Oberweis Asset Management

GLOBAL OPPORTUNITIES MARKET COMMENTARY

1Q 2025

The Quarter in Review

The Global Opportunities strategy returned -9.22% (-9.46% net of fees) in the first quarter versus -3.97% for the MSCI ACWI Small Cap Index. The strategy underperformed during the quarter amid a contraction in investor risk appetite

Market Environment

In the first quarter, U.S. President Donald Trump's tariff proposals upended investor confidence both in U.S. equities and the U.S. dollar. In February, the market began to discount increasingly contentious trade dynamics with long-time allies Canada and Mexico, and accelerated in early April as President Trump adopted a "shock and awe" strategy to revamp America's trading relationships with the entire world.

We sympathize with the president's view that free trade should also mean fair trade, and for decades fairness has been secondary with numerous trading partners. However, the country-by-country tariff rates initially proposed by the president on April 2 stunned the business and geopolitical worlds and forced investors to discount a potential extreme impact scenario on economic growth and corporate profits. Merely a week later, the president granted a reprieve from that scenario, softening to a 10% tariff rate for 90 days for countries that didn't retaliate following his initial salvo. Tariffs against China, however, remain at alarming levels and are untenable to both countries for an extended period.

Although we may have sidestepped a calamity for the moment, the risk to the economy, businesses and the markets remains high. The administration's ever-changing economic policy is creating high levels of uncertainty that will likely impact businesses, as evidenced by a record-high (some 40% higher than the pandemic reading) in the U.S. Economic Policy Uncertainty Index[1]. Companies are telling us they face high variability of business outcomes in 2025, and business planning is incredibly challenging given unknown and ever-changing cost structures. Furthermore, uncertainty usually prompts businesses to be more cautious with their growth plans. New initiatives are postponed or abandoned because return-on-investment calculations can't be trusted. Layoffs are possible as companies look to offset declines in gross margin.

Furthermore, there is likely to be a negative impact on the consumer as tariffs lead to inflation and, potentially, higher unemployment. Businesses will raise prices to mitigate margin declines. Those who amusingly argue tariff-related inflation is "temporary" are, in our view, misguided. While the rate-of-change math behind inflation might be temporary, the impact on price is permanent as a new pricing plateau is reached. Companies that raise prices in response to tariffs won't reduce them in the future. Did prices really fall after the pandemic subsided and the supply chain returned to normal?

[1]According to an Emprical Research Partners note dated 3/28/25, the U.S. Economic Policy Uncertainty Index is at a record-high dating to the index's inception in 1985. The U.S. Economic Policy Uncertainty Index is comprised of three components: the first component is an index of search results for "uncertainty" from 10 large newspapers, the second component draws on reports by the Congressional Budget Office (CBO) that compile lists of temporary federal tax code provisions, and the third component draws on the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters.

AVERAGE ANNUAL TOTAL RETURNS ***(as of March 31, 2025)***

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 1/1/2015
Global Opportunities (gross of fees)	**-9.22%**	**-2.43%**	**0.31%**	**14.04%**	**7.74%**	**7.74%**
Global Opportunities (net of fees)	**-9.46%**	**-3.40%**	**-0.69%**	**12.91%**	**6.67%**	**6.67%**
MSCI ACWI Small-Cap Index	-3.97%	-0.51%	1.57%	13.70%	6.37%	6.37%

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. Advisory fees are disclosed in Part II of Form ADV.

Oberweis Asset Management, Inc. "OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $5 million. Performance results from 1-1-2015 until present were derived solely from the performance of the Oberweis Global Opportunities Fund, a registered, open-end mutual fund, for which OAM serves as investment adviser. Accounts are dollar-weighted within the composite and reported in U.S. dollars.

The MSCI ACWI Small-Cap Index (Net is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small cap developed markets and emerging markets, with minimum dividends reinvested net of withholding tax. The MSCI ACWI Small-Cap Index began on May 31, 1994. It is not possible to invest directly in an index.

Market Environment (continued)

While we sometimes mock those who try to predict recession, we do believe the probability of recession is increasing. There are some who believe the administration has a “grand plan” and is purposefully trying to induce a slowdown to force the Fed to reduce interest rates. A word of warning: trying to manage the economy is an inexact science akin to trying to turn around an oil tanker in a river. What we really worry about is the increasing probability of stagflation, or weak economic growth coupled with tariff-related inflation. The emergence of stagflation might impede the Fed’s ability and willingness to act as the administration anticipates.

