

VIEWPOINT: INTERNATIONAL VS. DOMESTIC

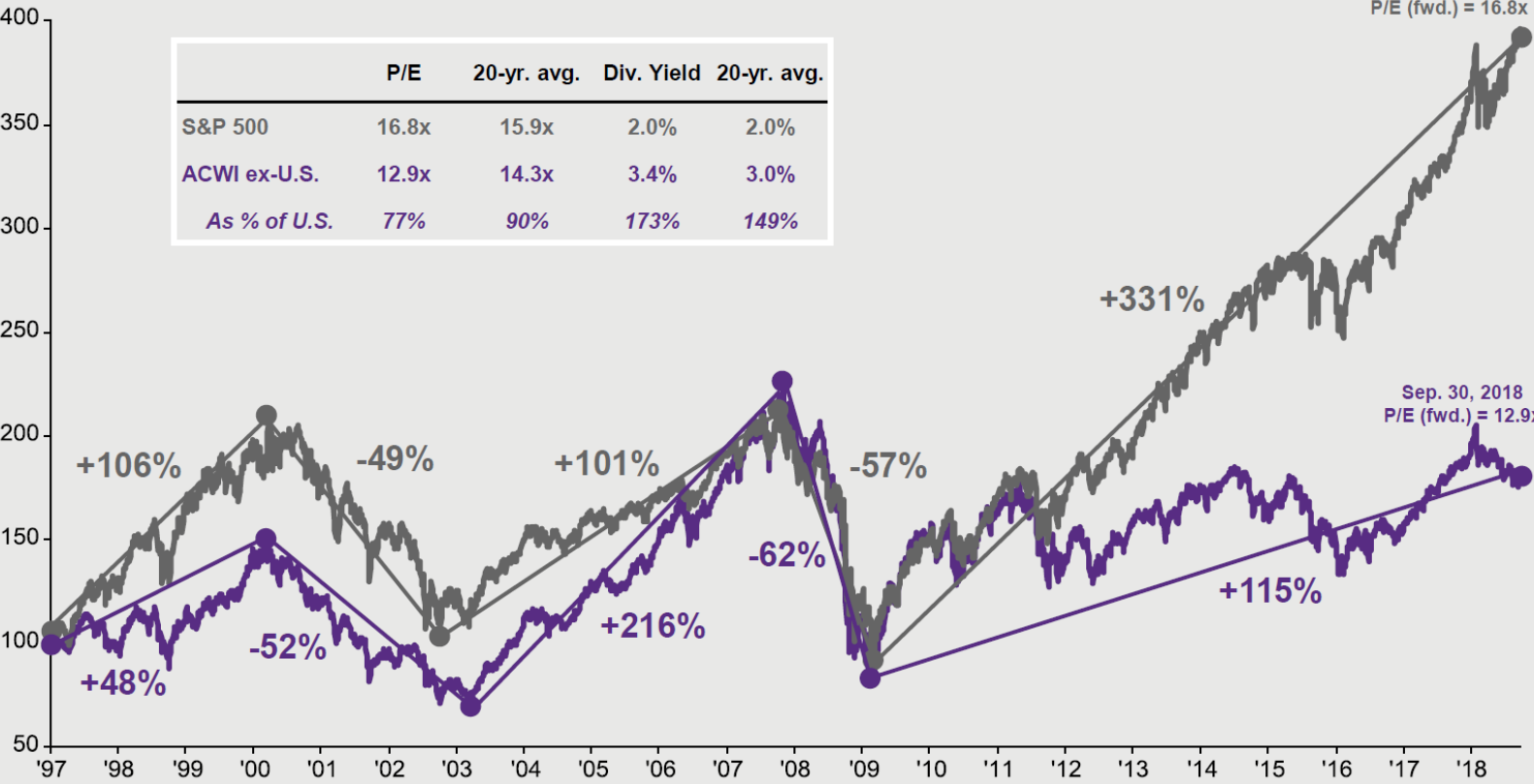
“It was the best of times, it was the worst of times...”, With apologies to Charles Dickens this phrase encapsulates capital market returns so far in 2018. The best of times are being experienced by U.S. equity markets (led by small companies and technology stocks), which have posted near double digit returns as of this writing. Overseas stock markets on the other hand (particularly emerging markets) have posted broadly negative results year-to-date. A critical factor driving this underperformance has been an unusually strong U.S. dollar, which has created a very strong headwind for U.S. investors overseas.

Our conclusion: do not give up on diversification. Many of the world’s top pharmaceutical, technology and aerospace companies are domiciled outside the U.S.; and currency differentials do not travel in one direction forever. We believe interest rate increases will wane over the next year or so, resulting in a stabilizing dollar. In that case, international markets, which are now on sale relative to their domestic counterparts, will likely turn. The exact timing of this is impossible to pinpoint, but there are large numbers of very well-run, profitable companies beyond our shores that investors ignore to their long-term detriment. Their loss is your opportunity.

MSCI All Country World ex-U.S. and S&P 500 Indices

Dec. 1996 = 100, U.S. dollar, price return

	P/E	20-yr. avg.	Div. Yield	20-yr. avg.
S&P 500	16.8x	15.9x	2.0%	2.0%
ACWI ex-U.S.	12.9x	14.3x	3.4%	3.0%
As % of U.S.	77%	90%	173%	149%



Source: FactSet, MSCI, Standard & Poor’s, J.P. Morgan Asset Management. Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of September 30, 2018.



INTERNATIONAL VALUATIONS REMAIN COMPELLING VS. US STOCKS AND LONG TERM AVERAGES



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