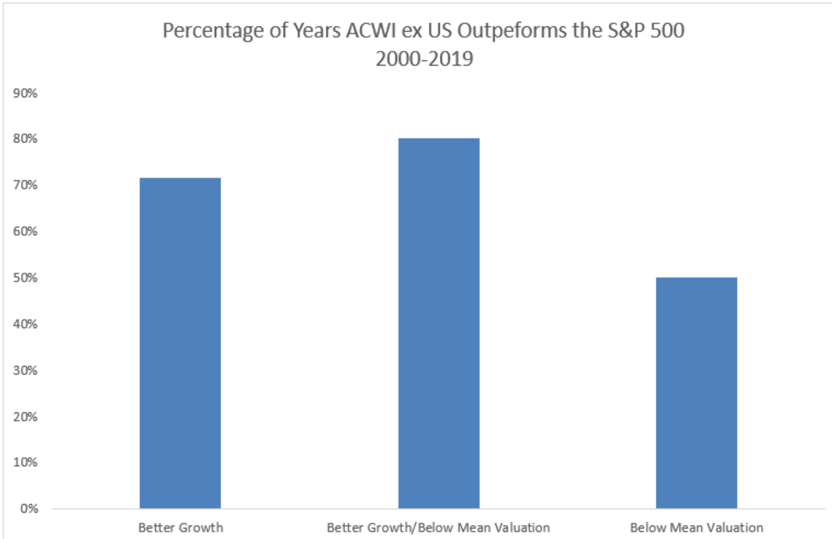
“Looking for a good investment is nothing more than looking for a good bargain.”

- Sir John Templeton, creator of the globally focused Templeton Growth Fund



Source: Bloomberg, data annually 2000-2019

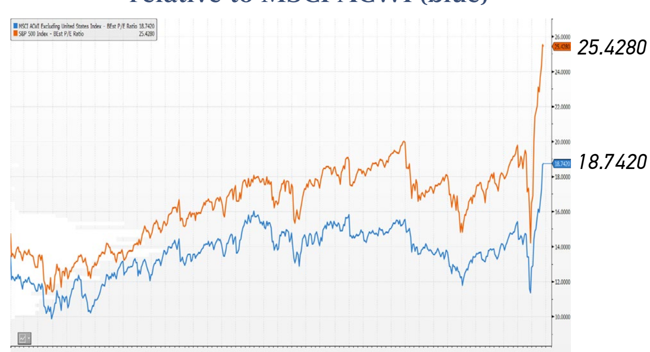
When are the Odds of International Equities Outperforming Stacked in Your Favor?

In January of this year, CNBC’s headline to start the year was, “Why 2020 could be a big year for international stocks over US equities” and provided commentary from an investment strategist (Bespoke Investment) that, “if your asset allocation has significant domestic exposure and little-to-no international equity exposure, we think now is an excellent time to make a shift.” The rationale for the rotation into international equities was the outperformance of the S&P 500 over the past decade relative to the MSCI Ex US market and perhaps the international stocks may “catch up” in 2020.

Barron’s magazine in late 2019 highlighted how non U.S. stocks “are looking cheap;” but, the valuation argument has been made by investment managers since 2015 and yet equity exposure outside the U.S. has largely trailed the S&P 500 since then, even though valuations have appeared “cheap” and hence the Bespoke argument that they will soon catch up.

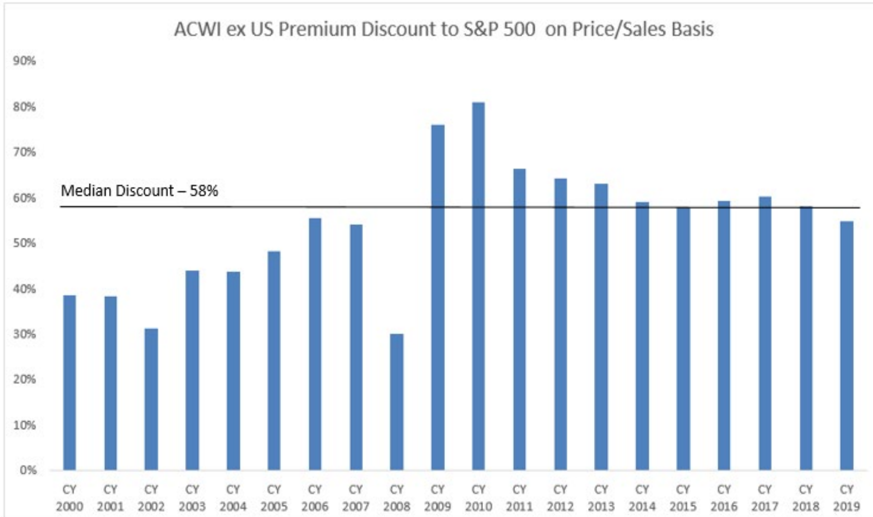
Stocks outside the U.S. are less expensive than within the U.S., as seen in the chart to the right. In many cases, they are cheap for a reason because they are closely tied to cyclical businesses, such as commodities or they are owned by the government (and run primarily in the interest of the government).

Price to Earnings Ratio S&P 500 (orange) relative to MSCI ACWI (blue)



Dates shown are from 2011-2020. Source: Bloomberg

In the chart at the top of this page, we highlight that “being cheap” appears insufficient to generate outperformance looking back over the past two decades. There are a number of ways to access relative valuation and we’ve taken a straightforward price to sales ratio for each region over the past two decades and tracked annual relative performance when the MSCI ACWI ex US traded below median.



Source: Bloomberg

On a valuation basis, it's a coin flip (50% probability) that non-U.S. stocks will outperform the S&P 500. But, if one overlays relative earnings growth, the combination of growth and value appears to increase the probability of outperformance to 80%. The stocks we invest in globally can benefit from the strength of the underlying geography, as we have seen from our China equity exposure thus far in 2020, for example. The Equity Opportunities Group defines a "good bargain" as an opportunity that offers growth and value in high quality businesses with strong balance sheets and are leaders in our favored investment themes, such as online gaming, digital payments and cloud computing. Through these investments, we believe we have the potential to add value to clients' broad market exposure over time.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is an equity portfolio manager. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation.