

Comparative Equity Returns: US, ACW – ex US, and EM

THE VECTOR GROUP *at* MORGAN STANLEY

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Reviewing the last 20 years of data, the S&P, the developed world outside of the US and the emerging markets have performed in phases or trends. As can be seen in Table I, EM was by far the strongest performer in the early to mid-2000s and has since cycled down for the last five years.

The US, which led global markets in the 1990s, has returned as the leader since the financial crisis of 2007-9.

Analysis: After the valuation bubble of technology companies burst in 2000-1 and the US Federal Reserve struck a hyper-accommodative stance, investment in countries in the developing phases became attractive. Moreover, the effect of globalization, limited impact from local currencies (pegged to the USD), and ease of access through new vehicles (ETFs for one) aided capital inflows.

In the post-apocalyptic world of financial repression, banking oversight and heightened regulation, advances in technology and benefits from breaking down barriers through globalization of capital has begun to benefit those entities at the top of the food chain, with resources and economies of scale.

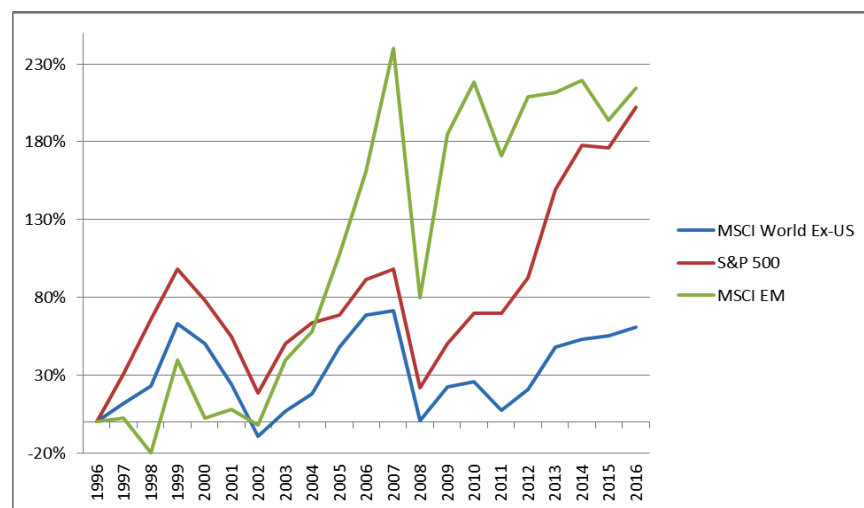
Charts A illustrates the early rise of EM, and subsequent lagging performance, the dominance of the US and the lagging of the developed world ex-US overall.

TABLE I: 1997 – 2016 Returns

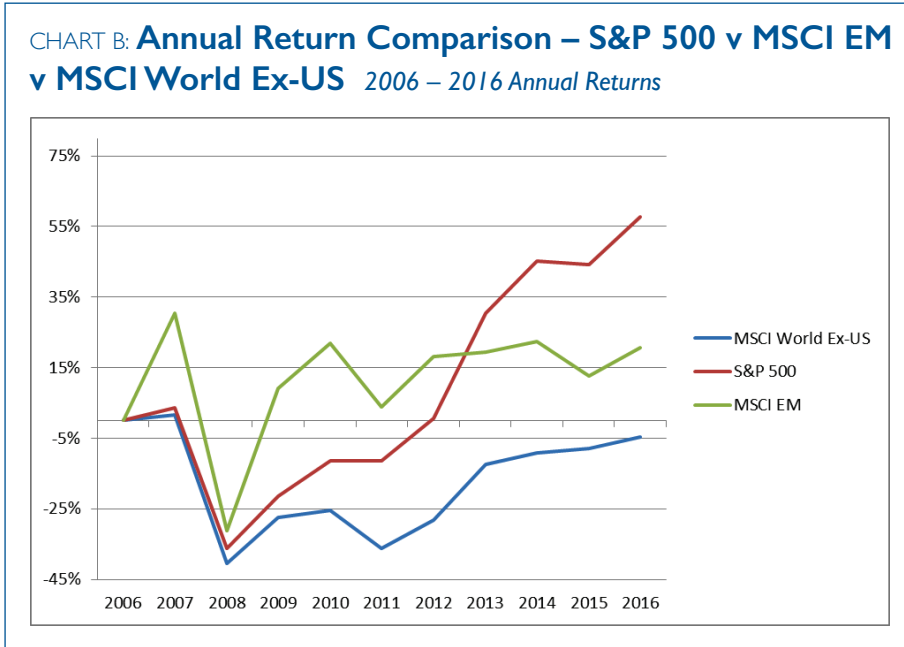
	MSCI World Ex-US	S&P 500	MSCI EM
1997	11.99%	31.01%	2.65%
1998	10.10%	26.67%	-21.98%
1999	32.12%	19.53%	74.50%
2000	-7.81%	-10.14%	-26.58%
2001	-17.49%	-13.04%	5.10%
2002	-26.86%	-23.37%	-9.07%
2003	17.81%	26.38%	42.34%
2004	10.29%	8.99%	13.21%
2005	25.76%	3.00%	31.54%
2006	13.93%	13.62%	25.57%
2007	1.70%	3.53%	30.38%
2008	-41.40%	-38.49%	-47.24%
2009	21.57%	23.45%	58.65%
2010	3.02%	12.78%	11.69%
2011	-14.57%	0.00%	-14.86%
2012	12.53%	13.41%	13.94%
2013	22.10%	29.60%	0.92%
2014	3.62%	11.39%	2.55%
2015	1.44%	-0.73%	-8.02%
2016	3.47%	9.54%	7.12%

