WHY GLOBAL EQUITY

ADVISOR INSIGHTS

Outlook for non-U.S. Equity Markets

- Whether it's the news of escalating trade wars, restructuring of the North American Free Trade Agreement (NAFTA) or the latest update on our many volatile partnerships around the world, there have been copious headlines about trade protectionism that have spurred market volatility and raised questions regarding how to best position portfolios today and for the future.
- Many investors are re-examining their exposure to non-U.S. equity markets given recent underperformance relative to U.S. equities.
- Post-financial crisis, U.S. equities outperformed non-U.S. equities (both developed and emerging) by a wide margin.
- While U.S. corporate earnings have outpaced non-U.S. earnings, there remains a significant valuation disparity between U.S. and non-U.S. equity markets as measured by cyclically adjusted P/E ratios. In our opinion, the valuation disparity between U.S. and non-U.S. markets is exaggerated due to behavior finance biases which indicate that U.S. investors' tend to invest with a home country bias.
- It is important to remember that valuation levels have historically been a strong leading indicator of future long-term (~10 year) performance, but can be less reliable over shorter time periods (e.g. 1-3 years). Given a long enough time horizon, we believe there is an increasing probability that non-U.S. equity markets will outperform U.S. equity markets.
- From our perspective, market performance, in general, is driven by the way events unfold relative to expectations. Given the low expectations for non-U.S. economies, relatively small positive surprises could lead to strong performance. Conversely, negative surprises could lead to additional volatility.

What is driving performance in 2018?

U.S. equity markets have meaningfully outperformed non-U.S. equity markets (both developed and emerging) in 2018.

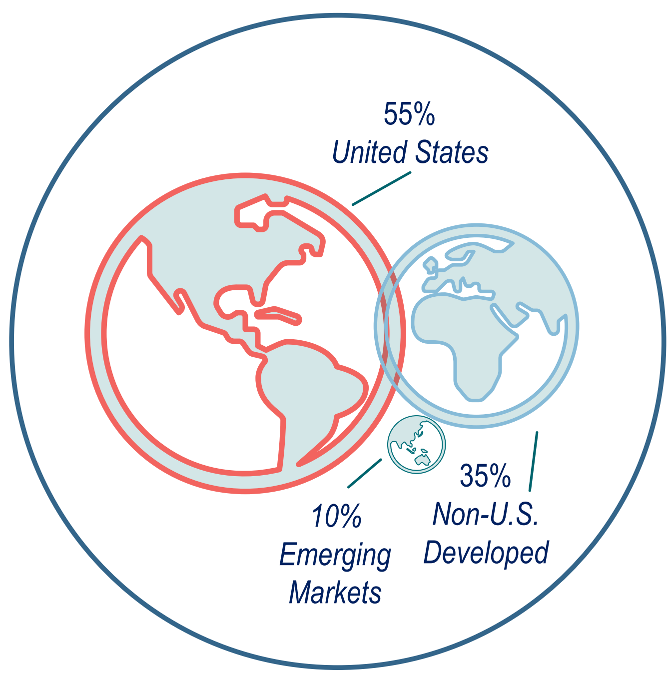
While valuations for non-U.S. equities were attractive at the start of the year, there are a number of reasons why U.S. equities have delivered superior performance including:

- U.S. fiscal stimulus (tax reform and government spending)
- Strong U.S. corporate earnings (driven, in part, by tax reform)
- Strengthening business and consumer sentiment in the U.S.
- Divergent global growth – accelerating U.S. growth and slowing growth outside the U.S.
- Falling currencies in the emerging markets including the Turkish lira and Argentinian peso
- Ongoing tariff threats/negotiations/discussions putting pressure on non-U.S. markets
- Political uncertainty outside the U.S. ("Brexit", Italy, etc.)

Key Concept: Global Equity

- Global equity is comprised of exposures to U.S., non-U.S. developed (e.g. Europe and Asia), and emerging market equity markets.

Investable Universe



Given a long enough time horizon, we believe there is an increasing probability that non-U.S. equity markets will outperform U.S. equity markets.

