For more information:

Cheryl Galante, Head of Investor Relations and Client Servicing

646.216.8400
cgalante@breakout-capital.com

Breakout Capital Quarterly Q1 2026

Outlook

Geopolitical shock to slowly fade

The historical record shows that the market generally looks through geopolitical shocks. Across 25 major geopolitical shocks since 1950, the S&P 500 suffered an average drawdown of 5% but fully recovered in less than 2 months [Chart 1]. Today the Iran war and resulting oil shock is following a typical arc: the S&P registered a drawdown of 8% but is well on its way to recovery. Notwithstanding the near-term volatility, we expect this shock to fade too, as the market turns its focus back to core economic fundamentals.

Chart 1: Market reaction to 25 key geopolitical shocks

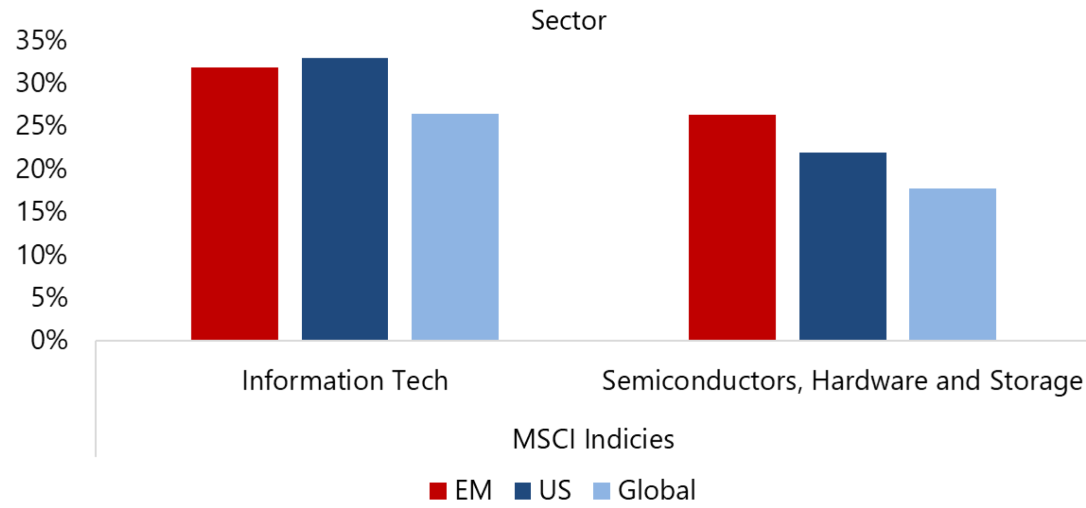
#	Geopolitical Event	Date	S&P 500		US 10y bond yields (bps)	
			Total Drawdown	Days to Recovery	1m change	3m change
1	N Korea attacks S Korea	6/25/1950	-13%	82		
2	Hungarian Uprising	10/23/1956	-1%	4		
3	Suez Crisis	10/29/1956	-2%	4		
4	Cuban Missile Crisis	10/16/1962	-7%	18	-1	-3
5	Gulf of Tonkin Incident	8/2/1964	-2%	41	3	0
6	Six-Day War	6/5/1967	-2%	2	32	52
7	Tet Offensive	1/30/1968	-6%	65	3	42
8	U.S. bombs Cambodia	4/29/1970	-15%	121	17	-29
9	Munich Olympics	9/5/1972	-4%	57	7	-4
10	Yom Kippur War	10/6/1973	-1%	6	-12	7
11	U.S.S.R. Invades Afghanistan	12/24/1979	-2%	15	56	51
12	U.S. Bombs Libya	4/14/1986	-1%	21	53	-4
13	Iraq invades Kuwait	8/2/1990	-17%	189	47	-12
14	WTC Bombing	2/25/1993	0%	5	-5	-22
15	U.S. Embassy Bombings Africa	8/6/1998	-2%	12	-43	-81
16	U.S.S. Cole Yemen Bombing	10/11/2000	-3%	2	1	-74
17	US Terrorist Attacks	9/11/2001	-12%	31	-14	6
18	Iraq 2003 war	3/19/2003	-3%	14	-3	1
19	Madrid Bombing	3/11/2004	-3%	20	49	76
20	London Subway Bombing	7/5/2005	0%	4	28	55
21	India Israel and Lebanon Bombings	7/11/2006	-3%	17	-13	-51
22	Russia Attacking Crimea	3/7/2014	-2%	25	-9	-18
23	Bombing of Syria	4/7/2017	-1%	18	-3	-13
24	North Korea Missile Crisis	7/28/2017	-2%	36	-13	4
25	Russia Attacks Ukraine	2/23/2022	-15%	463	30	110
	Average		**-5%**	**51**	**10**	**4**

Source: Bloomberg, Breakout Capital calculations, as of April 9, 2025.

EM Index balance returns

The MSCI EM index has become concentrated to a degree that is hard to overstate. Korea and Taiwan accounted not only for 90% of Q1 returns, as noted above, but 75% of the performance over the last one year, with most of those 12-month gains also coming from the three big chip makers. The result is that tech now has a similar weight in the EM index and the US, and the EM index is even more heavily concentrated in one subsector, semiconductors [Chart 2].

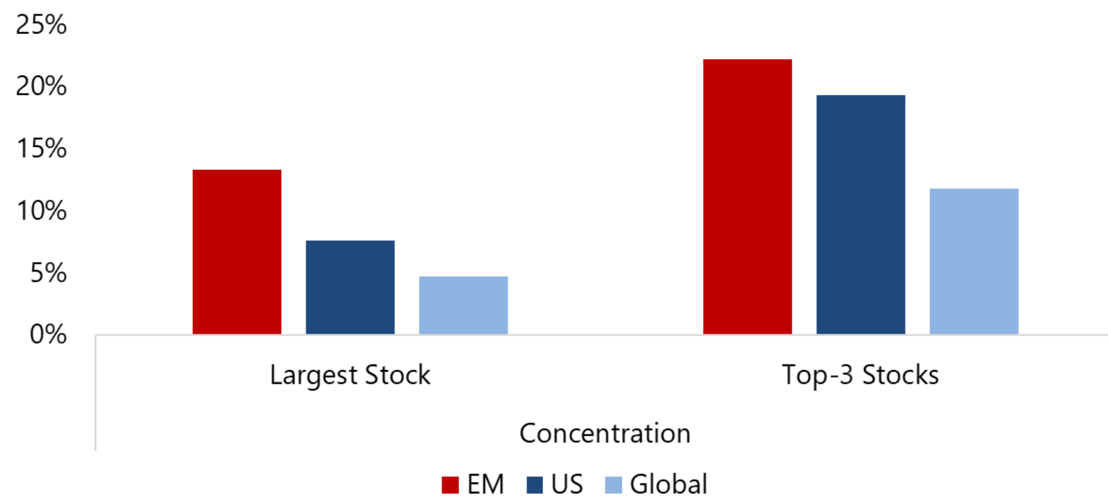
Chart 2: Weight in respective MSCI Indices (MSCI EM, MSCI USA, MSCI ACWI), %



Source: Bloomberg, Breakout Calculations as of end of Q1 2026

It is well known how heavily the US market is concentrated in just its largest stocks. EM is even more concentrated in this respect, particularly in the top stock, TSMC [Chart 3]. TSMC's 13% share of the EM index is a record high for any single stock in the EM index and dwarfs the 8% share of the top stock in the US (Nvidia).

Chart 3: Weight of the largest stocks in the respective MSCI Indices, %



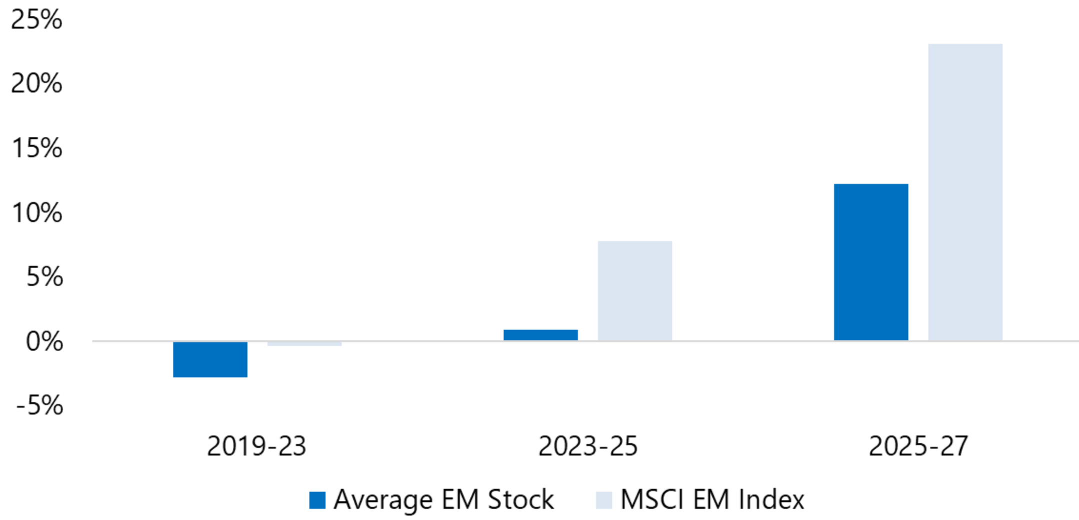
Source: Bloomberg, Breakout Capital calculations, as of end Q1 2026

The MSCI EM Index has become lopsided in many other ways, too; for example, TSMC now represents a bigger share than all of India (at just under 13%). Again, we do not expect unprecedented imbalances of this kind to last, and not only because market cycles tend to revert to the mean. EM fundamentals are improving broadly, across many countries.

EM fundamentals send positive signs

It's not all about South Korea, Taiwan, and the three big tech companies. The share of emerging economies growing faster than the US in per capita income terms is expected to rise from 50% in post-pandemic years to 90% in coming years. After barely growing at all in the last 2 years, the earnings of the average EM stock are expected to grow by 12% annually over the next 2 years [Chart 4]. Tech is not the only story. More than 60% of EM USD earnings are expected to come from stocks outside of Korea and Taiwan tech over this period. We expect investor focus to broaden to non-tech emerging markets, which are driven by durable trends, unlike the highly cyclical semiconductor industry. There were some signs of that happening in the first half of April as the markets broadly recovered.

Chart 4: Annual US Dollar EPS growth, based on MSCI Indices and Bloomberg data, %



Source: Bloomberg, Breakout Capital calculations Note: An average EM stock is proxied using the MSCI equal weighted index; MSCI EM Index data is based on the MSCI cap weighted index

Country selection at a moment like this

Our framework focuses on the ten factors that, through back testing, we've found to matter most for anticipating which economies are poised to accelerate (or decelerate) in coming years [Chart 5]. While we recognize that there are periods when one factor (such as an oil or a semiconductor boom) can overwhelm all others and drive short-term growth, the "Ten Rules" are designed to capture the major moving parts, and the more durable high growth stories.

Chart 5: The Ten Rules of Country Selection

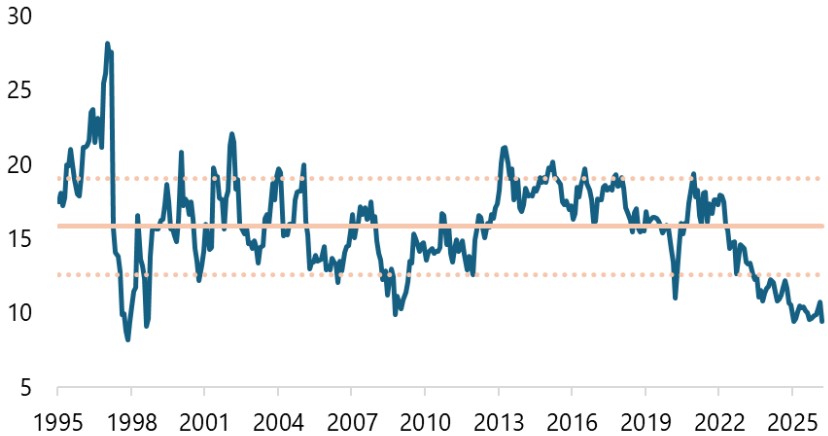
- **Population:** Population growth sets the speed limit on economic growth
- **Politics:** Understand regime type, age, and position in the cycle of crisis and reform
- **State:** Size, big or small, matters less than policy and attitude towards business
- **Debt:** Size of debt matters, pace of increase matters more
- **Currency:** Cheap is good if stable, but key is avoiding unreliable measures
- **Investment:** More is better, up to a point of diminishing returns, and if it is well targeted
- **Inflation:** Consumer prices matter but so do asset prices
- **Geography:** Matters in evolving ways, as deglobalization brings supply closer to home
- **Inequality:** Widens political divisions, slows growth by narrowing economic opportunities
- **Sentiment:** Look for countries global investors don't love or hate, just ignore

One issue facing South Korea and Taiwan is that, remarkable though their track record has been and as impressive as their tech sectors still are, not much else is happening in these economies. The profits are driven primarily by the chip stocks. And outside of chips, there's no growth driver. Domestic demand is anemic in both countries, demographics are depressing. While Taiwan and South Korea are enjoying a moment in the sun, it is a result largely of chip supply shortages and--as has always happened in the past--this will fade as the shortages ease. In sum, given the weak growth prospects outside of the tech sector, South Korea and Taiwan score in the bottom half of emerging markets on our Ten Rules scoreboard.

On the other hand, some of the countries that are viewed as relative losers in the AI race, and suffered in March because of their heavy exposure to imported oil, still score well. We believe they are poised to grow when the shock of the Iran war fades.

