OppenheimerFunds®
The Right Way to Invest

Flash

If U.S. Stocks Stumble, Will International Stocks Fall?

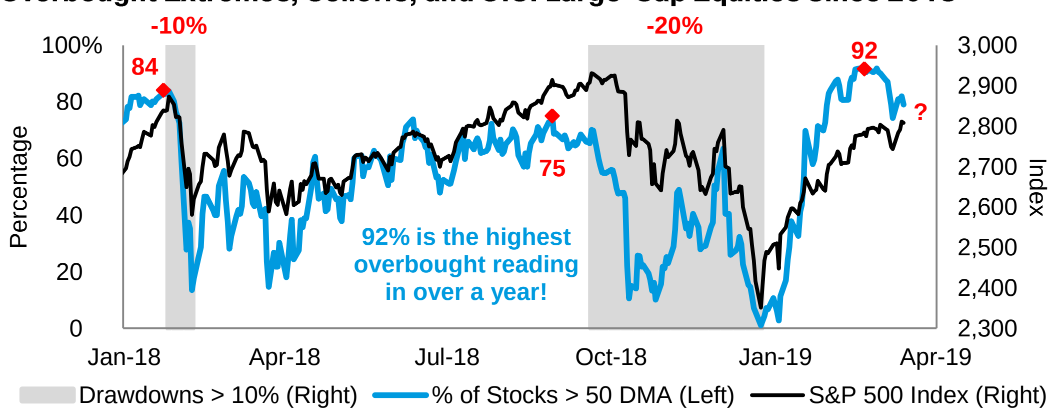
Talley Léger
Equity Strategist

Much attention has been given to the high-velocity rebound in U.S. stocks from their December 2018 lows, and rightly so. Progress in U.S.-China trade talks, a welcome shift in sentiment at the U.S. central bank, and a much-needed easing of financial conditions have helped propel U.S. equities higher by 14% year to date.[1]

With the S&P 500 Index now within 100 points of its all-time high reached in September 2018, some investors are understandably wondering if the rally has gotten a little ahead of itself and whether some temporary turbulence is approaching.

Exhibit 1: In the Short Term, U.S. Stocks Are Looking Overbought

Overbought Extremes, Selloffs, and U.S. Large-Cap Equities Since 2018



Source: Strategas, Bloomberg, OppenheimerFunds, 3/18/19. Note: Large cap = large market capitalization. 50 DMA = 50-day moving average.

One technical indicator suggests U.S. stocks are looking overbought in the short term. The percentage of S&P 500 constituents above their 50-day moving average hit 92% in February 2019, the highest reading in over a year (Exhibit 1).

It's important to note that both selloffs in February and the fourth quarter of 2018 were preceded by similarly overbought technical extremes, namely high percentages of stocks greater than their short-term moving averages.

If some near-term volatility is indeed approaching for U.S. share prices, what would it mean for international equities? Said differently, if U.S. stocks sneeze, will Chinese and emerging market (EM) stocks catch a cold?

No, not necessarily. A look back at recent equity returns is instructive.

Not FDIC Insured
May Lose Value
Not Bank Guaranteed

[1] Source: Bloomberg. Note: Net total returns in U.S. dollars as of 3/18/19.

Recall that the S&P 500 Index experienced a 10% correction in February of last year, culminating in a negative first quarter of 2018. Meanwhile, the MSCI China and Emerging Markets indices were both up over 1% in the same period.

