

# International Equity ADR Quarter-End Review—3Q2026



International equities ended the third quarter down marginally, breaking a streak of six consecutive quarterly gains. Markets were resilient given renewed hostilities in the Middle East and the subsequent rebound in energy prices. Stubborn inflation, fiscal deterioration, and strong economic growth pushed government bond yields to multi-decade highs, with a particularly large move in France as elections loom in April 2027. The momentum trade experienced an unwind, with many second quarter top performers, including South Korea and Information Technology, trailing the broader market.

Interest rate policy around the globe turned decisively hawkish, as the Federal Reserve (the Fed), Bank of Japan (BOJ), and European Central Bank (ECB) all raised interest rates in September, the first time in history that all three banks raised rates in the same month. The September rate hikes marked the Fed's first increase in over three years and second increase for the ECB during its current tightening cycle that began in June. Both central banks face pressure to bring inflation under control as they look to avoid a repeat of 2022, when their delayed reaction to inflation forced them to aggressively increase interest rates and caused a slowdown in the global economy. The current increase in inflation is troubling but remains energy led. Second round effects such as wage growth remain subdued, unlike in 2022, when a spike in wage growth caused worries of a self-reinforcing wage-price spiral.

The BOJ has been in a gradual tightening cycle since 2024. However, its benchmark interest rate is at 1.25%, well below the Fed at 4.0% and ECB at 2.5%. The interest rate differential has contributed to persistent weakness in the yen. While this is good for pockets of the economy, including tourism and export-oriented companies, it has resulted in imported inflation and an

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

| Region                  | Ending Weight <sup>(3)</sup> | Change from 6/30/2026 | International Equity ADR Additions & (International Equity ADR Deletions) <sup>(4)</sup> |
|-------------------------|------------------------------|-----------------------|------------------------------------------------------------------------------------------|
| Western Europe          | 47.5%                        | 1.1%                  | Indra Sistemas, Amadeus IT Group                                                         |
| Asia/Pacific            | 36.9%                        | -1.4%                 | SMC<br>(United Overseas Bank, Shin-Etsu Chemical)                                        |
| North America           | 8.5%                         | 1.4%                  | (Gildan Activewear)                                                                      |
| Middle East & Africa    | 4.0%                         | 0.0%                  |                                                                                          |
| Central & South America | 1.8%                         | -0.3%                 | Credicorp<br>(Bladex)                                                                    |
| Cash                    | 1.3%                         | -0.7%                 |                                                                                          |
| Eastern Europe          | 0.0%                         | 0.0%                  |                                                                                          |
| Developed Markets       | 74.2%                        | 0.5%                  |                                                                                          |
| Emerging Markets        | 24.5%                        | 0.2%                  |                                                                                          |
| Cash                    | 1.3%                         | -0.7%                 |                                                                                          |

<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.

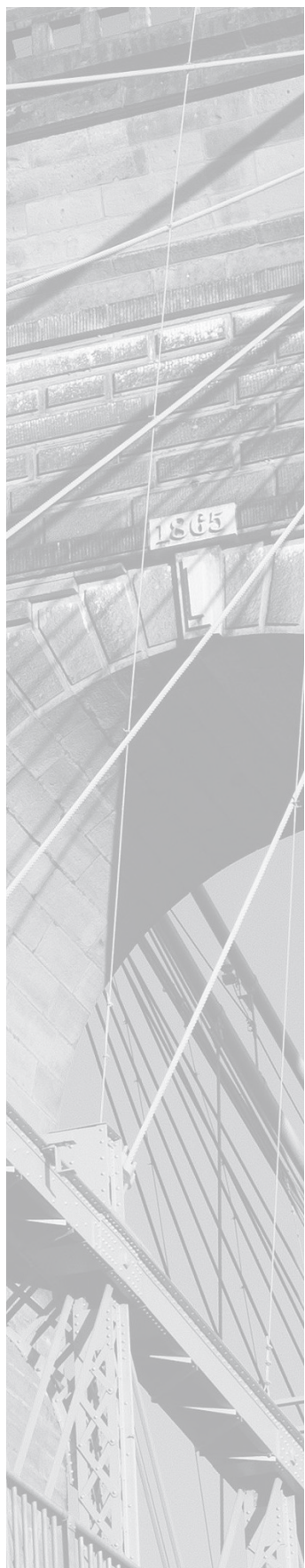
<sup>(2)</sup> Renaissance determines an issuer's country classification based on company filings and data provided by third-party sources such as Bloomberg or FactSet. Renaissance considers an issuer to be located in an emerging market country if the issuer is domiciled or incorporated in an emerging 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 |
|--------|--------------|-------------------------------|------------------------|
|--------|--------------|-------------------------------|------------------------|

