2017 Mid-Year Market Commentary

The Importance of Global Investing

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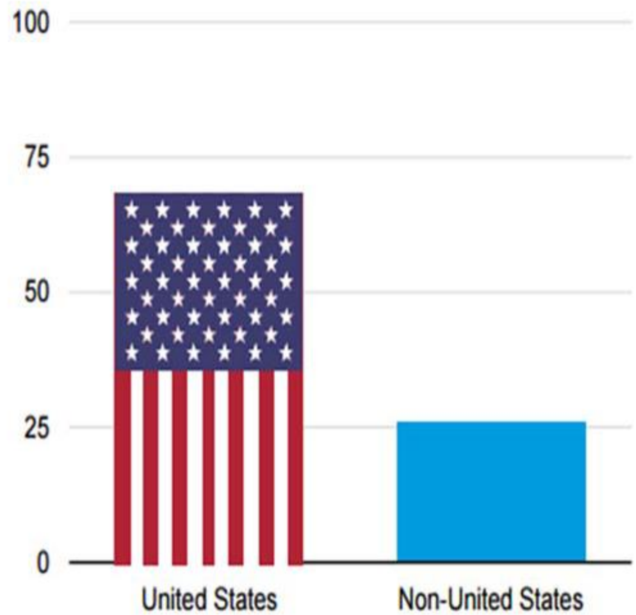
As many investors know, the world has become more interconnected than ever. Globalization is in full swing and regardless of politics around the world; the trend does not appear to be slowing down. This is a secular shift that requires investors to contemplate how they approach the markets and allocate their capital. Unfortunately, it has been hard for investors to break their home country bias. U.S. investors hold over 70% of their portfolio in U.S. equities (Strategic Insight, 2016). Decades ago, this might have been more appropriate but as the United States has become a smaller portion of Global GDP at 22% in 2015 compared to 40% in 1960 this has become self-defeating. Even from a market cap perspective, U.S. equites are only 54% of the world’s market capitalization, so investors are still allocating too much to the United States relative to its standing in the world (MSCI, 2017). As Bob Dylan once said “The Times They Are A-Changin”, and it’s time for investors to sing along.

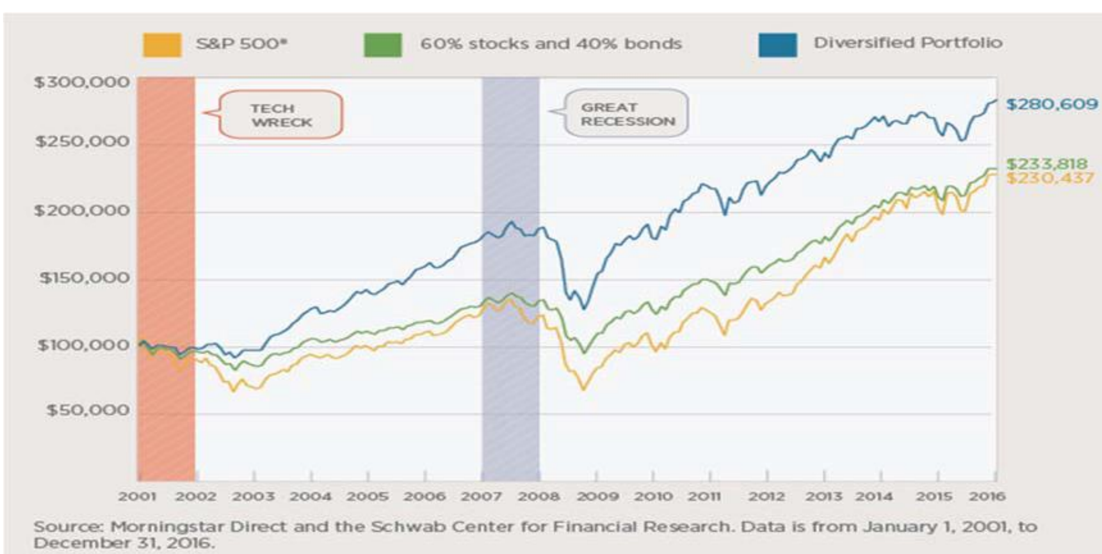
Figure 1: U.S. investors hold over 70% of their portfolio in U.S. equities



