IMPLICATION FROM RISING EQUITY RISK PREMIUM

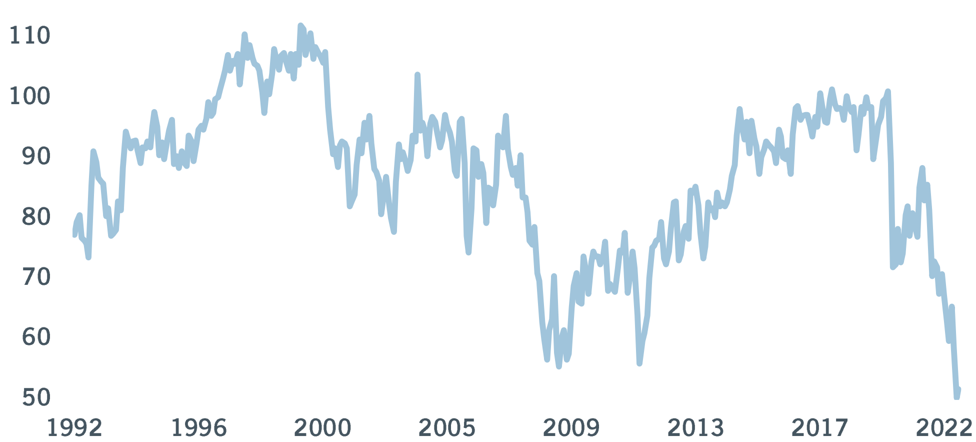
FOR A COPY OF TODAY'S PRESENTATION AND ADDITIONAL INFO, PLEASE SCAN

CAMBIAR INVESTORS

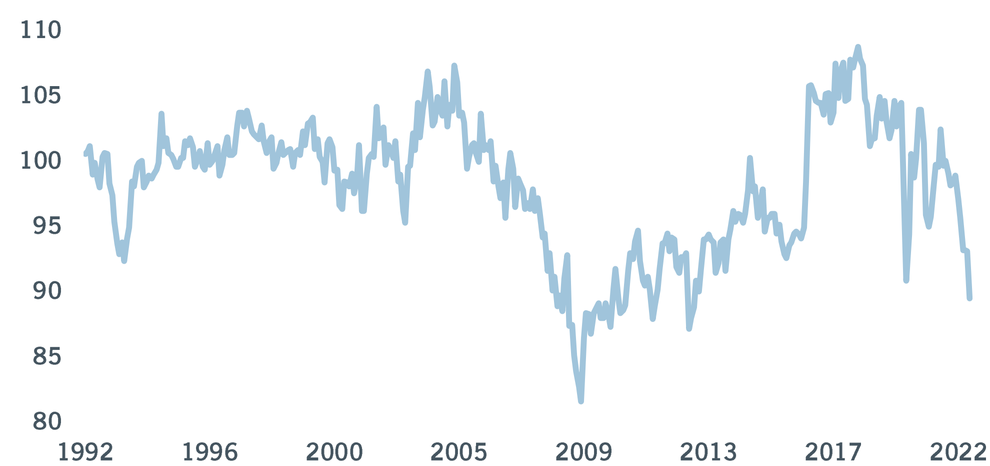
SENTIMENT INDICATORS

As of 6-30-2022

U.S. CONSUMER SENTIMENT



U.S. SMALL BUSINESS SENTIMENT



CAMBIAR PERSPECTIVE

- Consumer and business sentiment are consistent with a deep recession and high unemployment, not 50-year lows in unemployment
- Inflation, covid fatigue largely responsible
- Not reasonably likely to get a lot worse, makes a wave election fairly probable

Source: Bloomberg. Consumer Sentiment represented by the University of Michigan Consumer Sentiment Index. Small Business Sentiment represented by the NFIB Small Business Optimism Index. See Disclosure – Market Outlook: Morningstar Direct.

