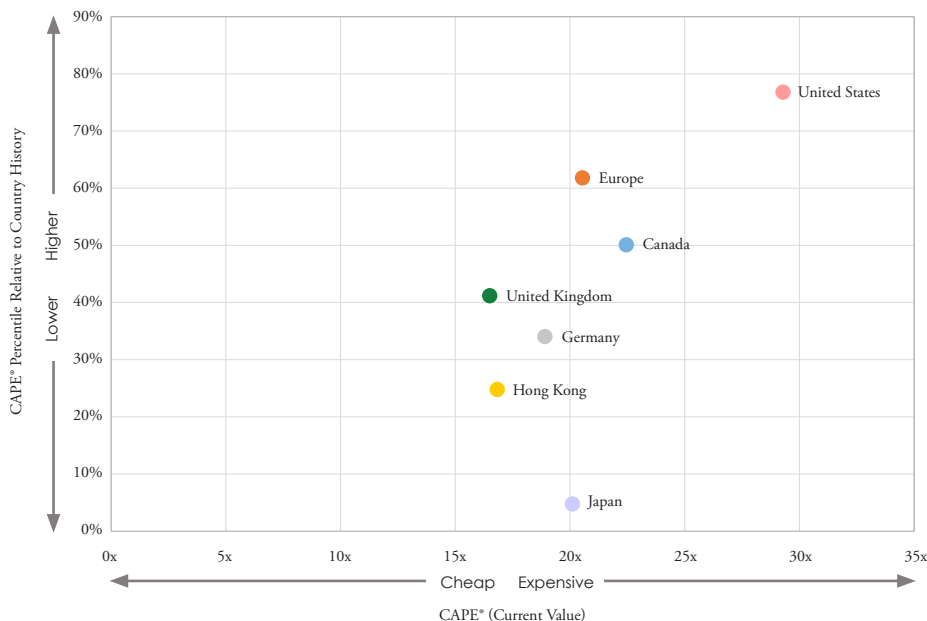
	Year-to-Date 2023	Since 9/30/2022
S&P 500	+3.7%	+11.5%
iShares MSCI EAFE ETF	+5.7%	+24.3%

⁽¹⁾Past performance is not indicative of future returns. Performance for periods of one year or less is not annualized. All total returns are shown in U.S. dollars.
Sources: Renaissance Research, BlackRock, Bloomberg, S&P Dow Jones

The Cyclically Adjusted Price Earnings (CAPE[®]) ratio was popularized by economist Robert Shiller and is frequently used as a measure of market valuation. A comparison of the CAPE[®] ratio of the U.S. stock market with other major international markets shows that the U.S. market sells at a significant premium to the rest of the world.

Of course, the stock markets of each country or region tend to have their own unique fundamental characteristics and valuation ranges over time. Barclays Capital has calculated and published CAPE[®] ratios for various markets over the past forty years, providing a good resource for comparing current valuations with historical averages. The graph below plots the absolute value of CAPE[®] for various markets (horizontal axis) versus where that market's current CAPE[®] ranks in that market's history (vertical axis). For example, Japan's stock market has a CAPE[®] ratio of 20.1x, which ranks in the lowest fifth percentile of Japan's stock market's history since 1982.

HISTORIC CAPE[®] RATIOS⁽¹⁾



Current CAPE[®] Ratios

UNITED STATES	29.3x
CANADA	22.5x
EUROPE	20.6x
JAPAN	20.1x
GERMANY	18.9x
HONG KONG	16.9x
UNITED KINGDOM	16.5x

Data as of 1/31/2023

⁽¹⁾The CAPE[®] ratio is a variation of the traditional Price-to-Earnings (P/E) ratio that uses the ten-year average of inflation-adjusted earnings instead of single year earnings. Using a long term average of earnings smooths out short-term volatility, theoretically making the CAPE[®] ratio better suited for detecting long-term over-valuation and under-valuation in a stock market. Percentile ranks are based on the average monthly CAPE ratio from 12/31/1981 to 1/31/2023.

Source: Barclays Capital

As shown in the graph above, many overseas markets not only sell at a significantly lower CAPE[®] ratio than the U.S. market, but they also sell at more reasonable levels relative to their own long-term histories. To us, this suggests that the valuation differential between many international markets and the U.S. continues to present a favorable environment for many overseas stock markets.

DISCLOSURES

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PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

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REFERENCED ETF

iShares MSCI EAFE ETF—The iShares MSCI EAFE ETF seeks to track the investment results of an index composed of large- and mid-capitalization developed market equities, excluding the U.S. and Canada.

REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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