Nationwide®
is on your side

International equities—a comeback story?

Meaningful conversations begin with *Charting the Markets*

Recovery

Policy

Diversification

International equities—a comeback story?

After more than three years of underperformance versus U.S. domestic equities, the international markets have begun to recover. Here's why we think their improvement may persist.

International equities have **room to catch up**

- Many international economies experienced double-digit dip recessions in the first part of this decade and appear to be in the early stages of recovery —chart 1
- The S&P 500® Index (U.S. large-cap stocks) outperformed the MSCI EAFE® Index (developed markets in Europe, Australasia and the Far East) by an average of 5.3% over the past 3 years —chart 2

Monetary policy is **favorable** for internationals

- Aggressive quantitative easing (QE) by the European Central Bank (EC) pushed most European markets higher during the first half of 2015 —chart 3
- If QE has the same effect on Europe as it did on the United States, there could potentially be sustained improvement

International markets may offer **diversification benefits**

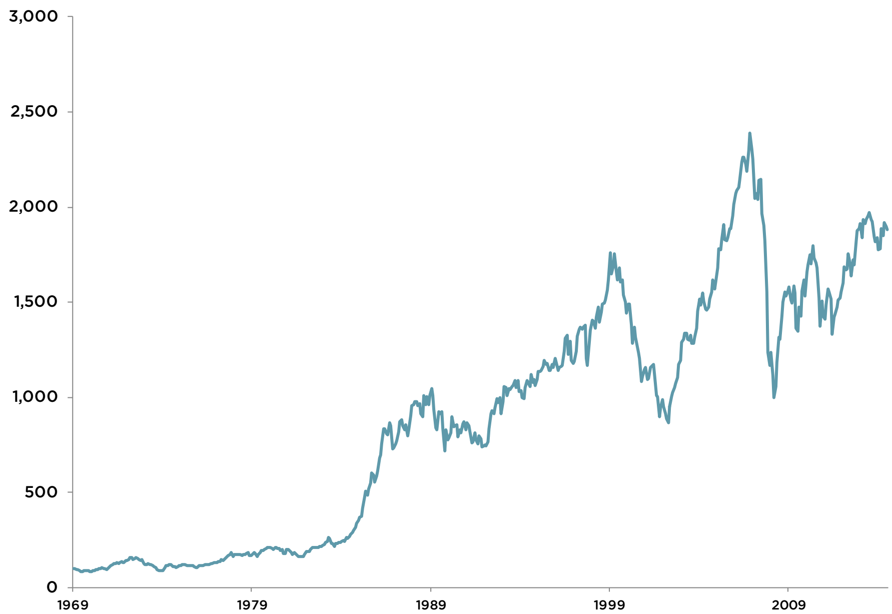
- Low correlation between domestic and international performance may help to smooth overall portfolio volatility

Conclusion

International markets, primarily throughout Europe, are showing signs of healthy progress with space to continue. Barring any significant geopolitical concerns, the low interest rate environment, supported by QE, points to continued growth for the non-U.S. equities.

