

INTERNATIONAL OPPORTUNITIES MARKET COMMENTARY

1Q 2026

Review

For the first quarter, the International Opportunities Strategy returned -4.23% (-4.45% net of fees) vs. -0.62% for the benchmark, the MSCI World Ex USA Small Cap Growth Index. Clearly, the dominant market-shaping event of 2026, thus far, has been the US-Israeli military operation in Iran. While other dimensions to the conflict are perhaps more important to its geopolitical consequences, the outlook for shipping through the Strait of Hormuz, through which approximately 20% of the world's supply of oil and gas passes, is the central issue for capital markets. Forcing a reopening militarily appears to be extremely challenging and the President has stated that the burden for finding a solution should be shifted onto other countries. Analyzing negotiations between the warring parties from the outside is difficult given the complex political situation. As at the time of writing, it remains uncertain when the traffic will flow freely again.

As a result of the events, headline inflation in the coming months will likely be higher (the impact on global core inflation should be far smaller) and the market has begun to price in some negative impulse to GDP growth. Furthermore, financial conditions outside the US have tightened. Market pricing implies about 75bps of interest rate hikes from the ECB in 2026 and slightly more in the U.K. and Canada. Notably however, earnings estimates in the aggregate have been increasing year-to-date in key geographies across the majority of sectors, and generally the economic data had been benign up until the conflict started. Economic indicators in aggregate had surprised positively across the majority of developed markets, with the Euro area, the U.K. and Japan surprising the most and the U.S. underperforming the most. In general, the underperformance of U.S. stock markets compared to international markets is continuing in 2026.

The impact of the hostilities has started to show through in the macro data exiting the quarter. G10 consumer sentiment has worsened in developed markets, standing in contrast to household net worth that is at historically high levels: close to all-time highs in Japan and Australia, above the 90th percentile in Canada and the Euro area, and around the 65th percentile in the United Kingdom. Labor markets remain healthy in the Euro area and Japan, albeit continue to be soft in the United Kingdom. There will likely be some deterioration in developed market consumer strength in the coming months due to the higher inflation and activity headwinds from the war, but the starting point is a healthy one.

None of this really changes how we invest. As bottom-up investors focused on earnings surprises driven by misunderstood fundamental change, we believe in our ability to construct a portfolio likely to overcome these types of macro events over time. Many of our holdings are niche-oriented businesses whose success or failure over time will primarily be driven by an ability to create new markets or take market share from competitors, even if share prices are affected by marginal shifts in risk appetite and energy prices in the short term. In times of uncertainty, valuations compress indiscriminately, and that occurred in the first quarter. Over time, however, the returns of this portfolio will ultimately be shaped by the cash flow generation of our underlying holdings, and those prospects remain positive.

AVERAGE ANNUAL TOTAL RETURNS (as of March 31, 2026)						
	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 2/1/2007
International Opportunities (gross of fees)	-4.23%	21.84%	11.90%	-0.43%	7.96%	9.62%
International Opportunities (net of fees)	-4.45%	20.76%	10.91%	-1.33%	7.00%	8.64%
MSCI World ex-US Small-Cap Growth Index	-0.62%	27.69%	11.51%	2.62%	7.36%	5.11%

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 2-1-07 until 7-31-08, were derived solely from the performance of the Oberweis International 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 World ex-US Small-Cap Growth Index (Net) is a free float-adjusted market capitalization weighted index that is designed to measure the performance of small cap growth developed markets excluding the U.S. with minimum dividends reinvested net of withholding tax. It is not possible to invest directly in an index.

Outlook (continued)

Predictions about the Middle East situation are difficult. However, one thing is clear: markets are highly sensitive to the time scale of the outcome of the war. The longer the conflict continues and Hormuz remains shut to tanker traffic, the more the market is focused on the binary nature of the outcome. Either the Strait opens again, leading energy prices and rates stress to ease, and growth damage is contained; or the Strait remains closed, leading energy prices to move higher, price shocks to escalate, and the growth damage leads to a repricing of recession probability in many geographies.

There is potential for a big recovery in equities as markets gain visibility on positive flow of traffic through Hormuz. Indeed, as one has learned from the recent Covid and tariff shocks – where overly bearish positioning turned out to be a bad decision – there are early signs that markets will respond bullishly to simply being able to limit the distribution of outcomes (as opposed to waiting for a full resolution).

Recent news flow supports a tentative interpretation that Iran does not in fact want the Strait to remain closed. On March 26, Iran granted passage to five countries: China, Russia, India, Iraq, and Pakistan. Within a week, Malaysia, Thailand, the Philippines, France, and Japan had also secured (some) access. One might expect this list to expand as the rest of the world decides that guaranteeing its own energy supply is worth the diplomatic cost of dealing with Iran. Thus, the likeliest path ahead, in our opinion, is for more ships to flow through the Strait. The question remains under whose flag they are sailing and who is collecting the toll, if any.

From a regional perspective, while equities are not pricing in a recession, we do not consider complacency to be rife. For example, in 2022 the Eurostoxx 50 fell 20% as gas prices increased by 386%. In the current crisis this index has (to date) seen a peak to trough decline of 11%, more than half the 2022 episode but thus far the gas price has “only” increased by 76%, to a price below where the 2022 crisis began. Notwithstanding other variables at play, the impact on Eurozone growth from this current energy shock ought to be lower. In Japan, in dollar terms the Topix Index had decreased by 13% from its recent high by period end. Inarguably the heightened supply risk is important with Japan depending on the Strait of Hormuz for over 60% of its crude oil imports. However, the country entered this crisis well prepared. Goldman Sachs estimates the country’s strategic oil reserve to extend to approximately 400 days of consumption. Moreover, the economy’s resilience to a crude oil shortage has clearly been increasing over time; its dependence on oil and gas in its power generation mix has been gradually declining over the last few decades, accounting today for 56% of energy consumption vs the U.S. at 72%. Additionally, it has arguably the friendliest relations with Iran out of any of the G7 nations and, as noted above, it is interesting that in the early days of April a number of Japanese ships successfully traversed the waterway. While it is reasonable to argue that the near-term equity market outlook depends squarely on military deescalation, reality may prove to be more complex. Left tail risks remain but it is entirely feasible that the conflict continues simultaneously with Hormuz opening up. Viewed through the lens of equities, this would be a positive outcome.

Our view remains that the longer-term fundamentals of our investment universe – strong profitability, improving productivity trends, and low core inflation – are ultimately inconsistent with a sustained bear market. When considering which areas are likely to be most fertile for adding risk coming out of the crisis, we are guided first and foremost by our process of identifying which companies are generating positive earnings surprises that are fundamentally under-appreciated by the market. Many of the businesses that were performing well prior to the crisis, driven by capex relating to energy build-out, defense, supply chain resilience, and AI, are, if anything, likely to be reinforced by these events. Despite the velocity of news flow, and in fact some underperformance in these areas towards the end of the first quarter, we do not envisage an abrupt halt in these trends and the strategy purposely remains exposed to them. The structural shift in European and Japanese energy and defense policy is almost certainly permanent whether Hormuz reopens next week or next year. Likewise, and in contrast, the headwinds known prior to the war, such as concerns over the negative developments in private credit, will likely remain.

Valuations remain attractive. Multiples in our benchmark compressed over the quarter as estimates increased and share prices declined. Global P/E ratios remain at substantial discounts to the U.S., well above long-term averages and across almost all sectors.

Portfolio Highlights

At quarter-end, the portfolio was invested in 80 stocks in 14 countries. Our top five country weightings (portfolio weighting versus the MSCI World Ex USA Small Cap Growth Index) at the end of the quarter were Japan (31.8% vs. 31.8%), Canada (17.6% vs. 11.6%), the U.K. (16.5% vs. 11.4%), Australia (6.8% vs. 9.3%), and Denmark (4.6% vs. 2.3%). On a sector basis, the portfolio was overweight financials (14.3% vs. 7.0%) and underweight communication services (0.6% vs. 3.8%).



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Organization Update

There are no changes to the International team or strategy.

Oberweis Asset Management's Investment Philosophy

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.

For more information please contact:

Brian K. Lee, Director of Marketing & Client Service
(630) 577-2321 | brian.lee@oberweis.net

Marc Carlson, Director Marketing & Client Service
(630) 577-2364 | marc.carlson@oberweis.net

Ed Urban, Director Marketing & Client Service
(331)903-8347 | ed.urban@oberweis.net