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Market Observations
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GLOBAL GUIDANCE

Technology and social media rapidly transmit local events and issues around the world. Relevant analysis can lag or even be truncated as focus shifts quickly to the most recent headline or tweet. Amidst this cyber deluge, what are the investment implications from consequential developments such as rising nationalism in western democracies or the failing of nation-states such as Syria and Iraq? This inquiry should begin with an understanding of the global markets themselves.

Perspective

A well-followed framework for defining global equity markets is provided by MSCI, an independent research firm. MSCI identifies markets by country and classifies each into one of three broad categories: Developed Markets, Emerging Markets and Frontier Markets. The criteria for classification are:

- Economic Development (measured by the country's relative gross income per capita)
- Size & Liquidity (measures include company size, issuance size and market liquidity)
- Market Accessibility (measures include openness to foreign ownership, ease of capital flows, internal competition and institutional stability)

Table I provides comparative information for the broad MSCI market categories.

Investors can have a bias toward that with which they are most familiar, investments in their home country. Chart I shows the allocation of global equity markets among countries by market value. While the U.S. market dominates, a U.S. investor with home-country bias might forego up to one-half of global equity opportunities. Chart II provides a return-versus-risk perspective for the global equity markets. The timeframe is set by the inception of Frontier Markets data. The theory of higher risk begetting higher return generally is supported, but with U.S. returns a bit more favorable relative to risk and Foreign Developed Markets returns a bit less favorable.

Investment Implications

Market structure is a helpful guide to global investing. However, a more complete and disciplined process is necessary for successful global investing. Such a process must accommodate the evaluation of several key factors including region, country, currency, sector and company. Home-country bias has a practical implication as most investors receive incomes, incur liabilities and make payments in their own currency. Yet, diversifying portfolios among global investments in a prudent manner is an appropriate strategy to seek enhanced investment outcomes over time.

Table I

GLOBAL EQUITY MARKETS

MEASURE	DEVELOPED MARKETS	EMERGING MARKETS	FRONTIER MARKETS
# OF COUNTRIES	23	23	23
TOP 5 COUNTRIES	USA JAPAN UK FRANCE GERMANY	CHINA SOUTH KOREA TAIWAN INDIA BRAZIL	ARGENTINA KUWAIT PAKISTAN VIETNAM MOROCCO

Source: MSCI

Chart I

GLOBAL EQUITY MARKETS BY COUNTRY

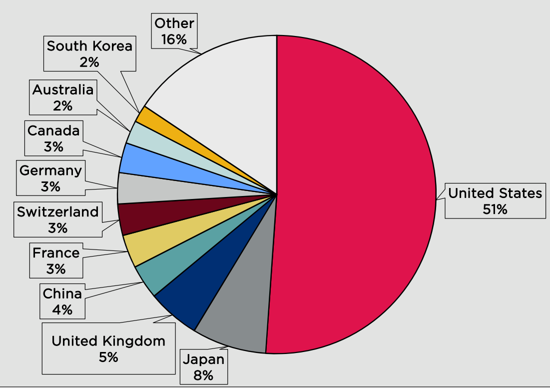

Chart II

GLOBAL EQUITY MARKETS
Return Vs. Risk
5/31/02 - 5/31/17