Source: Factset

CHART A: Total Return Comparison – S&P 500 v MSCI EM v MSCI World Ex-US 1997 – 2017 Cumulative Returns



Moreover, in the last 10 years, the US has once again reclaimed the lead over all other global markets as the benefits of technology and globalization take hold (Chart B).



An even clearer picture emerges in rolling five-year returns for the respective markets (Table II). The US phase appears on the rise again.

TABLE II: Rolling 5 Year Returns

	MSCI World Ex-US	S&P 500	MSCI EM
1996-2001	23.93%	54.99%	7.85%
1997-2002	-19.06%	-9.34%	-4.47%
1998-2003	-13.40%	-9.54%	74.28%
1999-2004	-27.71%	-17.51%	13.07%
2000-2005	-1.39%	-5.45%	102.56%
2001-2006	36.15%	23.54%	142.00%
2002-2007	89.32%	66.89%	247.01%
2003-2008	-5.83%	-18.77%	28.63%
2004-2009	3.80%	-7.99%	80.25%
2005-2010	-14.97%	0.75%	53.05%
2006-2011	-36.24%	-11.33%	3.77%
2007-2012	-29.44%	-2.87%	-9.31%
2008-2013	47.01%	104.63%	73.46%
2009-2014	25.30%	84.64%	12.13%
2010-2015	23.38%	62.52%	-7.65%
2011-2016	49.43%	78.02%	16.19%

Source: Factset

Finally, risk-adjusted returns and metrics make a further compelling argument for investment in the US (Dollar based) over the last 20 years. Although during this period average returns for the Emerging Markets were higher, gains were achieved early on (not yet bested) and volatility was a full 10% higher (40% increase) over the period.

TABLE III: Previous 20 Year Annual Return Statistics

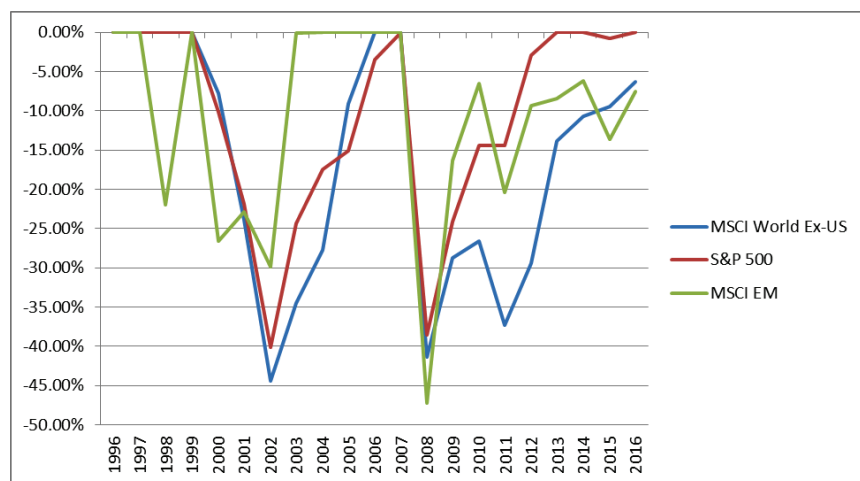
	MSCI World Ex-US	S&P 500	MSCI EM
Avg. Return	4.17%	7.36%	9.62%
Std. Dev.	18.32%	18.13%	28.92%
Sharpe	0.23	0.41	0.33

Source: Factset

Europe, Japan and the developed world ex-US had a similar risk profile but with far inferior returns. (Table III).

As Chart C reveals, again, the recovery period for the US as measured by the S&P 500, was far faster and remains ahead of other markets after significant drawdowns.

CHART C: Drawdown Analysis – S&P 500 v MSCI EM v MSCI World Ex-US 1996 – 2016



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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 30 2011, the MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. An investment cannot be made directly in a market index.

The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries*--excluding the United States. With 1,023 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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