1 Global stocks move higher again

MSCI EAFE Index
Index

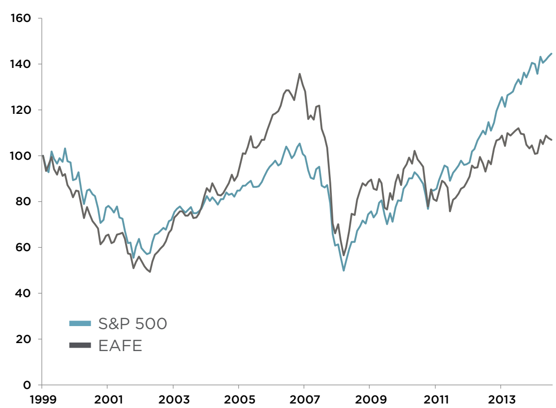


Source: Bloomberg

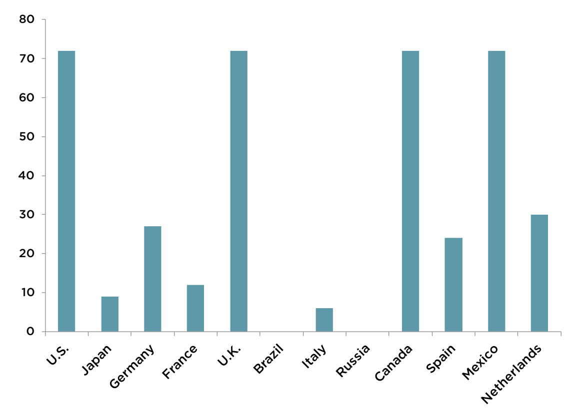
Despite a Greece and China-led pullback in June, international stocks rose for a second straight quarter and hit their highest level in nearly a year. Strength in Asia offset a pullback in Europe while emerging markets underperformed.

2 Global markets have room to catch up

The S&P 500 and MSCI EAFE Index
Index (12/99 = 100)



Time since last recession
Months



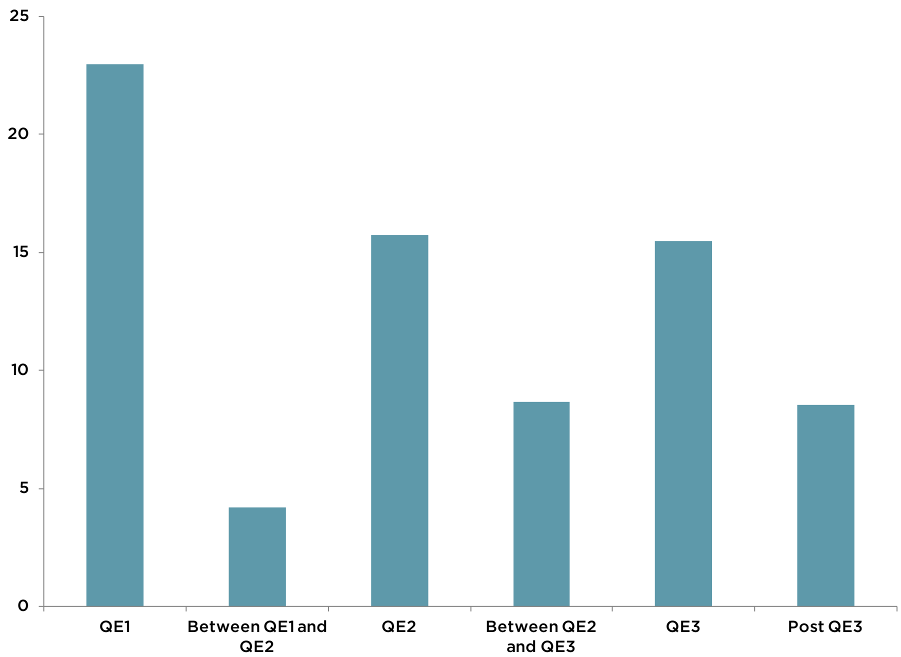
Global developed markets have lagged the U.S. badly in recent years, returning an annualized 8.4% over the last 15 quarters vs. an 18.8% pace for the S&P 500. This owes in large part to the fact that many economies fell into double-dip recessions in the first part of this decade and are now just in the early stages of renewed recoveries. As the nascent expansions in these countries gather steam, market performance should follow in kind.

Source: Bloomberg

3 Quantitative easing will boost European equities…

Annualized changes in the S&P 500 across the quantitative easing cycle

Percent



Source: Bloomberg

Since the Federal Reserve launched its first quantitative easing (QE) program in 2009, the U.S. stock market has fared better during those periods in which the central bank was actively expanding its balance sheet through bond purchases. Similarly, the Nikkei has risen at a near 20% annualized pace since the Bank of Japan began its own QE program in 2013.

In theory, central bank bond buying should lift inflation expectations and incent investors to take on more risk. The experience in the U.S. and Japan in recent years lends credence to that view and, with the European Central Bank now following a similar path, bodes well for European market performance in the quarters ahead.

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