The Philippines is one of the few major economies to have seen a decline in valuations in each of the past five years, despite positive earnings growth in US dollar terms. It now trades at nearly 50% below its historic average, close to lows hit during the Asian financial crisis in 1998 [Chart 6]. Investors are concerned about twin deficits, and the possible impact of AI on employment and consumption, but we think they are overlooking the multiple strengths highlighted by our Ten Rules, including the reform momentum and subsidy cuts. Rate cuts should return once the oil shock passes, which should boost consumption. Meanwhile, employment continues to grow, and companies are still expanding BPO capacity, belying the AI fears. We believe current valuations already price in investor concerns and we remain confident in our high-quality holdings.

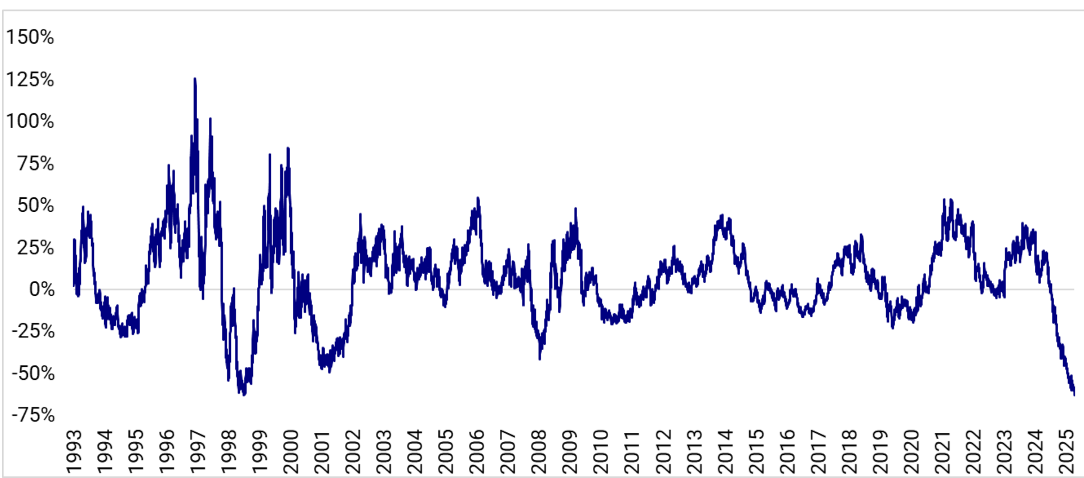
Chart 6: The Philippines: 12m forward Price to Earnings based on the MSCI Index



Source: Bloomberg, MSCI, Haver, Breakout Capital calculations. As of April 2026.

After a strong bull market over the past decade, **India** has taken a breather in the last year, underperforming the EM index by its widest margin since 1993. Compared to South Korea, the index leader, the decline is even more striking [Chart 7]. But this breather has brought valuations down to 20% below their historical peak, easing the basic investor concern, which was that India had gotten too expensive. It's still more pricey than most EMs, but that has always been the case given its superior growth outlook. India's structural strengths include relatively clean corporate balance sheets, a resilient domestic investor base, and gradually improving fiscal deficits. In addition, the rupee is starting to feel cheap: after a 15% decline in the last 18 months, the real effective exchange rate for the Indian rupee is now back to its 2014 level, and below its 20-year average.

Chart 7: Difference in the last 12-month price return: MSCI Korea Index vs. MSCI India Index



Source: Bloomberg, MSCI, Haver, Breakout Capital calculations. Price/Local Returns. As of April 10, 2026.

Late last decade a similar phenomenon took hold when investors poured money into a big Chinese tech firm, to the exclusion of other countries and sectors in emerging markets. But that monomania burned out in short order. The current narrowing of the market narrative too shall pass. We remain invested in 17 of the nearly 50 developing economies we track and are exposed to a range of country-driven themes including the improving credit cycle in Emerging Europe; the shift towards orthodox policies in Latin America, and selective exposure to high quality, good value plays in Asia. We believe all this gives our fund a profile highly differentiated from the EM index and other EM portfolios.

Disclaimer

The MSCI Emerging Markets Index (the "MSCI EM Index") is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity market performance of large- and mid-capitalization companies across emerging market countries.

The MSCI All Country World Index (the "MSCI ACWI Index") is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity performance of large- and mid-capitalization companies across both developed and emerging markets. The index includes 23 developed markets and 24 emerging markets.

The MSCI USA Index (the "MSCI US Index") is a free-float-adjusted, market-capitalization-weighted index designed to measure the performance of large- and mid-capitalization equities within the United States.

These indices are reviewed quarterly and rebalanced semi-annually. Index performance reflects the reinvestment of dividends but does not include the impact of management fees, trading costs, or other expenses associated with an investable product. The MSCI EM Index, the MSCI ACWI Index and the MSCI US index, are theoretical benchmarks and cannot be invested in directly.