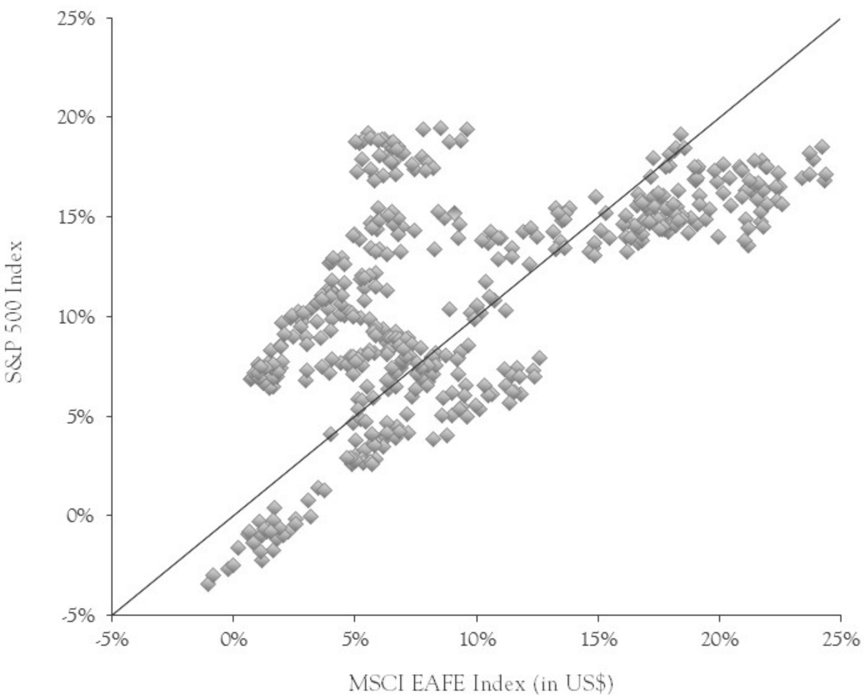
The Dichotomy Between U.S. and non-U.S. Returns

S&P 500 Index & MSCI EAFE Index (in U.S.$) | 10-Year Rolling Returns (calculated monthly)
December 31, 1969 through December 31, 2018

Out of 469 ten-year measurement periods, U.S. equity markets (S&P 500 Index) outperformed international markets (MSCI EAFE Index (in U.S.$)) 237 times (51% of observed periods).



The vertical axis represents the ten-year annual rolling returns for the S&P 500 while the horizontal axis represents the ten-year annual rolling returns for the MSCI EAFE Index (in U.S.$). The diagonal axis is a line of demarcation separating periods of outperformance from periods of underperformance. Plot points above the diagonal axis are indicative of the S&P's relative outperformance, while points below the diagonal axis are indicative of its relative underperformance.

Source: Bloomberg and MSCI

The returns of non-U.S. equity markets of late as measured by the MSCI EAFE Index (in U.S.$), while quite solid, have paled in comparison to the returns of the U.S. equity market as measured by the S&P 500 Index. Non-U.S. equities in the near term have been weighed down in part by projections of slowing economic growth, political upheavals, trade war concerns, and highly volatile currencies, while U.S. stocks have had the benefit of increased fiscal stimulus in the form of corporate and personal tax cuts, increased defense spending, and capital investment, which gave a significant boost to economic growth, reported corporate earnings, and in turn U.S. stock prices. Beset by these headwinds, we believe non-U.S. equities have emotionally been harder to own.

As with life, there is an ebb and a flow to investing. This dichotomy between U.S. and non-U.S. returns has not always been in favor of the United States. There have been numerous multi-year periods where non-U.S. returns have significantly outpaced those of their U.S. counterparts. Moreover, as you can see in the chart above, between 1969 and 2018, the S&P 500, on a rolling ten-year return basis, outperformed the MSCI EAFE Index only 51% of the time. This begs the question as to whether we may be on the brink of a shift back in terms of performance in favor of non-U.S. equities. More attractive valuations outside the U.S. may be setting the stage for such an outcome. Only time will tell.

The S&P 500 Index is a market capitalization weighted index composed of 500 widely held common stocks, and beginning in 1974, assumes the reinvestment of dividends. The index is generally considered representative of U.S. large capitalization stocks.

The MSCI EAFE Index is a free float-adjusted, market capitalization weighted index that originated in 1969 and is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index (in U.S.$) reflects the return of the MSCI EAFE Index for a U.S. dollar investor. Results are inclusive of dividends and net of foreign withholding taxes. An investor cannot invest directly in an index.

Investing in foreign securities involves additional risks beyond the risks of investing in U.S. securities markets. These risks include currency fluctuations; political uncertainty; different accounting and financial standards; different regulatory environments; and different market and economic factors in various non-U.S. countries. Value investing involves the risk that the market will not recognize a security's intrinsic value for a long time, or that a security thought to be undervalued may actually be appropriately priced when purchased. In addition, the securities of small, less well known companies may be more volatile than those of larger companies. Please refer to the Funds' prospectus for a description of risk factors associated with investments in securities which may be held by the Funds.

The investment returns presented above represent the past performance of the indices shown above, and should not be considered indicative or representative of the past or future performance of the Funds or any separately managed account of Tweedy, Browne Company LLC.

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