April 4th, 2025

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Chairman & CEO

2025 Market Comments

Cracks in the Story?

The market's extreme enthusiasm for AI stocks on top of the Magnificent Seven has resulted in the current melt-up ranking as one of the most extended. **However, if the recent rally in value is any indication, there may be cracks in the Mag Seven / AI story** (see table below and more later).

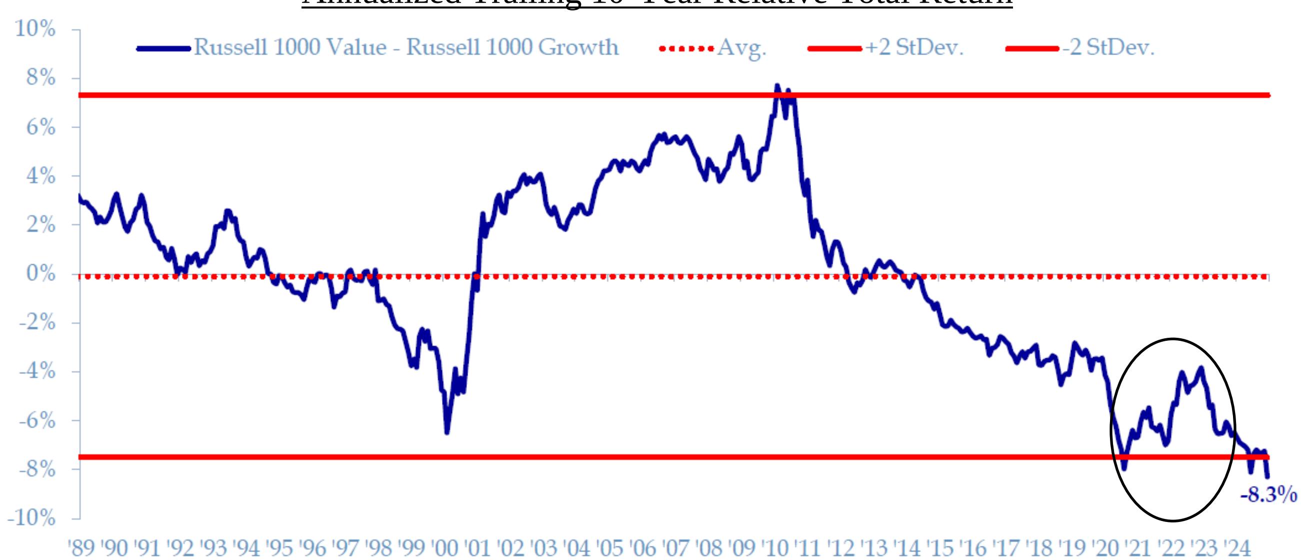
Performance YTD as of March 31st, 2025*

Strategy	Total Return
Schafer Cullen High Dividend	**+4.5%**
Russell 1000 Value	**+2.1%**
Russell 1000 Growth	**-10.0%**
S&P 500 Index	**-4.3%**
Magnificent Seven	**-16.1%**

The chart below shows the relative total returns of growth and value. What it demonstrates is when value becomes this oversold compared to growth, it has historically led to a powerful period for value. (See appendix for historical chart.) Unexpectedly, the AI excitement interrupted this recovery, circled in the chart below.

On the next page, the chart on the left of Artificial Intelligence stocks explains how the value rally was interrupted by AI. The table on the right shows how powerful performance was for value before that interruption.

Annualized Trailing 10-Year Relative Total Return



Source: Bloomberg & Strategas Research, December 31, 2024

Reference to the benchmark is for comparative purposes only. Investors cannot invest directly in an index. Standard Deviation (Risk) is a statistical measure of the historical volatility of an investment, the higher the number, the greater the risk. The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the US equity universe. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the US equity universe. **Past performance does not guarantee future results.**

Artificial Intelligence Index

Source: InvesTech Research, February 27, 2025

Performance from Vaccine Date 11/06/2020 to 12/30/2022

Strategy	Total Return
Schafer Cullen High Dividend	+35.5%
Russell 1000 Value	+29.2%
Russell 1000 Growth	-4.70%
S&P 500 Index	+13.1%

Source: SCCM & Bloomberg

***Past performance does not guarantee future results.** Investors cannot invest directly in an index. See last page for link to gross/net performance.

