

## Northern Trust | Matt Peron: A Look at Global Equities

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We have long advocated for a globally diversified portfolio, especially when it comes to risk assets. However, over the past few years, we have favored US equities while keeping a more modest strategic allocation to non-US equities. We continually review this positioning, and would like to share our updated analysis on the outlook for global equities.

Let's start with our strategic five-year outlook, which we call our Capital Markets Assumptions. In this analysis, we expect non-US equities to outperform US equities over the longer term. In order to arrive at these projections, we contemplate factors such as valuations, economic growth and demographics, among others. However, we have favored and continue to favor US equities for the near term. But is it time to change this position to better align with our strategic outlook?

First, let's review past earnings growth. The US has enjoyed the highest earnings growth rate of any other major region. Over the past 10 years, S&P 500 earnings have approximately doubled. In contrast, the regions outside the US have grown earnings by about one fifth or less than that on average. So it's no surprise then that the US has been the best performing market.

It's also notable that the US has the highest valuation of the three regions in our CMA analysis. However, if new policies, the diminishing of political risks or other factors drive a pickup in the economic prospects in the non-US markets, we would expect to see both earnings and valuations rebound. And that would be a powerful cocktail for outperformance for these regions.

So what does this mean for investors? Well, we don't see a reason to expect a major upshift in the non-US economic cycle in the near term. But we are mindful of the possibility and of our own long-term expectations. For now, our recommendation is to continue to tilt to the US, given its high visibility on growth. But as we embark on a new policy direction in the US, it's not unrealistic to expect other regions to follow, and we'll be watching.