# CARILLON CLARIVEST INTERNATIONAL STOCK FUND

CARILLON FAMILY OF FUNDS

INSIGHT | COMMENTARY

THIRD QUARTER | 2023

## Investment Team

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Portfolio Co-Manager

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Portfolio Co-Manager

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Portfolio Co-Manager

## Characteristics

Total Net Assets (millions): $351.81

Number of holdings: 136

## Top 10 Holdings

iShares MSCI India ETF

Novo Nordisk

3i Group

Hyundai

HSBC Holdings

AstraZeneca

Itochu

ASML Holding

Mitsubishi

Xtrackers Harvest CSI 300 Ch

***Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial professional for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.***

## Market Overview

July kicked the third quarter of 2023 off to a strong start, but the continued upward momentum in interest rates was too much for equity markets to overcome with many indices ending up negative for the quarter.

Markets have remained laser-focused on the "magnificent seven," the mega-cap technology stocks that now make up more than 25% of the weight of the S&P 500 Index and are responsible for 85% of its gains year to date. Meanwhile, ChatGPT's release has triggered waves of excitement (and questions) about the potential benefits to specific companies and the world as a whole. Goldman Sachs estimates artificial intelligence (AI) could drive a 7% (almost $7 trillion) increase in global gross domestic product (GDP) and lift productivity growth by 1.5% over the next 10 years.

The U.S. Federal Reserve (Fed) left its key policy rate – the federal funds rate – unchanged in September (at a range of 5.25% to 5.5%) but signaled that another rate hike later this year is currently the consensus view of its board members. The Fed has been consistent in the message that it will continue to keep rates high until inflation comes down. In our opinion, this "higher for longer" message finally seems to be getting through to investors and has translated into pressure on both equities and bonds.

The quarter saw U.S. 10-Year Treasury yields spike to 16-year highs in an environment that a regional Fed president said may be a "high pressure equilibrium," characterized by high inflation, low unemployment and positive growth. That said, inflation is slowing. The Fed's preferred inflation metric, the "core" Personal Consumption Expenditures (PCE) Price Index, which excludes volatile food and energy prices, rose by just 0.1% in August and 3.9% year over year. This is the first time the reading came in below 4.0% in more than two years. And while the metric is still above the Fed's stated 2% target rate for inflation, it is much lower than it has been since inflation began to rise more than two years ago.

In Washington D.C., a last-minute deal temporarily averted (read: kicked the can down the road) a government shutdown. In a surprising turn of events, Congress passed legislation late on Sept. 30 to fund government operations until Nov. 17. President Biden signed the bill into law just 32 minutes before the midnight deadline. Of course, now lawmakers face a new mid-November deadline that will be just as tricky (if not trickier) to navigate.

The 30% surge in West Texas Intermediate crude (a commonly used U.S. crude oil benchmark) over the quarter, coupled with the United Auto Workers strike, also fed inflation and economic concerns. The jump in prices to their highest levels in over a year was driven by decreased supply amid production cuts from OPEC+ (the Organization of the Petroleum Exporting Countries and other oil-producing nations) and Saudi Arabia, in particular, while demand from consumers has remained strong.

Meanwhile, European business activity contracted again in August, and that has increased recession fears. Yet European equity markets do not seem to reflect this extended string of disappointing data. For example, the MSCI Europe Index is up 25.4% over the year ending Sept. 30 2023, compared with 21.2% for the Russell 1000® Index, despite the difference in economic momentum. This outperformance stems in part from how low the valuations for European stocks had become a year ago, given the very low expectations for European economic growth and the continuing bias of U.S. investors against European stocks. This sentiment has the potential to be a source of opportunities as Europe inevitably turns around, and as investors are likely, in our view, to remain anchored to long-term negative news and discount any positives.

China has been having a tough year, as the pace it set for growth in the first quarter – 2.2% – slowed to 0.8% in the second quarter. China's national data shows a country mired in deflation, plunging exports, youth unemployment above 20%, a consumer pullback, and a fragile property sector. A weakening real estate sector is a serious problem for China, as the property market is estimated to have accounted for one quarter of the country's GDP in recent years. Worries about the housing market appear to be eroding overall consumer confidence and the pace of spending on goods. Given that China is the world's second-largest economy, all eyes are watching to see if it can navigate a turnaround.

