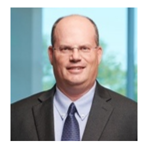
# Wasatch Global Value Strategy

Quarterly Commentary

DECEMBER 31, 2020

## Stocks Rose on U.S. Election And Vaccine Headlines

PORTFOLIO MANAGER



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3 YEARS ON STRATEGY / 7 YEARS AT WASATCH

### OVERVIEW

Market sentiment was generally positive in the fourth quarter, although rising world-wide Covid-19 case counts and stalled negotiations on a second U.S. stimulus package led to bouts of volatility. Conditions continued to be backstopped by accommodative central banks, most notably the U.S. Federal Reserve, which remained prepared to anchor short-term interest rates near zero through 2023. As November progressed, an unambiguous outcome to the U.S. presidential election and headlines around two Covid-19 vaccines boosted risk appetites among investors. Countries began vaccinating frontline workers against the coronavirus and developing capacity to vaccinate their larger populations, raising hopes of a return to more normal economic activity by as soon as the middle of 2021. In late December, the U.S. Congress agreed upon another round of stimulus including direct payments to individuals, extended unemployment benefits and support for small businesses. As the economic outlook became more optimistic, longer-term U.S. Treasury yields drifted higher, with the yield on the 10-year note rising from 0.69% to 0.93% over the quarter.

The Wasatch Global Value posted a double-digit gain for the fourth quarter of 2020 and outperformed its benchmark, the MSCI AC (All Country) World Index, which returned 14.68%. The strategy also outperformed the MSCI AC World Value Index, which gained 16.63%.

All sectors represented in the MSCI AC World Index posted a positive return for the quarter. Performance within the benchmark was led by the financials and energy sectors, while consumer staples, health care and real estate were the biggest laggards. Except for communications services, our holdings were strong across the board as the strategy outperformed the Index in every other sector, led by an overweight to and selection within financials, selection within information technology, and an overweight to and selection within energy. Communication services was the only material detractor from the strategy's performance relative to the benchmark due to stock-specific weakness in two of our holdings, AT&T, Inc. (T) and China Mobile Ltd. We'll discuss these stocks in more detail later in the commentary. The strategy's U.S. and international holdings generally were strong contributors to performance.

## DETAILS OF THE QUARTER

The leading contributor to strategy performance for the fourth quarter was Bank OZK (OZK), colloquially known as Bank of the Ozarks. Bank stocks in general rebounded on the outlook for an improving economy and a steeper yield curve. As a leading lender to the construction industry, Bank OZK has benefited from the dynamic of a mending U.S. economy. The regional bank beat analysts' expectations and reported lower-than-expected loan-loss provisions. We continue to hold the stock as our research indicates that Bank OZK is well-positioned for growth, pays an attractive dividend and is not expensively valued.

General Motors Co. (GM) reported earnings and free cash flow that were well above expectations, driven by strong sales in both the U.S. and China. In addition, the automaker's product sales mix has been favorable, featuring higher-margin trucks and sport-utility vehicles. GM should continue to benefit as the economic cycle progresses, and we believe the company's commitment to electric and autonomous vehicles is underappreciated by the market.

Within information technology, Samsung Electronics Co. Ltd. highlighted contributions. While Samsung is most widely known as a manufacturer of consumer electronics, its semiconductor business again drove the stock's performance over the quarter as the market for memory chips used in phones and personal computers entered a cyclical recovery. In addition, with competitor Huawei blocked from the U.S. market, Samsung's networking-equipment segment is well-positioned to benefit from the ongoing buildout of networks using next-generation 5G wireless.

On the downside, U.S. homebuilder PulteGroup, Inc. (PHM) within consumer discretionary was a leading detractor. We purchased Pulte as its stock suffered along with most other cyclicals in late March and early April as coronavirus concerns crested. Pulte subsequently benefited from the recovery in housing driven by exceptionally low interest rates and the work-from-home trend. While we believe these factors continue to support the outlook for Pulte, the stock lagged as Treasury yields drifted higher and investors cooled on the housing segment in the quarter.

Within communication services, China Mobile operates the world's largest mobile network based on its strong hold on the Chinese wireless market. The company has invested heavily in next-generation technology which should provide benefits for years to come. However, in November, President Trump signed an order banning U.S. investment in securities of companies with links to China's military. As more than 70% of China Mobile's shares are held by the Chinese government, questions about the applicability of the order put pressure on the stock and it ended the quarter as the strategy's largest detractor. We did not believe we had any informational advantage with respect to the stock and exited the position.

Another telecom holding, AT&T, also saw its share price move lower in the quarter. Investors appeared to have concerns regarding competition in both the company's wireless and entertainment businesses. In addition, AT&T is in the process of paying down debt incurred in conjunction with its

2018 acquisition of Time Warner, constraining at least to some degree its ability to invest in either segment. While the stock appears inexpensive and comes with an attractive dividend, we exited the position in the quarter in favor of other opportunities to deploy capital.

## OUTLOOK

We have positioned the strategy with the expectation that 2021 will see economic growth driven by continued central-bank activity and pent-up demand as Covid-19 concerns ease with vaccinations being given to a larger portion of the population. The effect of fiscal stimulus should be felt most strongly in the second half of the year. Stock prices will likely experience support from excess liquidity until interest rates move meaningfully higher.

Against this backdrop, we have continued to focus on smaller, more cyclical companies within our value universe and retain the overall market sensitivity of the strategy. In this vein, the strategy is overweight in the financials, energy, materials and utilities sectors. We see especially attractive value opportunities overseas, where the weak U.S. dollar is supportive of financial conditions. As a result, we increased our international weighting during the fourth quarter and continue to look for attractive opportunities overseas. More broadly, despite their outperformance in the most recent quarter, we believe value stocks remain attractively priced relative to growth stocks given the performance disparity between growth and value stocks over a period of several years.

Thank you for the opportunity to manage your assets.

Sincerely,

David Powers

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*The MSCI AC (All Country) World Index captures large- and mid-cap representation across 23 developed market and 24 emerging market countries. The Index covers approximately 85% of the global investable equity opportunity set. You cannot invest in this or any index.*

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*The MSCI AC (All Country) World Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 developed-market countries and 26 emerging-market countries. You cannot invest directly in this or any index.*

*The yield curve is a line on a graph that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares three-month, two-year, five-year and 30-year U.S. Treasury securities. This yield curve is used as a benchmark for other interest rates, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.*

*This commentary is intended to provide you with information about factors affecting the performance of the Wasatch Global Value strategy during the period. References to individual companies should not be construed as recommendations to buy or sell shares in those companies. Wasatch analysts closely monitor the companies held in the Global Value strategy. If a company's underlying fundamentals or valuation measures change, Wasatch will reevaluate its position and may sell part or all of its holdings.*

*Past performance is not indicative of future results.*