



Delivering Long-Term Value in International Markets

August 15, 2018

Key Takeaways

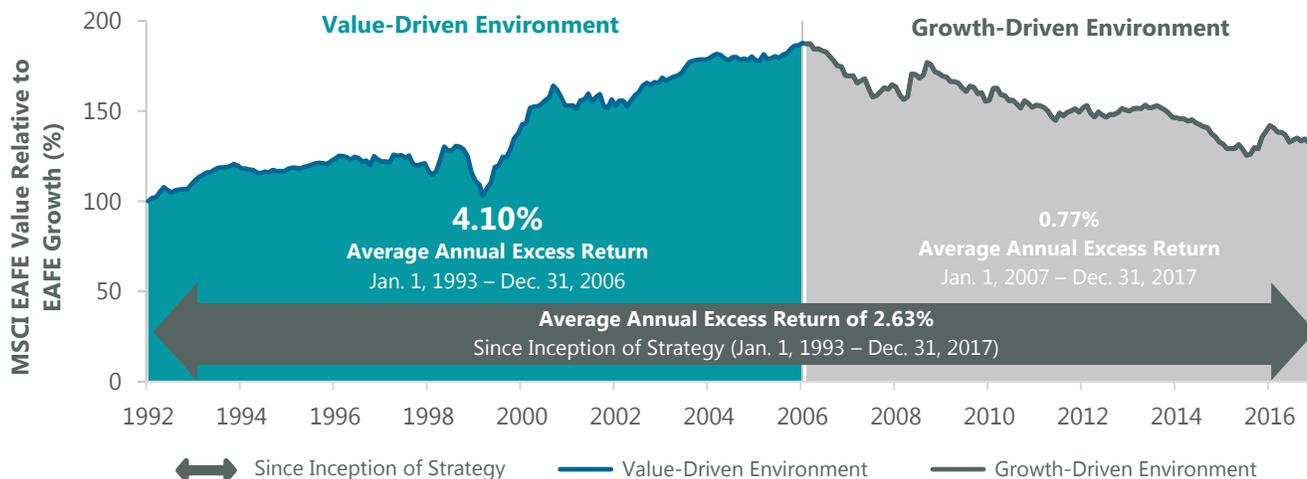
- ▶ After a decade-long period of growth leadership in international equities, we believe the pieces are in place for a rotation into value stocks.
- ▶ The ClearBridge International Value Strategy has historically outperformed the MSCI EAFE Index in periods when value is in favor.

We believe the elements are in place for a value rebound in international equity markets. Asset prices and interest rates are normalizing as quantitative easing programs wind down and individual company fundamentals begin to matter again. Growth is becoming synchronized across most global economies while evidence of inflation continues to build across commodity markets. While the timing of a transition from growth to value leadership is difficult to predict, increasing exposure to value equities in international markets can be beneficial for long-term investors.

Over its 25-year track record, the ClearBridge International Value Strategy has historically outperformed in market environments where value is favored over growth, as defined by periods where the MSCI EAFE Value Index bests the MSCI EAFE Growth Index.

In a normal market environment where value was in favor about two thirds of the time (1993-2006), the Strategy outperformed the MSCI EAFE Index by 4.1% on an annualized basis (Exhibit 1).

Exhibit 1: Strong Performance in Value-Driven Markets



Excess return over MSCI EAFE Index through December 31, 2017. Source: FactSet.

During this period from the Strategy's inception, value outperformed growth in 10 out of 14 years. For the 10 years when value led in international markets, the Strategy outperformed the MSCI EAFE by 5.50% annually. In the last decade through 2017, when value significantly underperformed growth, the Strategy still bested the MSCI EAFE Index by 0.77% annually. The Strategy has outperformed both the MSCI EAFE Index¹ since inception and its primary benchmark, the MSCI All Country World (ACWI) ex-U.S. Index, which incepted in 2001².

We believe active managers that adhere to a consistent value discipline can deliver significant alpha over time. The key to that consistency is the ability to outperform during value markets and to keep pace in environments less favorable to value.

¹ The MSCI ACWI ex-U.S. Index includes common stocks of companies in both developed and emerging markets outside the U.S. while the MSCI EAFE Index includes only common stocks in developed markets outside the U.S. and Canada.

² The ClearBridge International Value Composite has delivered an average annual excess return of 0.90% over its primary benchmark, the MSCI ACWI ex-U.S. Index, since the inception of index performance on Feb. 1, 2001 through Dec. 31, 2017. Over that period, the Composite produced an average annual return of 6.13% compared to 5.23% for the MSCI ACWI ex-U.S. Index.

About the Author



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- 35 years of investment industry experience
- Joined a predecessor firm in 1988
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Past performance is no guarantee of future results.

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