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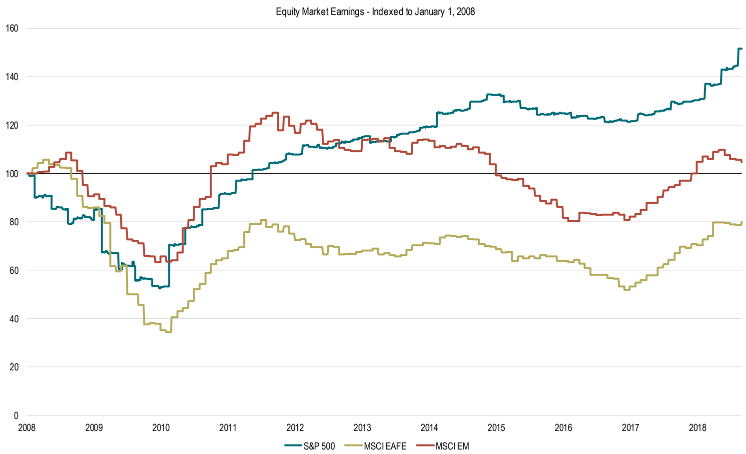
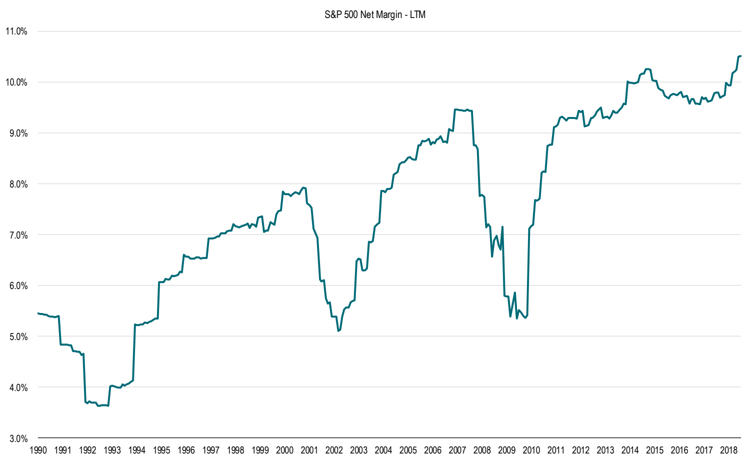
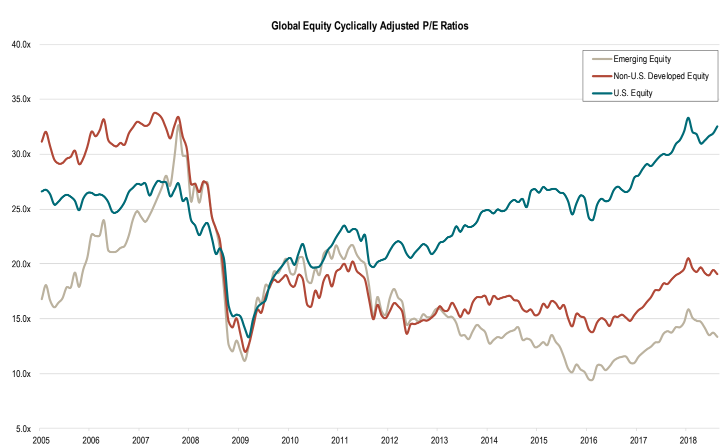
U.S. earnings growth has outpaced non-U.S. markets



Profit margins in the U.S. are at record highs



But…a significant disparity exists in valuations across equity markets



What is driving U.S. equity performance?

Why does this disparity exist?

United States

- Lack of a recession and low macroeconomic volatility
- Record earnings
- Strong global liquidity flows that have, for the most part, sought safe harbor from more volatile jurisdictions
- Relatively supportive political environment
- Deep capital markets
- High levels of innovation from market leaders (e.g. Amazon, Apple, Google)

Europe

- Low economic growth and significant recession in parts of the continent
- Relative demographic headwinds
- Significant political challenges that have created uncertainty
- Lower levels of innovation

Emerging Markets

- Capital outflows
- Political/social instability
- Meaningful currency devaluation in parts of the emerging world

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While we believe that over the long-term (5- to 10-years) non-U.S. equities will outperform U.S. equities, there is the potential for continued outperformance from U.S. equities in the near term.

