There has recently been a divergence in the valuation of the US equity market and the international developed and emerging markets.\(^1\)\(^,\)\(^2\) Non-US companies are currently trading at valuations (price/earnings) rarely seen in years, well below the valuation of US companies, as shown in Exhibit 1.\(^3\) Since 1971, equity market leadership has alternated between the US market, as represented by the S&P 500 Index, and international markets, as represented by the MSCI EAFE Index.

- We believe that it is not that surprising to see depressed non-US P/E ratios in an environment where global growth, industrial production and world trade volumes have been slowing.
- Keep in mind that there are risks inherent in global investing, including geopolitical, economic and social boundaries, as well as limited reporting transparency and currency complexities.

### Exhibit 1: Non-US equities appear attractive on a relative basis

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500 Index</th>
<th>MSCI EAFE Index</th>
<th>MSCI Emerging Markets Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>15</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>2017</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>2018</td>
<td>25</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>2019</td>
<td>30</td>
<td>40</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: FactSet as of 1 October 2019 (weekly). Trailing = last twelve months.

### Key takeaways

- Given that the US market represents about 55% of the MSCI ACWI Index, most equity investors will likely want to have some US exposure.\(^4\)
- A strategic allocation across regions allows investors to capture the benefits of different regional exposures and can offer additional diversification.
- Strategic diversification across asset classes and markets may help investors benefit from strong performance in one asset class or market and help minimize the impact of a downturn in another.
- Spreading your holdings among different industries, geographies, companies and investment styles may be the best way to reduce your exposure to the downside risks of portfolio holdings.
### Endnotes

1. The **S&P 500 Index** measures the broad U.S. stock market.
2. The **MSCI EAFE (Europe, Australasia, Far East) Index** measures the non-U.S. stock market. The **MSCI Emerging Markets Index** measures emerging market stocks.
3. The price/earnings ratio is the ratio of the current price of a stock relative to an estimate of 12-month earnings; **P/E ex-negatives ratio** is an exposure-weighted average of the P/E ratios of the securities held in the fund, excluding companies with projected negative earnings.
4. The **MSCI All Country World Index** measures developed and emerging market stock markets.

---

"Standard & Poor's®" and S&P® "S&P®" are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones") and have been licensed for use by S&P Dow Jones Indices LLC and sublicensed for certain purposes by MFS. The S&P® "S&P 500®" is a product of S&P/Dow Jones Indices LLC, and has been licensed for use by MFS. MFS' products are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates, and neither S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates make any representation regarding the advisability of investing in such products.

Index data source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

Diversification does not guarantee a profit or protect against a loss.

The views expressed are those of the author(s) and are subject to change at any time. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any security or as a solicitation or investment advice from the Advisor.

Unless otherwise indicated, logos and product and service names are trademarks of MFS® and its affiliates and may be registered in certain countries.

Distributed by:

**U.S.** - MFS Investment Management; **Latin America** - MFS International Ltd.; **Canada** - MFS Investment Management Canada Limited. No securities commission or similar regulatory authority in Canada has reviewed this communication.

Please note that in Europe and Asia Pacific, this document is intended for distribution to investment professionals and institutional clients only.

**U.K.** - MFS International (U.K.) Limited ("MIL UK"), a private limited company registered in England and Wales with the company number 03062718, and authorized and regulated in the conduct of investment business by the U.K. Financial Conduct Authority. MIL UK, One Carter Lane, London, EC4V 5ER UK provides products and investment services to institutional investors. This material shall not be circulated or distributed to any person other than to professional investors (as permitted by local regulations) and should not be relied upon or distributed to persons where such reliance or distribution would be contrary to local regulation.

**Singapore** - MFS International Singapore Pte. Ltd. (CRN 201228809M); **Australia/New Zealand** - MFS International Australia Pty Ltd ("MFS Australia") holds an Australian financial services licence number 485343. MFS Australia is regulated by the Australian Securities and Investments Commission. **Hong Kong** - MFS International (Hong Kong) Limited ("MIL HK"), a private limited company licensed and regulated by the Hong Kong Securities and Futures Commission (the "SFC"). MIL HK is approved to engage in dealing in securities and asset management regulated activities and may provide certain investment services to “professional investors” as defined in the Securities and Futures Ordinance (“SFO”). **Japan** - MFS Investment Management K.K., is registered as a Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No.312, a member of the Investment Trust Association, Japan and the Japan Investment Advisers Association. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments.