MARKET COMMENTARY

Table 1: Non-US markets are relatively cheap, but US dollar strength remains a headwind

	Trailing P/E	Forward P/E	EPS LTG	PE to Growth	Div. Yield
ACWI	14.4x	15.3x	11.0%	1.3	2.5%
S&P 500	17.3x	17.9x	11.9%	1.5	1.9%
EAFE	11.6x	12.4x	9.8%	1.2	3.6%
EM	10.0x	11.4x	10.8%	0.9	3.4%

Source: Bloomberg, Morningstar, Mill Creek.

Recency bias leads investors to believe that those investments that have recently appreciated will continue to do so while those that have fallen are likely to keep declining. Today, many global equity investors are questioning their allocations to non-US equities, and in particular emerging markets (EM). Emerging markets have underperformed US equities in 11 of the last 13 years. However, such a period of underperformance isn't unique to emerging markets. Between 2000-2009, in the period that came to be known as the "Lost Decade," US equities returned 0% and underperformed international equities in 7 of those ten years. Furthermore, emerging markets have outpaced developed markets in almost every annual period of outperformance by non-US equities since the late 1980s., For those interested, we've put together **a one-page summary of our perspective regarding long-term allocations to emerging market equities.**

Despite our impassioned case for maintaining an allocation to international equities, we remain tactically underweight versus US equities. The trend and strength of the US dollar remain the biggest impediments for us to increase our allocation to non-US equities. With good reason this year, sentiment towards non-US equities has been quite negative, which has been reflected in equity prices and valuations. Non-US equities trade at a meaningful discount to US equities while offering similar longer-term growth prospects. We believe that a sustained reversal in the US dollar trend could be a catalyst for improved sentiment toward non-US equities given current valuation levels.

QUICK LINKS

- Earnings Outlook Continues to Deteriorate
- Higher for Longer
- November Update: A Market-Led Fed Pivot?
- Taking Advantage of Higher Bond Yields

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