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Time to Revisit Your International Stock Exposure

INTERNATIONAL, WEALTH MANAGEMENT
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Since the end of the financial crisis in 2009, the U.S. stock market has been on a roll. From March 9, 2009 (the U.S. stock market bottom) through March 31, 2017, the U.S. stock market, as measured by the S&P 500, has had an annualized return of 19.14% and a cumulative return of over 310%. In comparison, during the same time period, the international stock market, represented by the MSCI EAFE index, has an annualized return of 11.71% and a cumulative return of 144%.

With this prolonged period of outperformance in U.S. equities, it is likely that many investors' portfolios are now overweight toward the U.S. stock market. Now may be an opportune time to revisit your allocation to international equities. In the first quarter of 2017, we saw both international[i] (7.25%) and emerging market[ii] (11.45%) equities outperform the U.S. stock market[iii] (6.06%). This recent outperformance could be due to several advantages that the international markets now have over the U.S. First of all, for the past eight years the U.S. has been benefiting from stimulative policies coming out of Washington D.C., particularly an artificially low interest rate environment. We are now at a point where these stimulative U.S. policies are pulling back, which means a lot less wind at our back for higher equity prices. Most developed countries outside of the U.S. weren't as quick to react to the downturn in the markets, which means that they aren't as far along in their stimulative process, thereby creating a more accommodative economic environment for growth.

In addition, no matter how you look at it, international and emerging market stocks are less expensive than their U.S. counterparts. Dividend yields are significantly higher, and price-to-earnings ratios are much lower in the international markets relative to the U.S.

While these metrics don't guarantee future outperformance for the international markets, they do provide the backdrop for a compelling argument for investors to revisit their overall asset allocation. Given the long bull market that we have been experiencing in U.S. equities, it is likely that many investors are overweight to U.S. stocks. In fact, some investors may have abandoned international stocks altogether over the last few years. We would strongly encourage investors to revisit this decision on what is the right amount to dedicate to companies that are located outside of the U.S. The first-quarter performance of 2017 may be the first sign that international and emerging markets are poised to contribute positively to your portfolio.

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[i] MSCI EAFE index

[ii] MSCI Emerging Markets index

[iii] S&P 500 index

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