Oberweis
Asset Management

INTERNATIONAL OPPORTUNITIES MARKET COMMENTARY

3Q 2026

The Quarter in Review

For the third quarter, the International Opportunities Strategy returned -3.37% (-3.58% net of fees) vs. +0.13% for the strategy's benchmark, the MSCI World Ex USA Small Cap Growth Index. Year-to-date, the strategy has returned +5.20% (+4.49% net of fees) vs. +9.98% for the benchmark. The strategy recently faced style headwinds, as yields rose sharply and put pressure on longer-duration growth companies. As a result, the portfolio's P/E ratio contracted by more than the benchmark's P/E ratio. This occurred even though both current year earnings growth as well as 12-month forward earnings revisions were stronger for the portfolio than the benchmark (at +8.9% vs. +8.5% and +10.8% vs. +9.1%, respectively). For the majority of our holdings, we observed that fundamentals improved over the quarter. Aritzia, the Canadian apparel retailer, is a case in point. Its shares fell about 20% in the quarter as long-term yields rose, yet in early October, it reported very strong fiscal second-quarter results well ahead of expectations and even raised its guidance.

We have observed such situations before, where a meaningful discrepancy between strong fundamentals (with many companies beating expectations and even raising guidance, and both current year earnings growth as well as positive forward earnings revision being stronger for the portfolio than for the benchmark) and muted share price behavior leads to considerable valuation multiple compression. Historically, such situations have presented good entry points. To take advantage of this opportunity, the team recently added significantly to their personal holdings in the strategy.

Market Commentary

The third quarter was one of consolidation after the sharp rebound from the March lows. Having risen 10.5% in the second quarter, the benchmark largely flatlined through the summer as investors digested the scale and speed of the AI-led rally, and leadership rotated beneath the surface. The dominant macro variables driving markets, however, were rates and oil. Renewed escalation risk in the Middle East pushed energy prices higher and developed market central banks turned more hawkish. The U.S. 10-year yield increased to its highest level since 2007, but perhaps more significant than its absolute level was the speed of the increase heading into quarter-end, moving from under 4% to 5.29% in just under 150 trading days. Equity forward multiples declined as a result, but equity markets overall remained resilient, supported by very strong earnings growth, mostly in technology.

Across the G10 economies, economic activity remained robust. U.S. real GDP growth was tracking at an estimated 3.3% in the third quarter, while Goldman Sachs' data-surprise indicator for the Euro area reached its highest level in four years in September. Household balance sheets remain strong. Household net worth as a share of income stands close to all-time highs in Japan, Australia and the U.S., and around the 90th percentile in Canada and the Euro area. Consumers continue to benefit from healthy labor markets across most developed markets, but toward the end of the quarter there were signs that spending growth was starting to slow amid higher energy prices. For our strategy, the resilience of domestic demand outside the U.S. matters more than the headline U.S. data: international small caps typically generate a larger share of their revenue at home than their large-cap peers, so healthy household balance sheets and labor markets in Europe and Japan feed more directly into their earnings.

AVERAGE ANNUAL TOTAL RETURNS (*as of September 30, 2026*)

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception 2/1/2007
International Opportunities (gross of fees)	**-3.37%**	**5.20%**	**5.01%**	**18.04%**	**-0.02%**	**8.41%**	**9.89%**
International Opportunities (net of fees)	**-3.58%**	**4.49%**	**4.07%**	**17.00%**	**-0.92%**	**7.44%**	**8.91%**
MSCI World ex-US Small-Cap Growth Index	0.13%	9.98%	12.10%	17.61%	3.39%	7.77%	5.52%

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.

Market Commentary (continued)

Energy once again impacted headline inflation – diesel and jet fuel prices returned to their 2022 highs – but core inflation was more benign. August U.S. core PCE inflation, released at quarter-end, came in below expectations at 3.0% year-on-year, though still higher than the Fed's target. Euro area core HICP inflation was 2.4% in August, and in Japan the new core CPI measure (excluding fresh food and energy) held at 1.9%.

With core inflation still above target, central banks' patience ran out as higher oil prices raised the risk of a sustained overshoot. The Bank of Canada's hawkish response on September 2, days after the Jackson Hole symposium, proved to be an early signal. The Federal Reserve raised rates by 25bps in September – its first hike this year – without dissent, with 16 of 18 participants signaling at least one further hike by year-end. Likewise, the Bank of Japan raised its policy rate by 25bps to 1.25%, with Governor Ueda stating that "the policy phase has changed" as underlying inflation approaches 2%. Further increases are expected from the Bank of England in November and from the ECB in December, which would be the ECB's third increase this cycle having raised by 25bps in September.

The move in longer-term yields was mirrored across developed markets. Japanese 10-year yields rose above 3% for the first time in roughly three decades, U.K. 30-year gilt yields reached their highest level since 1998, and 10-year gilt yields stood at around 5.4% in late September. Much of the rise reflects a repricing of policy expectations in response to strong macro data. Deteriorating public finances and the competition for capital from AI investment have, however, added to term premia.

Geopolitical risk also reasserted itself. The stabilization that followed June's Islamabad Memorandum proved less durable than hoped, and renewed escalation risk in the Middle East, alongside heightened Russia/Ukraine risk, drove oil and especially refined product prices sharply higher from July. The Strait of Hormuz remains partially closed, and Europe enters the winter with record-low gas inventories. Yet the physical market has adapted better than feared and there are reasons to believe the price of Brent will not move materially higher from here: Middle East oil exports have recovered to nearly 80% of prewar volumes, China has curtailed its imports in response to higher prices, and talks between Iran, Oman and the GCC states on restoring traffic through the Strait offer encouragement.

Outlook

In the immediate term, rates and oil remain key variables for equity markets, and particularly for smaller, growth-oriented companies. Longer-dated yields remain closely correlated with forward crude prices, so stability in energy markets would likely bring some relief to the bond market. With the oil market already adapting to a partially closed Strait, the risks to crude prices lie to the downside should flows normalize fully. We do not claim to know the path of interest rates better than the market. What we can observe is that the rise in yields has compressed the multiples of smaller growth companies while, in the majority of our holdings, fundamentals have continued to improve. That gap between share prices and fundamentals is where we believe significant opportunity is building.

Should lower energy prices materialize, Europe ought to be a material beneficiary. As a large net importer of oil and gas, the region bears the cost of higher energy prices more directly than the U.S. Notably, gas prices have already reached levels that tend to drive demand destruction in Asia and free up supply for Europe. With European equities having lagged the U.S. year-to-date, even as earnings estimates continue to rise, a receding energy threat could prove to be a meaningful catalyst. Europe's earnings momentum is also improving: Goldman Sachs forecasts 22% EPS growth for the second half of 2026 for a market trading on 13x earnings with a 5.5% free cash flow yield, while M&A activity has risen to levels not seen since before the global financial crisis.

Most importantly, the global earnings outlook remains strong through 2027. Robust nominal growth, allied with high incremental margins across a range of industries, ought to sustain healthy earnings growth outside the energy sector. Consistent with this, estimates have moved higher over the course of the year across most developed markets. Earnings growth outside the U.S. is also broader: the ten largest contributors are expected to account for 68% of S&P 500 EPS growth in the third quarter, with Micron and Nvidia alone accounting for half of that, whereas market breadth in Europe remains close to historical norms.

Despite the recent share price rotation within equity markets, the fundamentals of AI continue to strengthen. The second quarter marked an inflection in the AI revenue contribution at hyperscalers, and the evidence continues to indicate ongoing demand for AI infrastructure. Nvidia's results and guidance far exceeded expectations, Microsoft declared its intent to triple data center capacity within six years, and SpaceX expects to exit the year at a revenue run-rate above $100 billion and to begin deploying data centers in orbit in 2027. Much of the enabling supply chain – semiconductor materials, equipment and test – sits in Japan and Europe, and these businesses have been among our strongest contributors this year, notwithstanding profit-taking in the third quarter. In Europe, the pipeline of planned data center capacity has more than doubled in a year, and recent agreements, such as AWS's deal with the Greek utility PPC and Google's with Fortum, suggest investment estimates may prove conservative. The theme is not without risk, however. Public opposition to data center construction is growing, and lower-priced models – often less capable than frontier models but "good enough" for many applications – continue to gain share of usage on developer platforms, although frontier models still capture the majority of spending.

Outlook (continued)

In the U.K., the value of takeover bids outnumbered new listings by 27:1, a signal that public market valuations are too low. Germany also seems underappreciated. Most global investors continue to associate German equities with a decaying industrial base, over-exposed to autos and chemicals and at existential risk from Chinese competition. Yet autos and chemicals account for only 5% and 7% of the index respectively, and Germany itself generates only around 20% of DAX sales. The index is in fact heavily levered to electrification, AI, technology and defense. With the tailwind of an enormous sustained fiscal impulse, Goldman Sachs forecasts 17% EPS growth in 2027 (even as consensus estimates have drifted lower this year) and investors today are paying only around 15 times earnings. Moreover, domestic savers, who have been the largest sellers of German equities, may become buyers following long-overdue pension reform.

More broadly, valuations across ex-U.S. developed markets offer a supportive starting point as we move through the fourth quarter and into 2027. The discount to the U.S. is striking. Europe trades at 14.2x forward earnings, a 28% discount to the U.S. (19.6x), compared with a long-term median discount of 16%. The U.K., at 12.3x, trades at a 37% discount and below its own long-term median. Japan, at 15.7x, trades at a 20% discount to the U.S., despite having historically traded at a premium. Smaller companies offer a further advantage: they are more exposed to domestic drivers such as German fiscal spending and Japanese reflation, less widely covered by analysts – leaving more room for the earnings surprises our process seeks to identify – and natural targets as M&A activity increases.

Positioning has also been reset, with discretionary investors reducing risk over the summer. Looking ahead, the combination of increasing estimates and de-rated multiples argues for the current consolidation in equity markets to resolve higher. As ever, we remain mindful of the risks: a renewed escalation in the Middle East that damages energy infrastructure, a more persistent rise in term premia as governments and AI builders compete for capital, and a political calendar that includes the U.S. midterms and, next year, the French presidential election. Nonetheless, given their relative valuations and what ought to be a benign economic outlook, on balance we consider developed markets' return-risk profile to be skewed positively. Periods in which rising discount rates compress the multiples of growth companies while their earnings continue to compound tend to present above-average starting points for our strategy.

Portfolio Highlights

At quarter-end, the portfolio was invested in 73 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 (32.3% vs. 33.8%), United Kingdom (18.0% vs. 11.1%), Canada (12.9% vs. 11.3%), Australia (8.3% vs. 9.4%), and Germany (5.2% vs. 4.0%). On a sector basis, the portfolio was overweight financials (14.9% vs. 7.7%) and underweight materials (9.1% vs. 13.1%).

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.

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