Cracks in the Story

In past cycles, a point was reached when the dominant companies driving the market wind up getting into each other's businesses, gradually eroding margins. **In the current market, two additional factors are coming into play. First, these companies are loading up on debt in order to compete in the AI race. Second, serious competition is coming from CHINA.**

Chasing Performance

In a period of strong performance for the market, many portfolio managers increasingly take more and more risk in an attempt to keep up. **For example, numerous value managers have ignored their discipline and taken positions in the Magnificent Seven to juice their performance.** This is typical of every cycle we have seen. Morningstar, the leading Wall Street evaluation service, has figured this out. We have a study ranking value managed accounts based on the percentage of stocks representing value in managers' portfolios. Below is a table with

Morningstar's rankings of 550 SMAs based on their value exposure. **The study shows the Schafer Cullen High Dividend Value Equity strategy ranked in the top 5th percentile in the large / mid cap value style. As the saying goes, *"once the tide goes out, people find out who's been taking all of the risk."***

Morningstar Large / Mid Cap Value Stylebox Rankings
The High Dividend Strategy Ranks in the top 5% of 550 Strategies in the Morningstar Large / Mid Cap Value Stylebox Exposure

% Ranking (of 550)	Strategy Name	Large / Mid Cap Value Exposure
2%	Federated Hermes Strategic Value Dividend	77%
5%	**Schafer Cullen High Dividend Value**	**72%**
5%	JPM US Equity Income	63%
8%	MFS Large Cap Value	58%
30%	Breckinridge High Quality Dividend	48%

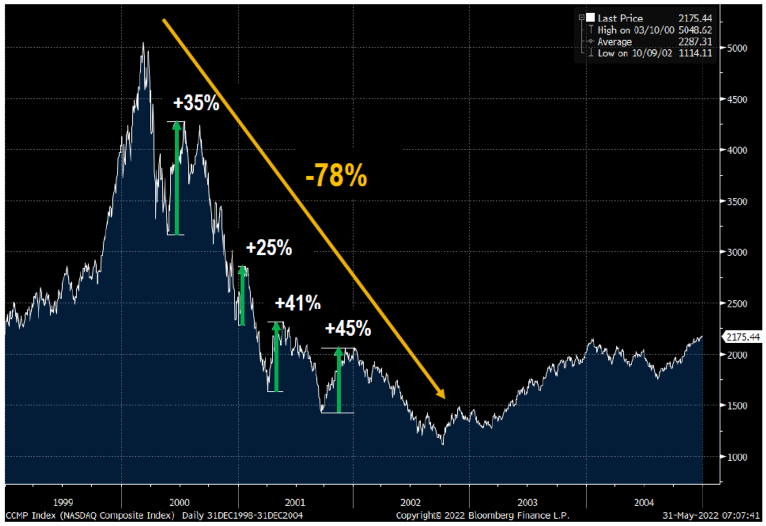
Source: SCCM Research, Morningstar, YCharts, 12/31/2024

Buy On the Dip

The main reason why market timing tends to be disastrous is because, when the market is in a strong uptrend which goes on for many years, investors are constantly rewarded for buying on the dip. When the trend finally reverses, the average investor is still attuned to buying the dip regardless of valuation. An example of this is NASDAQ in the tech bubble, as seen in the chart below. Over a two-year period, you had what looked like almost irresistible opportunities to buy back into tech stocks. **Meanwhile NASDAQ was down approximately 80% in that two-year period. Even more surprising in a way was what we pointed out in the last market letter; in every case these stocks went much lower over the next 10 years.**

<u>NASDAQ Performance Following 1999 Peak</u>

From 2000 to 2002, NASDAQ Composite Index experienced several strong rallies of 25% to 45% despite ultimately losing nearly 80% of its value after the prior technology bubble.



Source: CCM Research, 5/31/2022, NASDAQ Composite Index data from 1/1/2000 – 12/31/2002

Conclusion

We always say the key to investing is to avoid market timing, be disciplined as to value, invest for the long term, and ignore the noise. It looks like we are entering a period where the noise is going to be louder than normal. So, in this environment, it may require a bit of patience. **In the meantime, now could be a unique buying opportunity for value investors.**

Appendix

In response to investor questions regarding the value vs. growth chart on page one, the appendix revisits the beginning of our December 1999 Market Comments. It provides the prior history of the value vs. growth chart. Also, at the time of that report, we did not know the outcome but we now know the recovery for value was dramatic.