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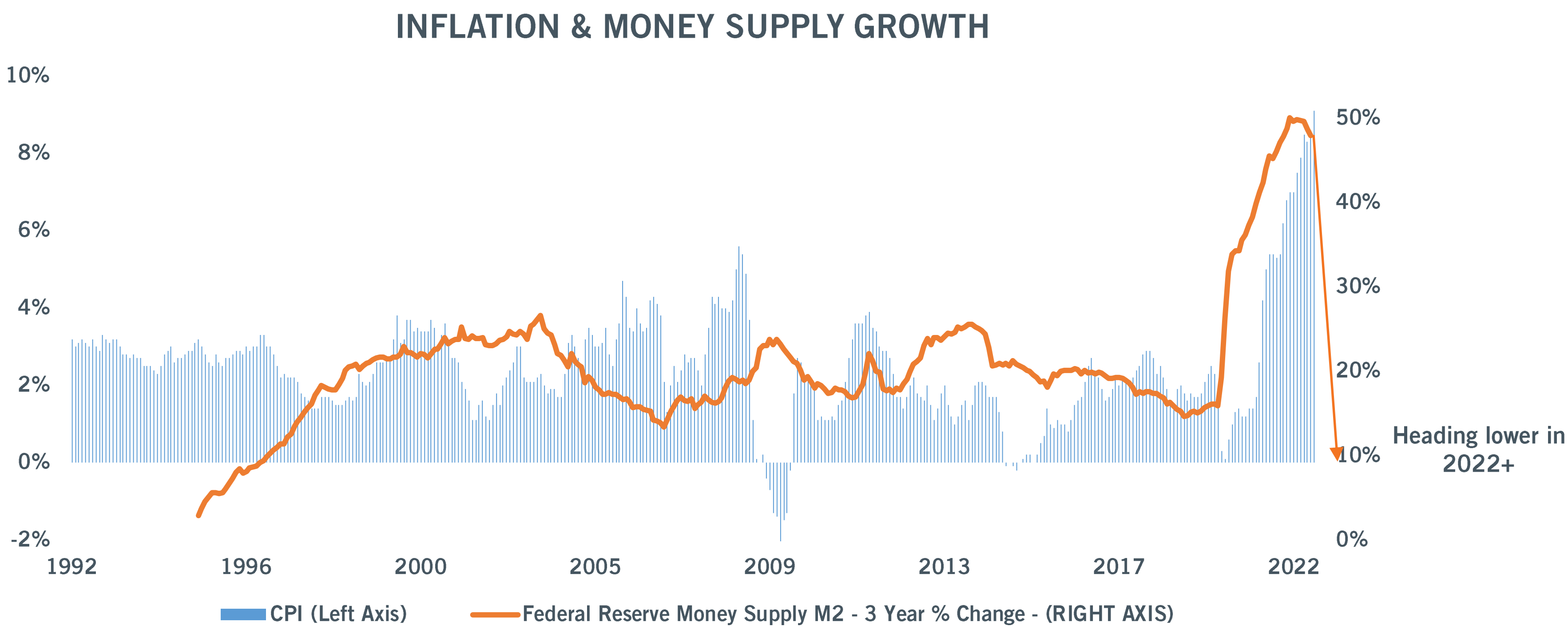
INFLATION & U.S. MONEY SUPPLY

As of 6-30-2022



CAMBIAR PERSPECTIVE

- "*Inflation is always and everywhere a monetary phenomenon*" – Milton Friedman
- 50% money supply growth and supply-side damage = inflation
- Fed has the task of bringing money supply growth back down to a low level (4-5% annually)
- Financial markets <u>do not like</u> low money supply growth. This may be ugly for awhile.

