International Outlook

International investments regained momentum in the first half of this year, enjoying double-digit returns for both developed- and emerging-market equities. Slowing global growth continues to be a challenge, but with no recession imminent, we think lower valuations and higher dividend yields compared to U.S. large-cap stocks make these investments attractive opportunities for long-term investors.

Challenging but stabilizing macro environment – Trade tensions between the U.S. and China continue to be a headwind to global growth. Geopolitical tensions and less favorable demographics have also made growth less vigorous. All told, global economic growth is expected to slow to 3.2% in 2019 from 3.5% in 2018 and then rebound to 3.4% in 2020.*

Looking ahead – We see three policy drivers that should impact global growth over time:
1. An eventual trade agreement between the U.S. and China is likely to help restore trade and boost global GDP.
2. Central banks in the U.S., Europe, China and Japan have signaled their willingness to add monetary stimulus by cutting interest rates and, in some cases, extending low-cost loans to companies.
3. China’s efforts to stimulate its economy could lead to growth in emerging markets and manufacturing sectors within developed countries.

Attractive valuations, higher dividends – As shown in the chart, dividend yields are higher for emerging-market and international large-cap equities than U.S. large-cap stocks. Additionally, the P/E is lower for international equities, signaling these investments are trading at attractive valuations relative to U.S. large-cap stocks. We think these investments are well-positioned to benefit from strengthening global macroeconomic conditions over time.

Action for Investors
As the longest U.S. bull market on record continues to age, including international equity investments as appropriate can help enhance portfolio diversification and reduce the negative effects of market volatility. Even though these investments have lagged the past few years, higher dividend yields and low investor expectations make them well-positioned to outperform in the future as they’ve done in past cycles.