Globally Diversified Portfolios Outperform

Approaching the markets from a global perspective offers many advantages over those who are strictly focused on equities domiciled in their home country. Combine that with the fact that passive investing has grown exponentially over the past couple of years, it is more important than ever to find investments that are the best of the best. Global investing gives you this opportunity. Of the 8,668 constituents in the MSCI ACWI IMI, 6,195 or 71% are outside of the United States (MSCI, 2017). This gives investors a greater opportunity set to find their best ideas no matter what the style is: Growth, Quality, Value, or Momentum. This is proven in the data as well. Looking at three year annual returns as of 2014, only 42% of the top 500 performing stocks were in the United States. In 2010 only 25% of the top 500 performing stocks were from the United States (Frank Russell Investments, 2014). This brings us to the second important point, which is that the global markets alternate turns as the top performers and the majority of the time it is a country not the United States. Between 2006 and 2016 the United States was only the top performer for the year three times (Morningstar Direct, 2017). So by being invested solely in the U.S., not only did investors sacrifice returns they decreased their level of diversification. Since 2001, a globally diversified portfolio outperformed both the S&P 500 and a balanced portfolio of 60% stocks and 40% bonds (Morningstar Direct, 2017).

Figure 2: Since 2001, a globally diversified portfolio outperformed both the S&P 500 and a balanced portfolio of 60% stocks and 40% bonds



The United States vs. Global Portfolios

Looking at a longer time frame, since 1950 the decade returns for the United States was only the top performer one time, which was the 1990's. This happened to coincide with the tech bubble which ended badly for most investors concentrated in the United States (Morningstar, Dimon-Marsh-Staunton Global Indices, 2017). With valuations in the United States near all-time highs, this trend is going to continue. Lastly, when drilling down to an individual security perspective, the companies themselves have become much more global with the average S&P 500 company getting 44% of its revenue from overseas (S&P Dow Jones Indices, 2016). This is a global trend with European companies getting 68% of their revenue outside of the their home region, Asia Ex Japan getting 29% and Emerging Markets deriving 25% outside of their home country. Certain companies are even more drastic with Nestle, Roche, and Anheuser Busch getting 99% of their revenues outside of their home country (Factset, 2016). The point to get out of all this is that in order to properly understand companies and the markets at large, investors need to understand foreign economies. And why stop there, with the plethora of opportunities that exist in markets around the globe and information accessible at the click of a button. It is time for investors to truly diversify their portfolios and generate the alpha that is waiting for them in markets around the globe.

Figure 3: Since 1950 the decade returns for the United States have only outperformed a global portfolio one time

1910s	1920s	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	
Japan 8.69	Australia 21.27	South Africa 13.64	U.S 3.96	Germany 35.97	South Africa 13.10	Japan 9.24	Japan 21.09	U.S. 14.24	South Africa 11.28	
Spain -0.21	Canada 15.64	Japan 8.51	Canada 3.12	Japan 33.65	Japan 12.96	South Africa 7.15	Spain 17.72	UK 11.76	Australia 9.59	
Australia -0.57	U.S. 14.38	Australia 6.36	0.26	Italy 21.61	Spain 11.92	France 3.09	Italy 15.55	Europe 10.47	Spain 7.54	
Canada -2.05	Germany 13.52	Italy 4.89	South Africa -1.26	France 18.31	Australia 10.53	UK 3.03	UK 13.75	France 9.74	Canada 6.41	
UK -2.34	11.38	UK 3.15	Germany -1.75	Europe 18.10	UK 6.01	Germany 2.95	13.74	Spain 8.72	France 0.83	
U.S -2.46	South Africa 10.41	Canada 2.24	Australia -2.18	UK 17.80	Canada 5.99	Europe 1.90	Europe 12.79	7.79	Europe 0.63	
South Africa -2.85	UK 9.94	2.22	Europe -3.55	16.10	5.91	Canada 1.67	France 12.60	Germany 7.38	Germany 0.20	
-4.91	Spain 9.12	U.S. 2.00	UK -4.62	U.S. 15.69	U.S. 5.62	0.61	Germany 11.75	Australia 6.26	Italy -0.51	
France -7.41	France 8.96	Europe 0.56	Italy -7.54	Australia 15.27	Germany 5.42	U.S. -0.71	U.S 10.99	South Africa 5.08	UK -0.74	
Europe -7.91	Europe 8.33	Spain -2.50	France -7.95	Canada 14.65	Europe 5.02	Australia -2.22	Australia 8.28	Canada 5.01	-1.50	Global
Italy -8.34	Italy 4.94	France -4.20	Spain 12.54	Spain 7.69	Italy 1.07	Spain -7.80	Canada 6.80	Italy 3.19	U.S -2.72	
Germany -22.04	Japan -0.08	Germany -11.42	Japan -33.62	South Africa 6.18	France -0.83	Italy -9.78	South Africa 2.76	Japan -3.73	Japan -6.52	