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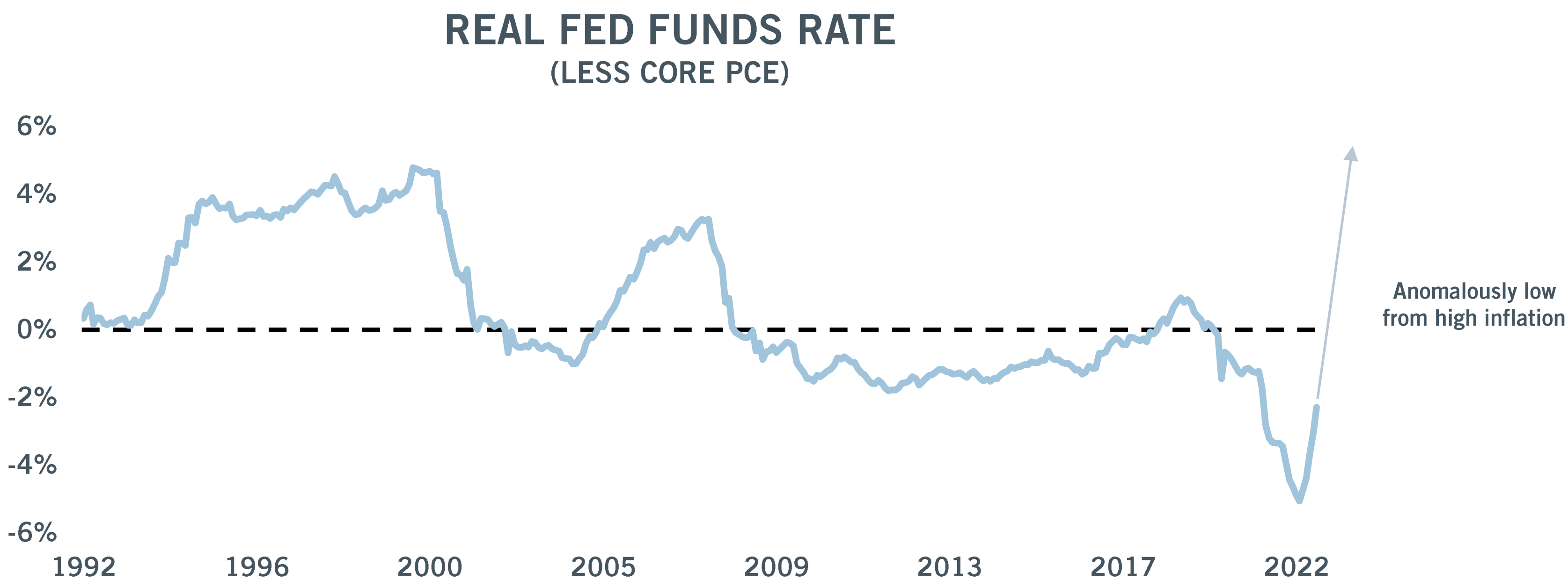
REAL FEDERAL FUNDS RATE

As of 6-30-2022



CAMBIAR PERSPECTIVE

- The post Global Financial Crisis (2008-2022) period of lowflation have seen negative real yields and capital subsidization for all but a few months in 2018-19
- A low cost of capital and low likelihood of a higher one have flattered growth stock returns, private capital business model, and corporate governance standards, generally in ways that has been unfavorable to value investing or a conservative capital discipline
- Regime change in 2022 entails an end to lowflation. Positive real interest rates and risk premiums should follow. What does this mean?