## Portfolio Review

At the start of the quarter, as compared with its MSCI All Country World Index (ACWI) ex USA benchmark, the Carillon ClariVest International Stock Fund was most overweight the information technology and industrials sectors, and most underweight consumer staples and materials. By the end of the quarter, the portfolio was most overweight the information technology and consumer discretionary sectors and remained most underweight consumer staples and materials. Regarding countries, at both the start and end of the quarter, the portfolio was most overweight Japan and the United Kingdom, and most underweight Canada and Switzerland. Within the MSCI ACWI ex USA Index, energy performed the best while information technology and utilities lagged. In terms

| Top Securities | Average Weight (%) | Contribution to Return (%) |
|---|---|---|
| Quanta Computer | 1.33 | 0.78 |
| Novo Nordisk | 2.69 | 0.32 |
| Teva Pharmaceutical | 0.68 | 0.19 |
| TotalEnergies | 1.16 | 0.17 |
| Sumitomo Mitsui Financial Group | 1.00 | 0.16 |
| Bottom Securities | | |
| ASML | 1.83 | -0.35 |
| LVMH Moët Hennessy Louis Vuitton | 1.45 | -0.29 |
| Air Canada | 1.03 | -0.27 |
| Infineon Technologies | 1.01 | -0.21 |
| Qantas Airways | 1.00 | -0.19 |

*As of Sept. 30, 2023. The information provided above should not be construed as a recommendation to buy, sell, or hold any particular security. The data are shown for informational purposes only and are not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the fund. They are provided for informational purposes only. Carillon Tower Advisers, ClariVest Asset Management, its affiliates, or their respective employees may have a position in the securities listed. Please contact Carillon at 800.421.4184 to obtain the calculation's methodology and/or a list showing every holding's contribution to the overall fund's performance during the measurement period.*

of countries, Turkey and Egypt performed the best while the Netherlands and Poland lagged.

Over the third quarter, stock selection contributed the most to the Fund's returns while overall sector allocation was negative. Stock selection was strongest within information technology and financials and weakest within materials and consumer discretionary. An underweight to consumer staples and an overweight to healthcare contributed to performance, while an underweight to energy and an overweight to information technology detracted.

With regard to countries, stock selection contributed the most, while allocation was also positive. Overweights to Japan and Denmark contributed positively, while overweights to the Netherlands and Taiwan detracted from performance. Stock selection was strongest within Taiwan and Japan and was weakest within Australia and Germany.

**Top securities**

Quanta Computer is a Taiwanese manufacturer of computers and related equipment. The company revised up its 2023 AI server sales guidance and reported second-quarter results that exceeded consensus estimates, thanks to a favorable product mix for Chromebooks and non-personal computers, cost control, and favorable foreign exchange.

Novo Nordisk is a pharmaceutical company based in Denmark. The stock surged after the company announced its Wegovy, a popular weight-loss drug, cut the risk of patients' using it experiencing heart issues by 20% in a select trial.

Teva Pharmaceutical is a pharmaceutical company based in Israel. The company posted a second-quarter beat of earning estimates that was driven by better than expected sales of Austedo, a treatment for involuntary movements caused by tardive dyskinesia or Huntington's disease.

TotalEnergies produces fuels, natural gas, and low-carbon electricity. Shares of the French company rose alongside other energy stocks amid rising oil prices.

Sumitomo Mitsui Financial Group is a Japanese holding company that provides commercial banking and a variety of financial services. Shares rallied along with peers after the Bank of Japan suggested an end to negative interest rates was possible.

**Bottom securities**

ASML is a semiconductor company based in the Netherlands. Earnings beat expectations, and the company raised guidance. Share prices fell, however, as management expects a continued slowdown in demand .

LVMH Moët Hennessy Louis Vuitton is a diversified luxury goods group based in France. The company reported results that were considered to be in line with expectations. Signs of margin pressures and slowing U.S. sales, however, hurt sentiment surrounding the stock.

