Beacon Trust
INNOVATING WEALTH STRATEGY

International Equity Investing

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Lawmakers in the United Kingdom cannot seem to agree on when and how they would like to exit from the European Union. International Monetary Fund (IMF) lowers its guidance on global growth to just 3.5% in 2019. Chinese exports drop and its economy is slowing down in midst of trade tensions with the U.S. Why should any investor put money in international stocks?

While it is always tricky to foresee short-term (3, 6, 9, 12 month) returns with great certainty, we know a few facts that give us certain comfort holding international investments over the long-run.
First, international investment opportunity is enormous. Non-U.S. markets represent roughly three-quarters of the world GDP and half of the world stock market capitalization. Having a home-country bias and maintaining a 100% U.S.-based portfolio can significantly limit an investor's ability to take advantage of major growth opportunities overseas, as there are 40,000 companies to invest in abroad, compared to only 4,000 domestic stocks.

Second, growth prospects for countries outside of the U.S., especially in emerging markets and Asian economies, are higher than domestic markets. While the U.S. is expected to grow 2% in 2019 according to most economists, global growth is expected to be in the 3-3.5% range, and emerging markets are expected to grow faster than 4% rate.

Third, stock market valuations, as measured by price-to-earnings multiples are much cheaper overseas; 12.9x for the MSCI All Country World ex-US Index vs 16.2x for the S&P 500 index, more than a 20% discount!

Fourth, after the recent strengthening of the U.S. Dollar due to rising domestic rates, currency factor is expected to turn from a headwind into a tailwind as the Dollar weakens, thereby adding to the potential local returns earned overseas. Historical analysis shows that domestic and international currencies and stocks move in a cycle of alternating outperformance. By way of example, international stocks outperformed domestic stocks 6 years in a row between 2002 and 2007.

All of these factors lead to better return prospects in international stocks than in domestic stocks. According to J.P. Morgan's market outlook, long-term equity return expectations are 5.3% in U.S. markets, 6.0% for global stocks, and 8.50% for emerging markets equities. Goldman Sachs is more bullish with 7.7% return expectations for domestic stocks, 8.4% for international stocks, and 10.9% for emerging markets stocks over the next decade.

Higher returns naturally come with higher risk. Investors take on additional political, regulatory, and currency risks by investing internationally. However, these risks usually reward investors by improving portfolio diversification, lowering downside risk, and enhancing risk-adjusted returns.

Now is not the time to dump international stocks. On the contrary, now is the time to make sure that your portfolio has sufficient international exposure and global diversification. As you consider your investment opportunity set, just imagine a day you do not see or consume a product from Nestle, Toyota, Unilever, BP, Shell or Samsung, all headquartered outside of United States. We believe that every investor can benefit from having some exposure to international stocks.

Please do not hesitate to reach out to your representative at Beacon Trust with any questions as we are always available to answer them.

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