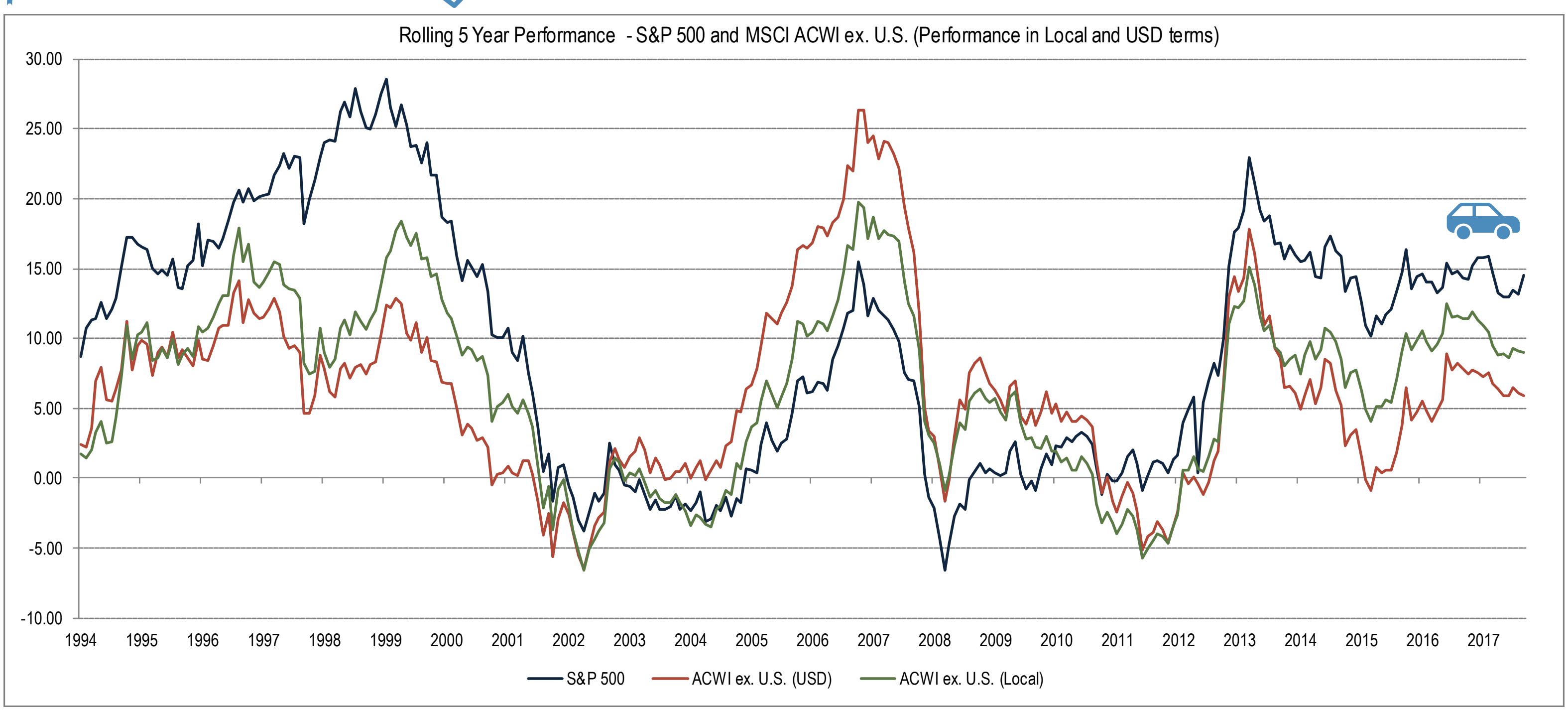
Potential reasons why the U.S. might continue to outperform include:

- Sustained high earnings growth and/or profit margins for U.S. companies
- Political stability in the U.S. and continued political uncertainty outside the U.S.
- Introduction of additional tariffs which harm non-U.S. economies
- Further strengthening of the U.S. dollar driven by tightening monetary policy
- Additional U.S. fiscal policy initiatives (infrastructure spending, deregulation, another round of tax cuts, etc.)
- Continued multiple expansion for U.S. equities

Ultimately, we believe non-U.S. equities will deliver strong returns for investors. However, there are potential near-term headwinds which may cause further outperformance of U.S. equities over the short-term.

It's very difficult to time markets

Long-term Perspective: Equity market performance is often cyclical



Evaluate your time horizon and risk / return profile. Stay diversified.

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