### TOP FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

|      |                         |       |       |
|------|-------------------------|-------|-------|
| LNVG | Lenovo                  | 3.00% | 1.25% |
| HTHI | Hitachi                 | 1.63% | 0.36% |
| NBGR | National Bank of Greece | 1.95% | 0.33% |
| MRX  | Marex                   | 2.61% | 0.32% |
| SHEL | Shell                   | 1.58% | 0.32% |

### BOTTOM FIVE CONTRIBUTORS—INTERNATIONAL EQUITY ADR

|      |                   |       |        |
|------|-------------------|-------|--------|
| FLEX | Flex              | 2.19% | -0.96% |
| SMTY | Sumitomo Electric | 1.97% | -0.51% |
| PRMY | Prysmian          | 2.57% | -0.49% |
| TELW | Tokyo Electron    | 1.72% | -0.45% |
| TTDK | TDK               | 2.16% | -0.35% |

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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.

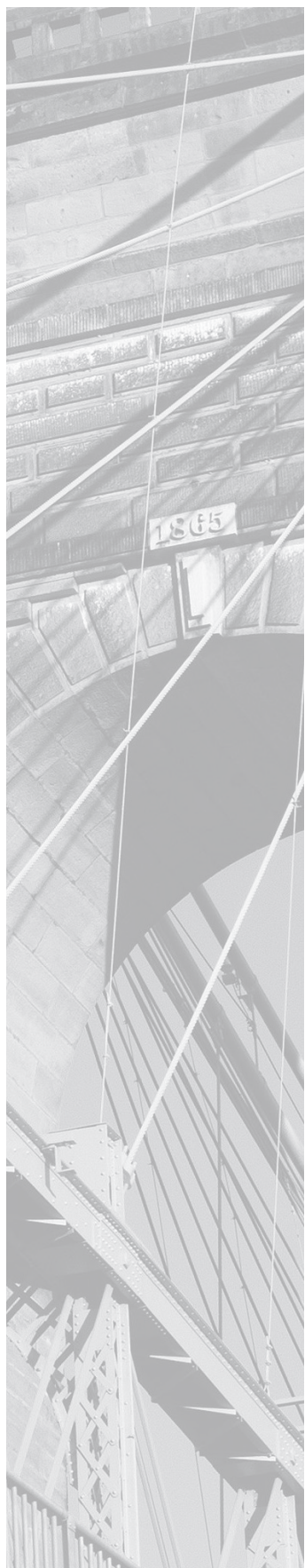
Sources: Renaissance Research, FactSet

increased cost of living in Japan. With the yen at its lowest level against the U.S. dollar since 1986, the BOJ has shifted its policy from gradually lifting price growth, a policy it has held for the last thirteen years, to preventing inflation from overshooting its target. The United States has also taken notice of the weak yen, with President Trump expressing concerns about the impact on trade. To counter the weak yen, the United States and Japan staged the largest currency intervention since the Fukushima disaster in 2011. The intervention did help turn the momentum, but it remains to be seen if this is temporary or a turning point for the yen. While a sudden appreciation in the yen could spook markets and hurt profits of export-oriented companies, a more stable yen would benefit the overall Japanese economy.

Relations between the United States and China remain fragile, but they have come a long way since the trade war in 2025. The recent meeting between Presidents Trump and Xi produced few new agreements but did establish a Board of Trade and extended the trade truce for another two months. The leaders also agreed to meet two more times in 2026, which should help continue dialogue and cooperation as the superpowers look to coexist. However, major sticking points such as Taiwan and industrial overcapacity were largely ignored while the battle for AI supremacy will keep the two countries in competition, leading to bumps in the road for the relationship. A larger trade deal or a longer extension of the trade truce between the world's largest economies would be a welcome relief for investors.

