After last year’s acceleration, slightly slower global economic growth and rising tariffs have lowered expectations and triggered turbulence in some emerging markets. However, the underlying fundamentals of global economic and earnings growth remain solid if slower, and we believe the outlook is positive.

**Has a trade war started?** Not yet, but higher U.S. tariffs and tit-for-tat responses from other countries have raised the risks. We believe most tariff announcements won’t be implemented, but as the chart shows, trade is an important part of the U.S. and global economies. So far, the impacts of higher tariffs have been uneven – hurting specific producers, consumers and companies – but the broad impact has been small. However, further tariff increases and other moves that disrupt trade could trim U.S. and global growth, dampening the outlook.

**International opportunities** – Despite the uncertainties created by higher tariffs, monetary policies in the rest of the world continue to provide stimulus, and interest rates remain well below U.S. levels. Thus, international markets and economic conditions appear to be further from the end of the cycle than the U.S., and equity valuations are more attractive, supporting our recommendation for an above-average allocation to international equity investments.

**Risks to commodities and emerging-market equities** – Over the past year, soaring oil prices overshadowed the mixed price performance of other commodities and the possible impacts of higher tariffs, making us cautious about the outlook. We recommend reducing commodities. In contrast, emerging-market equities dropped almost 7% in the first half of 2018, weighed down by the stronger dollar and trade worries. Although China’s economy continued to grow by almost 7%, financial conditions tightened, and the stock market fell more than 20% as investors assessed rising trade and political tensions. More attractive valuations appear to balance the risks, and we recommend small allocations to emerging markets.

**Action for Investors**

Current worries about trade disruptions and the rise in the U.S. dollar have created an opportunity to add international equity investments, if needed, to help improve your portfolio’s diversification and help increase its chances of positive returns over time.

Special risks are inherent to emerging-market and international investing, including those related to currency fluctuations and foreign political and economic events.