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President

1999 Year End Market Comments & Outlook for 2000

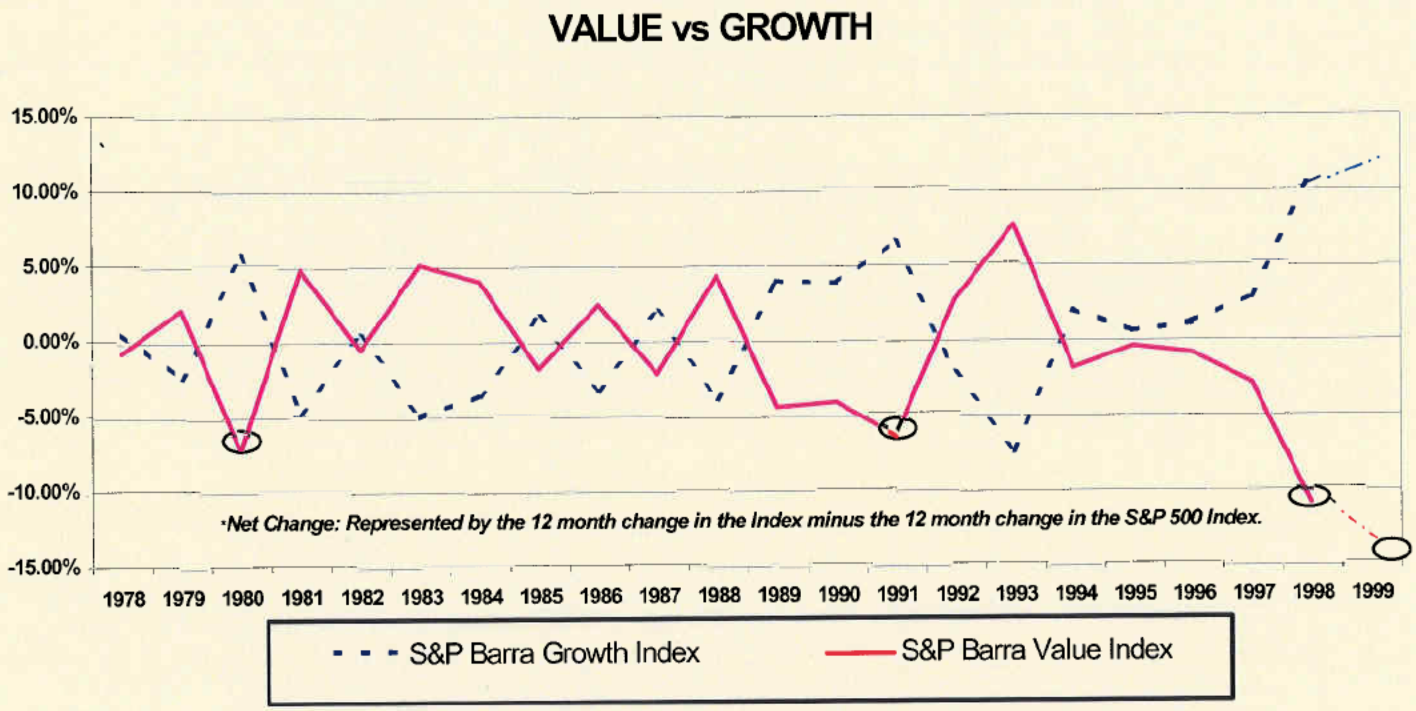
December 27, 1999

In the 4th quarter, even while investors saw the earnings of value stocks sharply increasing, they still sold them and poured the money into the hot technology stocks. Year-end tax selling has also hurt value stocks. The result: the battered value stocks are selling at one of the cheapest levels in 50 years, as a massive flow of funds has created what looks like a big bubble among the market-favorite technology stocks.

Accordingly, just when earnings have turned up for value stocks, many investors have thrown in the towel on the group. As shown above in an October 1987 edition of *Barron's*, an arm waves the white flag of surrender – in the month of the crash, summing up investors' attitudes toward all equities: totally giving up on them. This created what turned out to be a major buying opportunity. Today, we believe that for value stocks, the white flag of surrender likewise represents a buy, not a sell signal.

Value Recovery/Bounce Potential

The chart below that we initially used in our first quarter 1999 letter shows that the divergence between large cap value and large cap growth has widened.



The recovery from those prior lows was dramatic.

Period	S&P 500	Value	Difference	
Jul 79-Nov 80	47.2%	23.5%	-23.7%	Value Underperformed
Nov 80-Feb 89	193.3%	355.4%	162.1%	Value Outperformed
Feb 89-Oct 90	11.4%	2.4%	-9.0%	Value Underperformed
Oct 90-Feb95	81.8%	186.1%	104.9%	Value Outperformed
Feb 95-Dec 99	239.7%	168.9%	-70.8%	Value Underperformed

***Magnificent Seven are Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nvidia, and Tesla.**

Schafer Cullen High Dividend performance in charts is gross. Click here for gross/net performance of the Schafer High Dividend Value Strategy and complete disclosures (https://www.cullenfunds.com/US/P/Managed-Accounts-High-Dividend/#)

All charts included are for illustrative and educational purposes only and not any recommendation to buy or sell a security. There is no assurance any market trends will continue.

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The **S&P 500 Index** is a market capitalization-weighted index of 500 companies in leading industries of the US economy. The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the US equity universe. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the US equity universe. The **Nasdaq Composite Index** is a stock market index that tracks the performance of the stocks listed on the Nasdaq Stock Market. Indices are unmanaged and have no fees. An individual cannot invest directly in an index.

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