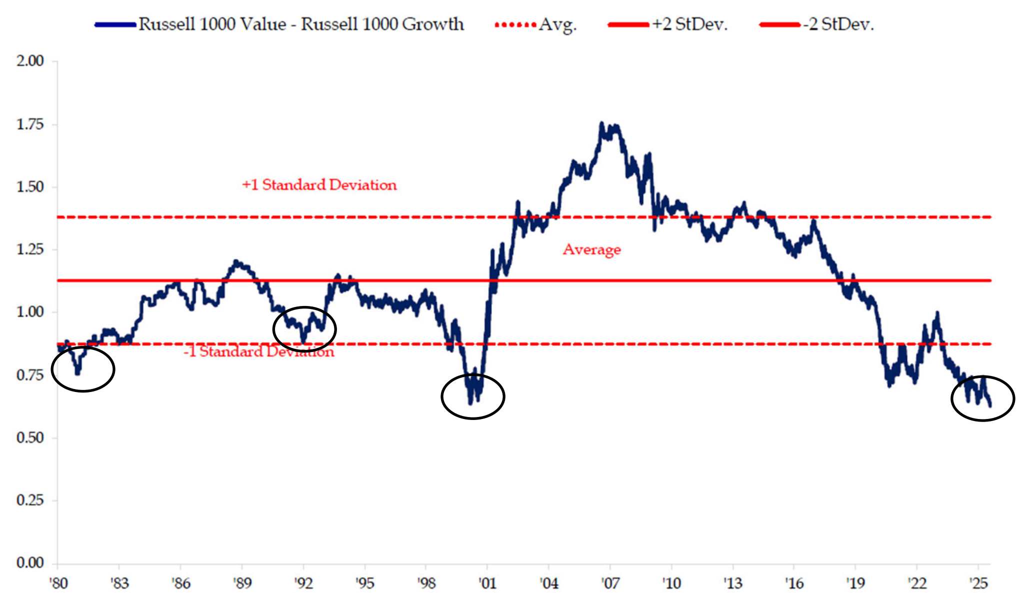
SCHAFER | CULLEN
CAPITAL MANAGEMENT

August 31st, 2025 **James P. Cullen**

Market Comments
Trump II

We believe for long-term value investors it is important not to overreact to President Trump's rocket speed agenda, or to get overwhelmed by all the AI possibilities. **Instead, we want investors to focus on the fact that historically we are at a point of oversold which over the last half century has coincided with what turned out to be a major market bottom for value.** In the chart below, we show the last 45 years of the value/growth ratio, circling our present position and the previous lows. Below the chart, we show the recovery from these major lows.

Russell 1000 Value Relative to Russell 1000 Growth Total Return Index
Data Since 1980



*Source: Bloomberg & Strategas Research, 8/8/2025. Annualized trailing returns. **

Recovery from Major Low Points

S&P 500 Bottom 20% By P/E

Upswing Years	Annual % Return
1981	+17.5%
1982	+27.9%
1983	+28.1%
1984	+17.1%
1985	+34.2%
1986	+32.1%
Cumulative	**+156.9%**
Annualized	+26.0%

Upswing Years	Annual % Return
1991	+47.9%
1992	+16.7%
1993	+16.9%
1994	+2.3%
1995	+41.6%
1996	+18.9%
1997	+37.0%
Cumulative	**+181.3%**
Annualized	+25.0%

Upswing Years	Annual % Return
2000	+24.2%
2001	+16.2%
2002	-8.9%
2003	+38.6%
2004	+22.3%
2005	+15.9%
2006	+18.1%
Cumulative	**+126.4%**
Annualized	+17.3%

Source: Bloomberg, SCCM Research

The Value Strategy

As we have discussed in the past, focusing on a value discipline plus using a five-year holding period has been a great way to evaluate the value strategy. Below, we list all the five-year returns going back to 1968. **One major, somewhat overlooked advantage of the value strategy is that over the 50-year period of the study, there were 12 major recessions and bear markets.** This is particularly impressive compared to alternative strategies which generally lack experience in down markets (more later).

Performance of low P/E stocks in five-year periods (1969-2024)

