

# International Small Cap Equity Intra-Quarter Commentary—February 2024



For the month of February, international equity markets recorded strong returns that were driven by notable performance in several sectors and regions, as market participants parsed through better-than-expected earnings. Emerging markets outperformed developed markets, as Chinese equity markets rebounded in response to government stimulus and regulatory measures. Other Asian markets also performed well, including Taiwan, South Korea, and Japan. Growth stocks handily outperformed value stocks for the month, as tech stocks continue to lead the current bull market.

Japanese stocks have been a large driver of global equity returns recently, as the Nikkei 225 reached its highest point in almost 35 years. The bull market in Japanese stocks is a result of improving valuations caused by changes in corporate governance and improved shareholder returns. The likelihood of continued gains for the index is high, as 37% of Nikkei 225 members are trading below their book value, according to Bloomberg. With this backdrop, the Bank of Japan appears to be abandoning its negative interest rate policy and yield curve control policies. However, the exact timing of such action is becoming increasingly uncertain. Despite the central bank's shift away from an accommodative stance during its January meeting, recent weak macroeconomic indicators may prompt the central bank to reconsider any aggressive rate hikes.

During February, Chinese equities responded as policymakers intensified their stimulus measures. Banking regulators have started exerting pressure on banks to increase property loans that are needed to support the floundering property market. Likewise, China's sovereign wealth fund has pledged to increase its purchase of ETFs, while the Chinese Securities Regulatory Commission has been urging other long-term funds to enter the market more vigorously. In addition, Chinese regulators have

## GEOGRAPHICAL EXPOSURE & PORTFOLIO CHANGES<sup>(1)(2)</sup>

Region	Ending Weight <sup>(3)</sup>	Change from 1/31/2024	International Small Cap Equity Additions & (International Small Cap Equity Deletions) <sup>(4)</sup>
Asia/Pacific	30.2%	-1.8%	(Kulicke & Soffa Industries)
North America	27.4%	+2.7%	Masonite International
Western Europe	22.0%	+0.3%	
Middle East & Africa	9.3%	-0.5%	
Central & South America	9.3%	-0.3%	
Cash	1.8%	-0.4%	
Eastern Europe	0.0%	0.0%	
Developed Markets	72.5%	+1.6%	
Emerging Markets	25.7%	-1.2%	
Cash	1.8%	-0.4%	

<sup>(1)</sup> Based on a representative account of the strategy discussed. Portfolio characteristics (e.g., sector weights, valuation, growth rate) are based on a representative account that we believe is illustrative of the strategy. All accounts in the strategy are invested identically in the same securities unless a client has imposed restrictions. Characteristics and/or holdings on a given date may vary due to pending trades.

<sup>(2)</sup> Renaissance determines an issuer's country classification based on company filings and data provided by third-party sources such as Bloomberg or FactSet. Renaissance considers an issuer to be located in an emerging market country if the issuer is domiciled or incorporated in an emerging market country (as defined by the iShares MSCI Emerging Markets ETF) or exhibits risk characteristics (e.g., economic, geopolitical and regulatory risks) similar to emerging market countries.

<sup>(3)</sup> Weights as of the end of the presentation period. Cumulative total weighting may not add up to 100% due to rounding of percentages to the nearest decimal place.

<sup>(4)</sup> Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities represent a portion of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold, or recommended for this strategy. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

Sources: Renaissance Research, FactSet

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## CONTRIBUTORS TO RETURN<sup>(1)(2)</sup>

Ticker	Company Name	Average Weight <sup>(3)</sup>	Contribution to Return
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### TOP FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

EBCOY	Ebara	2.81%	0.83%
DOOR	Masonite International	2.07%	0.81%
CLS	Celestica	2.73%	0.61%
FELTY	Fuji Electric	2.47%	0.44%
ERF	Enerplus	1.65%	0.35%

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL SMALL CAP EQUITY

PERI	Perion Network	1.63%	-0.46%
WNS	WNS (Holdings)	1.59%	-0.32%
TCCPY	TechnoPro Holdings	1.63%	-0.26%
NHNKY	Nihon Kohden	2.00%	-0.24%
TYOYY	Taiyo Yuden	1.57%	-0.20%

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<sup>(2)</sup> The securities listed should not be considered a recommendation to purchase or sell a particular security. These securities represent the top five and bottom five contributors by weight to the performance of a representative account in this strategy as of the date stated and are intended for informational purposes only. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold, or recommended for this strategy. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).

<sup>(3)</sup> Average weights over the presentation period.

Sources: Renaissance Research, FactSet

relaxed share buyback rules and announced curbs on short-selling as they look to rejuvenate their struggling stock market. Although China's official non-manufacturing PMI climbed to 51.4 in February and is still in expansionary territory, its manufacturing PMI experienced a slight dip to 49.1 from 49.2 in January. On the bright side, this decline was smaller than the usual seasonal decrease expected in February due to the Lunar New Year holiday.

Our portfolio performance for the month was positive on both an absolute and relative basis. Industrials was our top contributing sector as machinery, building products, and electrical equipment names performed remarkably well. Information Technology was another leading contributor, as the portfolio benefited from our overweight in semiconductor companies and strong stock selection in software. Communication Services was our largest sector detractor, as a holding in advertising solutions reported weaker-than-expected earnings and forward guidance. Likewise, the Financials and Health Care sectors were two other detractors due to stock selection.

Our best performing holding during the month was **Ebara** (Japan), an industrial machinery manufacturer that is benefiting from strong long-term demand due to LNG, water, and decarbonization infrastructure projects. Our worst performing stock was **Perion Network** (Israel), an advertising technology company, which reported mixed fourth-quarter numbers and weaker-than-expected 2024 guidance. However, the company is well prepared for and poised to benefit from Google's phaseout of third-party cookies on its Chrome web browser.

Despite pockets of weakness, investors appear to have accepted the probability of a soft landing, as a global recession seems unlikely at this point. As a result, international equities remain attractive due



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to rising earnings expectations that are reflected in second-half 2024 optimism. Stronger earnings and more accommodative monetary policies around the globe should combine to provide a favorable backdrop for equities going forward.

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## DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of February 29, 2024 and are subject to change at any time due to changes in market or economic conditions.

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## REFERENCED ETF

iShares MSCI Emerging Markets ETF—The iShares MSCI Emerging Markets ETF seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities.

## REFERENCED INDEX

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

Nikkei 225 Index—The Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average (DJIA) Index in the United States.

## STOCK REFERENCES

Any securities referenced should not be considered a recommendation to purchase or sell a particular security. These securities represent a portion of the companies held in a representative account in this strategy as of the date stated and are intended for informational purposes only. Nonperformance-based criteria have been used to select the securities listed unless otherwise stated. The reader should not assume that investments in the securities identified or discussed were or will prove to be profitable. The past performance of these securities is no guarantee of future results. The specific securities identified and described may not represent all of the securities purchased, sold, or recommended for this strategy. To request a complete list of holdings recommendations for this strategy over the past year or a list showing the contribution of every holding to the performance of the representative account for the time period stated, please contact Renaissance at [compliance@reninv.com](mailto:compliance@reninv.com).