Air Canada is a Canada-based airline company. Shares fell alongside other air carriers after an unexpected surge in the price of jet fuel added to existing concerns stemming from weakening customer demand, lower fares and rising labor costs.

Infineon Technologies produces semiconductors. The German company's results missed expectations because of costs for factories that were underutilized, while industry peers signaled that demand for auto chips remained strong.

Qantas Airways, the Australian airline, was sued by Australia's competition watchdog for allegedly selling seats on thousands of cancelled flights. That development, in addition to the impact of higher fuel prices, hurt sentiment surrounding the stock.

## Outlook

A big question facing the markets is: Are we at the peak in the interest rate cycle or are there more hikes ahead? There are economic signs to support (or to oppose) the statement that the Fed's rate-hike cycle has done its job — slowing the economy enough to cool inflation — and can be ended. Whether the central bank still sees the need for another increase is a key question as we head into the final quarter of the year and look to 2024. Regardless, there has been enough uncertainty about the Fed's decision to cause volatility in both the stock and bond markets.

The "dot plot" is a chart that records each Fed official's projection for where the federal funds rate will be at the end of each year. Based on the dot plot, the consensus still looks for one more rate hike this year while the size of rate cuts in 2024 has decreased. The median dot for next year suggests a year-end rate of 5.1%, compared to a median projection of 4.6% at the June meeting. Likewise, the year-end fed funds rate projection for 2025 was revised from 3.4% up to 3.9%. In other words, Fed projections continue to suggest a "higher for longer" interest rate environment.

The impact of higher rates is showing up in the labor market, but less than one might have expected given the macroeconomic environment. The U.S. unemployment rate rose in August to 3.8%, in part from a combination of fewer job openings and increased workforce participation. These trends have decreased pressure on companies to continue raising wages. Over the long run, the declining trend in inflation and balance in labor markets should allow yields to fall from current levels.

Expectations of weaker economic data from the Eurozone feel baked in and no longer seem to hurt stock prices. Investors willing to look beyond the current weakness could start to drive up price-to-earnings ratios from these depressed levels as they anticipate the next upswing. Counterintuitively, more disappointing economic data could act as a catalyst if it proves to be weak enough to persuade the European Central Bank to cut interest rates.

Other potential catalysts for the next economic upswing could include effective stimulus in China, a rebound in European consumer spending as rapid disinflation pushes up real incomes, or restoration of the grain deal between Russia and Ukraine, which would help ease food prices that are currently the largest component of overall Eurozone inflation.

A tipping point for the U.S. economy could come if declines in corporate profits force firms into measures such as layoffs and decreased capital expenditures, and households are forced to respond by cutting back on spending. While central bank moves take time to work, some companies are starting to feel the pressure from tighter lending conditions and costlier funding. Economists surveyed by Reuters in August estimated the risk of recession in the next year to be 55%. This is down from a recent high of 65%, but well above the 25% estimate from April 2022. Meanwhile, mounting pressures on the consumer include higher energy and housing prices that could continue to deplete savings and accelerate delinquencies.

While such factors could lead to increased uncertainty, there are many opportunities for investors to find value and growth in a rapidly evolving market. Our stock market outlook for the fourth quarter and 2024 is one of (very) cautious optimism. Global equity markets have experienced a turbulent year so far in 2023, with investors grappling with a range of questions, but there are also reasons to continue to see the glass as half full. For example, robust corporate earnings continue to provide a strong foundation for current equity valuations. However, investors will need to remain vigilant and closely monitor market conditions to navigate the challenges and opportunities that lie ahead.