The silver lining: we’ve seen indiscriminate selling of U.S. small-cap equities irrespective of a company’s fundamentals, including companies where the tariff impact is negligible. The circumstances and cast of characters are different, but we’ve seen this movie before. We are spending our days thinking about how ever-changing macro risks impact our current and potential investments, an analysis not without challenges. Although the short-term is fluid and highly uncertain, we know from decades of investing and market experience that chaos creates abundant opportunities for those who understand fear and volatility are only temporary. This type of environment typically leads to a significant outsized opportunity for our investment style and our portfolio as the “fog of war” clears and uncertainty begins to dissipate. In our experience, periods where expectations become abnormally low offer among the very best times to invest in our strategy. So, while we expect continued near-term volatility, we are encouraged by the opportunity that likely lies ahead later this year and into 2026.

The other important consideration: what were valuations at the start of this mess? Large caps were trading at the upper bounds of their historical range. Small caps offered more reasonable absolute valuations and have also notoriously underperformed large caps on a relative basis for over a decade. In our view, small caps continue to be the best house in the neighborhood on a prospective basis, bolstered by valuations relative to large caps that remain at generational lows. Better still, absolute valuations are also more favorable, with our U.S. universe P/E in early April some 23% below average[2] and the lowest since October 2022.

Whatever the macro circumstances, our mission, as always, is to identify and invest in companies that have generated an earnings surprise driven by a misunderstood fundamental change. The success of many of our investments is predicated by idiosyncratic factors allowing them to grow and take market share irrespective of underlying economic trends. While our companies have exposure to international tariffs, our view is that exposure is broadly less than the exposure of the S&P 500 multinationals and the nimbleness of being small affords better agility to manage around the tariffs.

Portfolio Highlights

As of March 31, 2025, the portfolio was 96.2% invested in 52 different positions. The portfolio had its largest over-weightings in health care (19.1% average weighting during the quarter versus 9.5% for the MSCI ACWI Small Cap Index), technology (18.6% versus 12.3%), and industrials (25.4% versus 19.6%). The portfolio was most underweight financials (6.3% versus 15.5%), real estate (0.0% versus 7.7%), and materials (1.7% versus 7.8%).

Geographically, the strategy maintains a diversified portfolio, with about half of the portfolio invested in the U.S. and the other half in non-U.S. companies. Emerging markets comprised approximately 5.0% of the portfolio. Note that our strategy is primarily driven by individual stock selection within our risk management protocols. Quarter-to-quarter fluctuations in country weights are typically a residual of the investment process, which is focused on our most promising individual opportunities irrespective of location, The portfolio was on average 54.8% invested in North America, 24.8% in Europe, and 13.7% in Asia.

During the first quarter, the portfolio was positively impacted by strong stock selection in Sweden (where our holdings returned 56.62% versus 7.03% for the MSCI ACWI Small Cap Index) and Germany (46.89% versus 17.07%). These positive contributions to return were offset by stock selection in the US (-17.49% versus -7.79%) and China (-7.73% versus +11.43%). At a sector level, portfolio performance benefitted from stock selection in the industrials sector (+0.26% versus -3.78%) and consumer discretionary (+3.05% versus -7.99%). Conversely, stock selection in technology (-29.19% versus -11.71%) and health care (-8.73% versus -4.83%) detracted from performance.

[2]As of 4/7/2025. Our U.S. universe forward P/E, tracked weekly since July 2017, includes all U.S. companies under $5 billion in market capitalization that have reported a minimum 10% earnings surprise in the latest reported quarter.

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Organization Update

There was no change to our Global Opportunities team this quarter.

Oberweis Asset Management's Investment Phillosophy

We believe that investing in smaller companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. We believe that innovation is the key to economic growth and wealth creation and are committed to investing in companies at the forefront of innovation – smaller company stocks that offer the potential for extraordinary revenue and earnings growth.

The entrepreneurial spirit is alive and well at these companies. Many are nimble and uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. We must also buy these stocks for our clients at prices that make sense. By paying careful attention to companies' valuations in relation to expected earnings growth rates, we seek to purchase stocks when they still have considerable appreciation potential.

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