Global Stock Market Valuations Are Near Most Attractive Level Since the Financial Crisis

Developed-market P/E Relative to S&P 500
Emerging-market P/E Relative to S&P 500

Source: FactSet. MSCI EAFE index, MSCI Emerging Markets index and S&P 500 index.

QUARTERLY MARKET OUTLOOK: FIRST QUARTER 2019

International Outlook

We expect global economic growth to fade a bit more in 2019, hurt by stalled momentum in Europe, moderating growth in the U.S. and the ongoing slowdown in China. That said, a global recession is not yet imminent, and we think market sentiment has become overly pessimistic. Persistent but modest global expansion, mixed with ongoing policy and trade risks, will likely cause volatility to persist, but we believe international equities are poised to perform better this year.

Past the peak, but still growing – Last year’s decelerating growth in the U.S. and China, along with stalled momentum in Europe and Japan, has led to decidedly sour expectations for the global economy this year. Challenges will persist, but incoming data suggest some stabilization may be on the horizon. Foreign interest rates remain low, and monetary policies are still designed to boost economic growth in Europe and Japan. Low unemployment rates should help support growth, and profit margins are rising. Of note, China is likely to provide additional stimulus, suggesting policymakers are pursuing strategies to soften the slowdown. In our view, slower global growth can extend the cycle without signaling its end.

International uncertainties remain – In addition to Brexit and Italian debt worries, the European Central Bank will likely begin to wind down its stimulus later in the year. Similar moves by the Federal Reserve in 2015 prompted short-term market anxiety. And U.S.-China trade tensions are unlikely to be resolved immediately. Although we don’t expect a full-blown trade war, lengthy negotiations mean additional volatility is likely.

Opportunities in the aging cycle – U.S. stocks have outperformed global developed-market stocks in seven of the last 10 years. Historically, performance rotates, and as the cycle ages, we think the global cycle is positioned to last longer.

► Action for Investors

We recommend adding broad-based developed-market and emerging-market equity investments, if appropriate. International stock valuations reflect a particularly pessimistic outlook, and the decline in relative price-to-earnings ratios for developed- and emerging-market equities has pushed global stocks to levels not seen since the financial crisis.

Past performance of the markets is not a guarantee of what will happen in the future. Investing in equities involves risks. The value of your shares will fluctuate, and you may lose principal. Special risks are inherent to international and emerging-market investing, including those related to currency fluctuations and foreign political and economic events.