Our portfolio returns were negative on an absolute basis and lagged our benchmark in the third quarter. Sector allocation effect was positive, as our underweight to Information Technology, the benchmark's worst performing sector, helped returns. However, our underweight to Financials detracted

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from returns. Stock selection was negative, as poor selection in Materials and Consumer Discretionary offset positive selection in Industrials and Health Care. In contrast to the second quarter, our underweight to South Korea helped returns, but this was offset by negative stock selection in Japan.

The top contributor to our performance this quarter was **Lenovo** (China), which rallied to a record after delivering the strongest quarter in the company's history. Growth was broad-based across every business group, adjusted profitability more than doubled, and AI-related revenue now represents roughly a third of the total. Lenovo's hybrid AI strategy gives it exposure to AI adoption across devices, data centers, and services, rather than dependence on any single layer. Another strong performer during the quarter was **Hitachi** (Japan). The industrial equipment manufacturer reported strong quarterly results that included double-digit sales growth across all major businesses and a 94% year-over-year increase in power grid orders. Management expects continued Energy business growth as demand for power transmission and distribution grows through 2035 from structural drivers including renewables, electrification, and power grid stabilization. The largest detractor from performance was **Flex** (Singapore) which gave back part of its year-to-date gains despite reporting a very good second quarter. Shares nonetheless sold off sharply as investors focused on free cash flow, the step-up in capital spending, and execution risk around the Cloud and Power Infrastructure spin-off rather than on the beat itself. However, Flex continues to benefit from expanding margins that more than offset the necessary capital spending. Another poor performer was **Sumitomo Electric** (Japan), a manufacturer of electrical cables, wires, and fiber optic communication products. The company reported solid results with fiscal first quarter operating profit growing 61% year-over-year, led higher by its Infocommunications division, but left investors disappointed with a conservative increase in their full-year guidance. However, the company announced several collaborations later in the quarter, including with Meta on subsea optical cable systems, and Ericsson on next generation mobile networks, which further supports long-term growth drivers for the company.

During the quarter, we purchased **SMC** (Japan), the world's leading manufacturer of pneumatic components used to automate factory machinery. Rising wages and an aging global workforce should lead to structural growth of factory automation across many industries. The global build-out of semiconductor foundries will also benefit SMC, particularly their Precision Chiller business that targets production of advanced semiconductors. Conversely, we sold **Shin-Etsu Chemical** (Japan), a manufacturer of semiconductor wafers and PVC plastics. Both business divisions face heightened competition from Chinese exports, while the PVC business will likely see continued weakness as a housing market recovery is delayed due to the global rise in interest rates.

The European economy has proved far more resilient to the spike in energy prices than in 2022 following the Russian invasion of Ukraine. Expanded LNG capacity, supplier diversification, and increased renewable energy capacity have reduced Europe's dependence on imported fossil fuels and blunted the impact of the Iran War. However, Europe still imports the majority of its energy, making it vulnerable to a prolonged conflict in the Middle East or an unusually cold winter as its gas storage levels are well below averages for this time of the year. Although PMIs fell sharply at the start of the war, the Eurozone Composite PMI has rebounded from its March lows to reach its highest level in over three years, highlighting economic resilience. Stocks in Europe have also responded positively to the strength of the economy, as the Stoxx 600 Europe reached an all-time high during the quarter.

Despite the Iran War, international equities are on track for their fourth consecutive yearly gain, the first time this has happened since before the Global Financial Crisis. Corporate earnings remain a key driver for international companies, with earnings growth in 2026 and 2027 expected to be 33% and 16%, in-line with their U.S. peers. Despite the recent outperformance and strong growth, international equities continue to trade at only a 12.6x forward price-to-earnings ratio, a 34% discount to U.S. equities, which sets international equities up for continued strong relative gains ahead.

# International Equity ADR

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### DISCLOSURES

The opinions stated in this presentation are those of Renaissance as of September 30, 2026 and are subject to change at any time due to changes in market or economic conditions.

### GICS® SECTOR INFORMATION

Sector Listing according to MSCI and S&P Dow Jones data: MSCI and S&P Dow Jones do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.

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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.)*

**Purchasing Managers' Index (PMI)**—Purchasing Managers Index (PMI) is an indicator of economic health for manufacturing and service sectors. A reading above 50 indicates expansion in the sector; below 50 indicates contraction.

### STOCK REFERENCES

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