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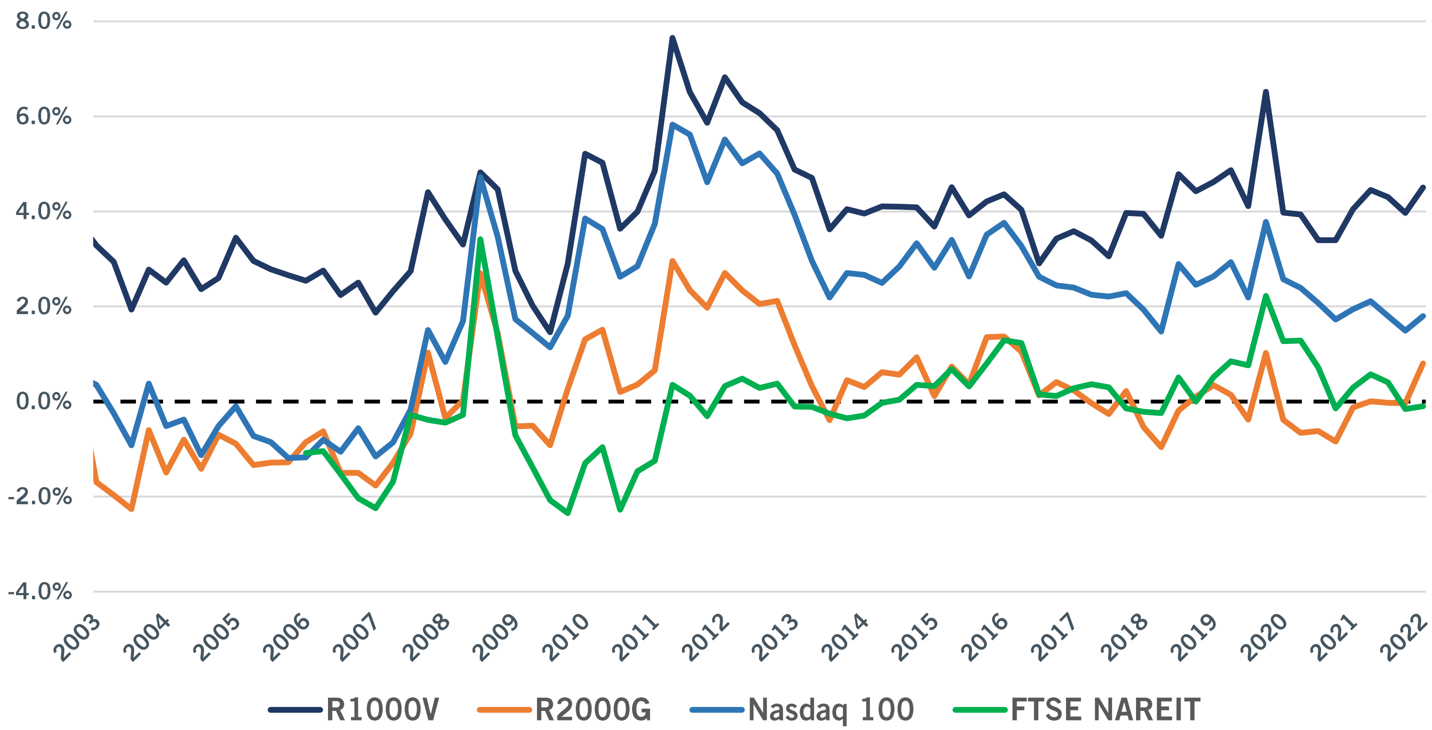
EQUITY RISK PREMIUM

As of 6-30-2022



(ERP) Equity Risk Premium = Earnings "yield" – 10 yr bond yield

CAMBIAR PERSPECTIVE

- ERP is a simple measure of how much risk is priced into equities versus a risk-free alternative
- Like corporate bond spreads, ERP is heavily influenced by Fed policies, especially balance sheet expansion/contraction
- After an extended period of low premiums in growth, speculative, and real-estate related categories, a positive ERP is back!
- Depending on inflation/Fed policy, this looks like a durable situation

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Source: Bloomberg. See Disclosure – Market Outlook: Morningstar Direct.

KEY EQUITY INVESTMENT THOUGHTS FOR A HIGHER COST-OF-CAPITAL REGIME

- **A positive real interest rate is needed to reduce demand with supply limitations**
  - This is normal versus history. Negative real interest rates in 2008-2022 are not normal
  - Not every business will be funded
  - Profits are necessary
- **A positive ERP ought to be expected/normal even in higher growth industries**
  - Understand that asset class valuations and investor / business behaviors have been heavily influenced by long period of very low ERPs
  - Recalibrating investor and business behaviors to a higher ERP may take time / be uncomfortable.
- **Yield curve inversion – Fed has "front-loaded" rapid rate increases (June-July 2022)**
  - Low yield for the 10 Year Bond is consistent with money supply becoming scarce in the future (bonds become more valuable)
  - This dynamic favors a higher equity risk premiums

THANK YOU

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