*Risk Considerations: International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards, and potential political and economic instability. These risks are further accentuated in emerging market countries, where risks can also include possible economic dependency on revenues from particular commodities or on international aid or development assistance, currency transfer restrictions, and liquidity risks related to lower trading volumes.*

*Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.*

*Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds.*

*Investments in the securities of other investment companies, including money market funds and exchange-traded funds ("ETFs") (which may, in turn invest in equities, bonds, and other financial vehicles), may involve duplication of advisory fees and certain other expenses.*

*Quantitative risk involves the dependence on proprietary quantitative tools for security selection which may not be predictive of a security's value.*

***Securities in the Carillon ClariVest International Stock Fund are typically selected from investment universes consisting of companies economically tied to, and principally traded in, countries outside of the United States.***

Past performance is not indicative of future results and investing involves risk, including the risk of loss. All information as of Sept. 30, 2023. Opinions expressed are the current opinions as of the date appearing in this material only. This material should not be construed as research or investment advice. No part of this material may, without Carillon Tower Advisers' prior written consent, be copied, photocopied, or duplicated in any form, by any means.

The information provided should not be construed as a recommendation to buy, sell, or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice.

Investors may not make direct investments into any index.

Definitions

A consensus estimate is a forecast of a public company's projected earnings or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or the data in question.

The U.S. Federal Reserve dot plot is a chart summarizing the Federal Open Market Committee's (FOMC) outlook for the federal funds rate. Each dot represents the interest rate forecasted by one of the 12 members of the committee.

The federal funds rate is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Guidance is statements from the managers of publicly traded companies that indicate whether they expect to realize near-term profits or losses.

The term “magnificent seven” refers to the seven largest stocks in the S&P 500 index, which collectively make up more than 25% of the market capitalization of the entire index. These stocks are Apple, Alphabet, Amazon, Meta Platforms, Microsoft, Nvidia and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company’s outstanding shares of stock. It is calculated by multiplying a company’s current stock price by its total number of outstanding shares.

The Organization of the Petroleum Exporting Countries is an organization enabling the cooperation of leading oil-producing countries to collectively influence the global oil market and maximize profit. Current OPEC members are Algeria, Angola, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, the Republic of the Congo, Saudi Arabia, the United Arab Emirates and Venezuela. Ecuador, Indonesia and Qatar are former OPEC members. A larger group called OPEC+, consisting of the OPEC members plus other oil-producing countries, formed in late 2016 to exert more control on the global crude-oil market. Canada, Egypt, Norway and Oman are observer states.

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

The Personal Consumption Expenditures (PCE) excluding Food and Energy, Price Index, also known as the core PCE price index, is a measure of the prices that U.S. consumers pay for goods and services, not including two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices. The core PCE Price Index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, measures inflation trends and is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

The price-to-earnings (P/E) ratio measures a company’s current share price relative to its earnings per share. The ratio is used to help assess a company’s value and is sometimes referred to as the price multiple or earnings multiple.

Underweight describes a portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

West Texas Intermediate (WTI) is a grade or mix of crude oil. The term is also used to refer to the spot price, the futures price, or assessed price for that oil. In colloquial usage, WTI usually refers to the WTI Crude Oil futures contract traded on the New York Mercantile Exchange (NYMEX). The WTI oil grade is also known as Texas light sweet, oil produced from any location can be considered WTI if the oil meets the required qualifications.

Indices

Prior to March 1, 2023, the fund’s benchmark index was the MSCI EAFE® (Net) Index, an index that measures the performance of large- and mid-cap companies across 21 developed markets countries, excluding the United States and Canada. The fund changed its primary benchmark to the MSCI ACWI ex-US Index, a float-adjusted market capitalization index that measures the performance of large- and mid-cap companies in developed and emerging market countries excluding the United States, because it more accurately reflects the fund’s investment strategy.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets in Europe. With 427 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI All Country World Index (ACWI) ex USA captures large and mid-cap representation across 22 of 23 developed markets (DM) countries (excluding the U.S.) and 26 emerging markets (EM) countries. With 2,377 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represent approximately 93% of the total market capitalization of the Russell 3000® Index.



Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

Carillon Tower Advisers is the investment adviser for the Carillon Family of Funds and ClariVest Asset Management is the sub-adviser to the Carillon ClariVest International Stock Fund. Eagle Asset Management (a sub-adviser to certain of the Carillon Family of Funds) owns 100% of ClariVest Asset Management. Carillon Fund Distributors is a wholly owned subsidiary of Eagle Asset Management and Eagle Asset Management is a wholly owned subsidiary of Carillon Tower Advisers.

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