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International equity: Three key insights for 2018

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Investing overseas may cause some hesitation because of past economic struggles. But there's some good potential abroad. Here's why:

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After talking with many investors and advisors in 2017, we got a lot of questions around international equity. People asked, "Should I bother with international equity?" "Isn't it easier to invest closer to home?" "Are Europe and Japan out of the woods yet with their economic struggles?"

We *have* seen positive economic indicators overseas, and we believe they're creating an environment where international companies with good fundamentals can continue to grow. Japan is a country with particularly good potential. Here are three insights to consider for international equities in 2018:

Take advantage of synchronized economic growth in developed economies.

Global economic growth trends are positive, earnings estimates continue to rise and monetary policy is still supportive globally. What's more, major developed economies, including Europe, Japan and the U.S., are all growing at the same time. This synchronized growth is an opportunity for global portfolios that we haven't had in the last two decades. It's exciting, and we expect it to continue.

Consider international stocks if you're concerned about high valuations in the U.S.

For investors who are concerned about high valuations in U.S. stocks, it may make sense to look abroad. Boasting some of the world's largest and most successful companies, the European equity market may prove to be too expensive for bargain-basement investors. But for those in search of a reasonable value compared to the U.S., Europe offers promising long-term opportunities. Political events in Europe in 2016 put a damper on European stock prices, so they haven't had as long a period of outperformance as the U.S. We believe they're still undervalued.

Look to Japan as an area of growth.

After a recent visit to Japan to do on-the-ground research, Daisuke Nomoto, Head of Japanese Equities, concluded that "There are various opportunities in the Japanese equity market that favor an active approach that allows concentrated investments in high-conviction areas." We see a number of positive trends in Japan, including:

- Consistent growth in Japan's economy. GDP has improved for more than seven consecutive quarters and deflation is finally over thanks to a combination of the accommodative monetary and fiscal policy.[1]
- Strong corporate earnings growth. Earnings grew more than 20% compared to the prior year, and we expect they will continue to grow.[2]
- Japanese equity valuations are attractive relative to most major markets. About 35% of stocks are trading below the book value of the company.[3]
- A stable government. This includes the reelection of Prime Minister Shinzo Abe and the positive results from policy changes, such as corporate governance reform, growth in the number of women in the workforce and a substantial increase in foreign tourists.

Read more insights like this in our [2018 Annual Insights]

[1] Government of Japan as of 09/30/17

[2] Quick as of 11/14/17

[3] Bloomberg as of 09/30/17

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