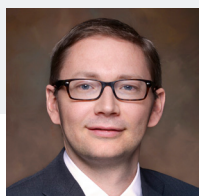




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POINT®**

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In-depth analysis and insights
to inform your decision-making.



Richard Clattenburg
International Growth Equity Strategy Manager

International Equity **DURABLE EARNINGS GROWTH IS A KEY FOR LONG-TERM PERFORMANCE**

KEY POINTS

- We have become somewhat less optimistic about near-term global economic growth than we were in mid-2017, which has caused us to take a more cautious investment stance.
- While international equity valuations appear reasonable in the health care, information technology, and financial services sectors, the quality and durability of earnings should be the primary determinant for further gains.
- Overall, we expect that international stock markets will continue to generate decent earnings growth, but we believe that selectivity is crucial for generating solid performance as not all regions, countries, and sectors will benefit evenly.

IN A SLOW-GROWTH ENVIRONMENT, SELECTIVITY IS PARAMOUNT

We expect global economic growth will continue to slow from 2017's rapid pace, which leads us to a less sanguine near-term outlook for equities. International stock valuations are modestly more attractive than those in the U.S., but our assessment of non-U.S. equity markets remains somewhat guarded. The broad market continues to display many of the momentum characteristics we would expect to see during a prolonged bull market. For example, some fundamentally strong stocks in the consumer staples and health care sectors have been unfairly punished, in our view, while momentum darlings, including several information technology and tech-related industrials, have performed well. We believe that individual stock selections will have more bearing on generating outperformance than sector allocation decisions.

FUNDAMENTALS AND GROWTH POTENTIAL MAKE CERTAIN SECTORS ATTRACTIVE

Our research efforts have uncovered a number of health care, information technology, and financial stocks that we believe offer compelling risk/reward characteristics. During periods of market weakness, we look to add to companies with solid business operations that may have experienced short-term disruptions. Our health care holdings generally remain fundamentally sound and offer solid growth prospects. We have identified several attractively valued pharmaceutical companies with innovative therapies—products that produce material medical benefits—and other health care operators that provide cost-effective solutions and are durable growers with efficient operations. We added some of the technology stocks that powered the market's gains over the past year when they pulled back in the

first half of 2018. We look to seize opportunities when stock valuations do not accurately reflect the growth that we think the companies can achieve. We believe our technology holdings are reasonably priced given their growth prospects.

Among financials, we favor emerging markets banks that are well positioned to benefit from improving local conditions, as well as European banks that have exposure to emerging Europe but are also improving their domestic operations. On the other hand, many energy stocks appear richly valued, given our moderately bearish outlook on supply and demand metrics for oil over the next several years. We are mindful that several large emerging markets, particularly those with the largest dependence on the energy market for growth, including oil producer Russia and oil importer Turkey, could face renewed headwinds.

DISPERSION OF RETURNS IS LIKELY

Overall, we think the quality and durability of earnings will ultimately determine whether valuations are reasonable or stretched. Indeed, we expect to see increased dispersion of returns across regions, countries, and sectors, which underscores the importance of our global efforts to identify solid businesses with durable cash flows that are trading below their intrinsic value. In the U.S., corporate earnings will likely receive a one-time jolt from lower tax rates, but we expect the impact to earnings will dissipate in a few quarters.

In Japan, corporate earnings remain subdued given that market's dependence on exports and its sensitivity to global economic growth. With both factors moving against Japan at the moment, corporate earnings in the near term may disappoint investors. We are somewhat more constructive

about the prospects for European equities, as earnings expectations have come down. The recent weakness in the euro should also provide a tailwind to companies with material sales outside the eurozone. We are finding high-quality companies with attractive growth prospects, although it has become more difficult to find companies with significant dislocations between valuations and growth expectations. However, we believe in, and intend to stick with, our long-term, time-tested investment process—owning reasonably priced growth stocks that can consistently generate above-average earnings and cash flow growth.

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