Period	S&P 500 Bottom 20% by P/E	Period	S&P 500 Bottom 20% by P/E
1969 –1973	-0.88%	1995 –1999	19.72%
1970 –1974	0.42%	1996 –2000	16.63%
1971 –1975	7.59%	1997 –2001	16.09%
1972 –1976	14.06%	1998 –2002	7.01%
1973 –1977	14.18%	1999 –2003	14.30%
1974 –1978	21.06%	2000 –2004	17.38%
1975 –1979	30.73%	2001 –2005	15.77%
1976 –1980	26.06%	2002 –2006	16.16%
1977 –1981	20.38%	2003 –2007	18.16%
1978 –1982	24.39%	2004 –2008	0.23%
1979 –1983	27.31%	2005 –2009	4.81%
1980 –1984	24.53%	2006 –2010	5.61%
1981 –1985	24.79%	2007 –2011	2.41%
1982 –1986	27.74%	2008 –2012	5.64%
1983 –1987	20.06%	2009 –2013	25.27%
1984 –1988	20.04%	2010 –2014	17.68%
1985 –1989	21.16%	2011 –2015	13.69%
1986 –1990	10.52%	2012 –2016	17.19%
1987 –1991	13.05%	2013 –2017	17.57%
1988 –1992	18.11%	2014 –2018	6.36%
1989 –1993	15.98%	2015 -2019	8.98%
1990 –1994	11.85%	2016 -2020	7.79%
1991 –1995	23.95%	2017 -2021	9.82%
1992 -1996	18.65%	2018 -2022	5.46%
1993 –1997	22.50%	2019 -2023	11.35%
1994 –1998	18.66%	2020 –2024	8.22%

Source: Bloomberg, SCCM Research

5-Year Returns for Value

Performance Following Difficult Five-Year Periods

Poor 5-Year Periods		Following 5-Year Periods
1969–1973	-0.88%	**+21.10%**
1970–1974	0.42%	**+30.70%**
2004–2008	0.23%	**+25.30%**
2007–2011	2.41%	**+17.6%**

*Source: Bloomberg, SCCM Research ***

The Market

Welcome to the Trump Era Part II. While it looks to be a more volatile and unpredictable period, extended markets tend to play out slightly differently. However, eventually they all end up the same, i.e. with a correction. **Meanwhile, history shows that it is more important to invest with a discipline rather than try to time the market.**

Following a bear market, more conservative investing is popular, but eventually confidence builds up and investors start to chase the fastest growth stocks and wind up increasingly ignoring risks. As we have seen in the buildup of all extended market periods, valuations are pushed to extreme levels on almost every measure including price/earnings, price/sales, price/dividends, etc. Also, the most popular stocks in a speculative buildup become an increasingly large part of the index. Today, for instance, the ten largest tech holdings make up almost 40% of the S&P 500, which is higher than all the other past speculative highs.

In addition to fundamentals, there is also the demographic factor behind this behavior. Since there is usually a 10-20 year period between market peaks, the biggest speculators in the subsequent bubbles tend to be investors who were too young to be influenced by the prior bear market. **As to the present market, a recent Goldman Sachs study pointed out that approximately 85% of the trading every day is driven by 20-45 year olds, and the reason this age group has no fear is because they were between 5-15 years old during the Tech Bubble crash.**

Alternatives

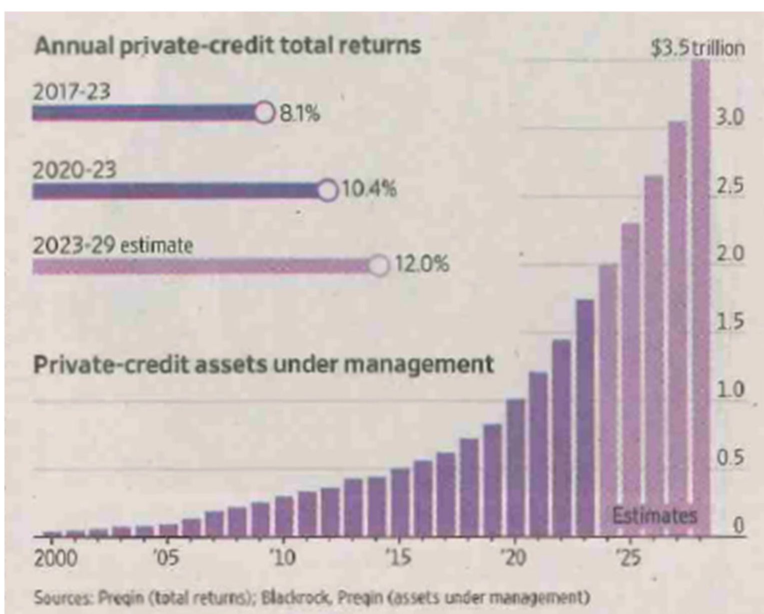
As we mentioned, in each of these speculative buildup periods, investors eventually become less fearful of risk, and tend to be more adventuresome and aggressive about new alternative investments.

Alternatives have been around forever. I can remember early, even before I started in the investment business, arriving in Florida and all the real estate salesmen were meeting planes that arrived and offering free meals for people who would listen to their Florida real estate pitch. In the late seventies, real estate was a big deal because investors had been turned off by the poor performance of the stock market. They started investing in condos, and in many cases multiple condos. At the time, especially in Florida, these high-rise buildings would be completely dark at night, and were being called "see through buildings" because no one lived there. Once the trend went negative, the results were disastrous. **So much for the belief that you never lose money in real estate.** In the eighties, you had tax shelter schemes where people would invest in cattle or oil to get tax breaks. They did get the tax breaks, but it was mostly on their lost principal.

<u>Private Equity and Private Credit</u>

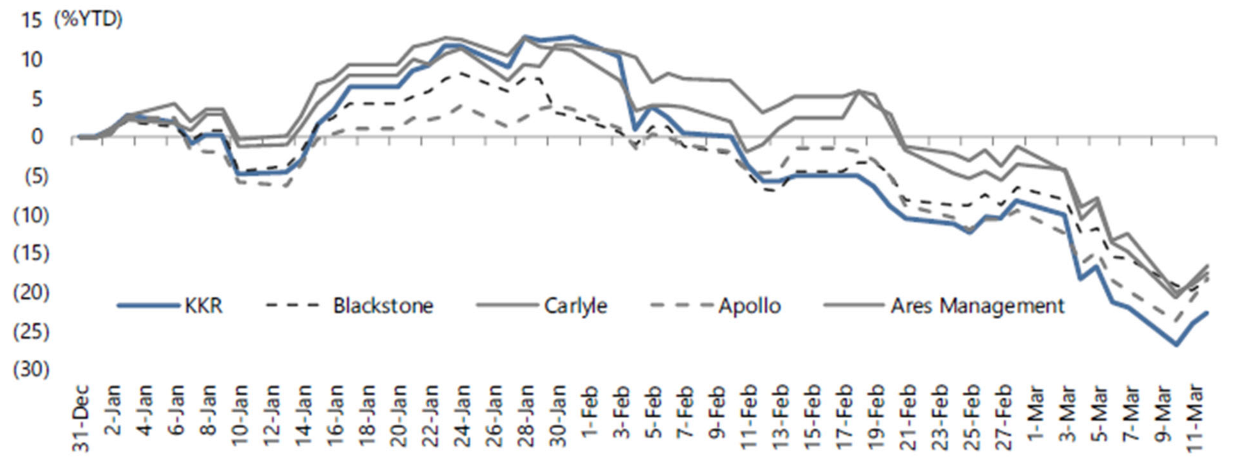
Today, private equity and private credit have been the fastest growing and most popular of the alternatives. The industry includes some very bright and talented people. That being said, people who know the industry (not us) are concerned about how the strategy will do in a bear market, which the industry in general has never experienced. Another concern is liquidity. However, the government is now allowing the public (i.e. 401k plans) to participate in these more speculative investments. For years brokerage firms have limited these more volatile, speculative investments to only qualified investors.

The flows into alternatives have been phenomenal, and are just the opposite of the flows for value. Looking at the chart below, we were surprised performance was not better considering all the excitement. Also, it looks like the Bloomberg report on the next page shows that private equity firms' stocks don't always just go up.



Source: The Wall Street Journal

Exhibit 7: Leading private equity stocks 2025 year-to-date performance in US dollar terms



Source: Bloomberg, Jeffries

Conclusion

The most important message is to recognize that we believe we are presently at what historically has been one of the best buying opportunities for value in the last 50 years.

Jim Cullen

P.S. Despite all the media hype around Nvidia and the other Mag Seven stocks, and excitement about them driving the market to new highs, a look at this year's performance gives you a different perspective.

Performance YTD as of August 31st, 2025	
Schafer Cullen High Dividend	**+14.1%**
S&P 500 Index	+10.8%
Russell 1000 Value	+10.0%

As the market has moved higher, the Russell 1000 Value has become less of a value index and now has more in common with the heavily tech weighted S&P 500. The last three names added to the Russell 1000 Value were Meta, Alphabet (Google), and Amazon.

***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 Growth and Value Indices measures the performance of the large-cap growth and value segments of the US equity universe. Reference to the benchmark is for comparative purposes only. Investors cannot invest directly in an index.**

****Past performance does not guarantee future results. The Standard & Poor's 500 Stock Index (the S&P 500) is a commonly used measure of the broad U.S. stock market. Indices are unmanaged and their returns assume reinvestment of dividends and, do not reflect any fees or expenses associated with investments. It is not possible to invest directly in an index.**

High Dividend Value Equity Returns vs. Benchmark (%)

June 30, 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
High Dividend Value Equity (gross)	4.5	9.1	14.7	11.1	12.9	9.4	10.1
High Dividend Value Equity (net)	4.4	8.9	14.3	10.7	12.4	9.0	9.5
Russell 1000 Value Index	3.8	6.0	13.7	12.8	13.9	9.2	9.5
S&P 500 Index	10.9	6.2	15.2	19.7	16.7	13.7	10.6

12/31/1993. Performance for periods greater than 1 year is annualized. Past performance is no guarantee of future results. Value of portfolio will fluctuate based on underlying securities. Current performance may be higher or lower than stated returns. Fees vary by size of account.

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