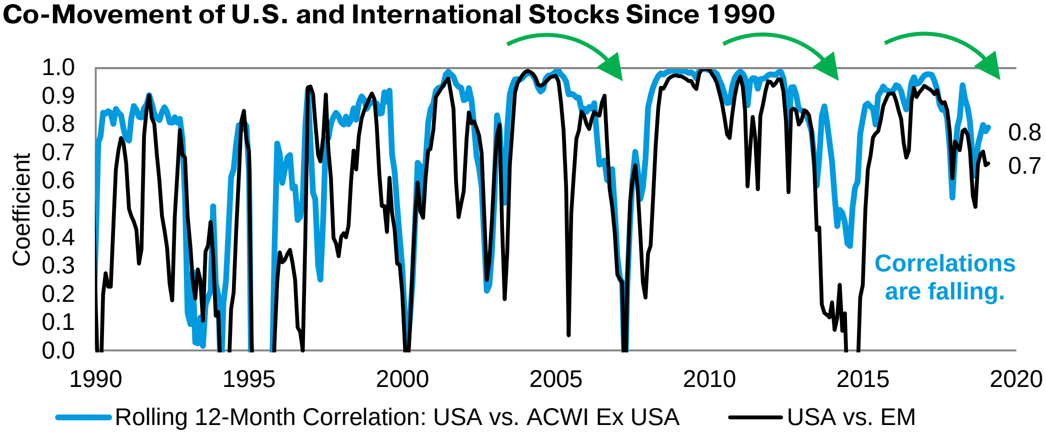
True, U.S. stocks recovered sharply while Chinese and EM stocks plummeted in the second and third quarters of 2018, but the inverse pattern held.

At the end of last year, the S&P 500 Index suffered a bear market decline of roughly 20% before hitting bottom on Christmas Eve. However, the MSCI Emerging Markets Index troughed two months before in October 2018, helping it outperform its U.S. counterpart by more than 6% in the fourth quarter.

Currently, Chinese stocks are back in a cyclical bull market—having soared 24% from their lows—and outperforming U.S. stocks by more than 5% year to date.

Exhibit 2: The Benefits of International Diversification Are Increasing

Co-Movement of U.S. and International Stocks Since 1990



Source: MSCI, OppenheimerFunds, 2/28/19. Note: Year-over-year price returns in USD. **Past performance does not guarantee future results.**

The bottom line is that the relationships between these markets aren't hard and fast—they ebb and flow over time. In fact, the correlation of U.S. and international equity returns has been falling from a high level, as it did from 2008 to 2014, from 2003 to 2007, and from 2001 to 2003 (Exhibit 2).

As market correlations fall, the benefits of international diversification increase. Instead of buying a potential dip in U.S. stocks, perhaps investors should consider selling into recent strength and adding to their international equity allocations.

Check back in April for a bi-annual update of our views in the *Equity Strategy Playbook*.

The Equity Strategy Playbook leverages our resources as a leading global asset manager, including decades of research experience, to gather and present the indicators that matter most for equity performance in a visual and digestible format. Our multifactor framework for equity portfolio positioning is a consistent, systematic method that's well-suited for thematic, big-picture investing. Investors can use this straightforward, transparent framework to see how we arrived at our conclusions, and to form their own.

Author

Talley Léger
Equity Strategist

Tenure

Industry: 18 years OppenheimerFunds: 3 years

Talley Léger is the Equity Strategist at OppenheimerFunds. He is responsible for formulating and communicating the firm's views on the macro and investment landscapes, with a focus on equities.

Prior to joining the firm in 2016, he was the Founder of Macro Vision Research, and held Strategist roles at Barclays Capital, ISI, Merrill Lynch, RBC Capital Markets, and Brown Brothers Harriman. His areas of expertise include Macro Research, Cross-Market Strategy, and Equity Strategy.

Talley is the co-author of the revised second edition of the book From Bear to Bull with ETFs, a four-star Amazon Best Seller. He has been a guest columnist for the Big Picture and Data Watch on Bloomberg Brief Economics, as well as a contributing author on Seeking Alpha.

- B.A. from Boston University
- M.S. from Boston University

Index Definitions

The S&P 500® Index measures the performance of 500 U.S. large market capitalization stocks, and is intended to be a representative sample of leading companies across many industries within the U.S. economy.

The MSCI USA Index captures large and middle market capitalization equity performance of the United States.

The MSCI ACWI ex USA Index captures large and middle market capitalization equity performance across EM and DM countries, excluding the United States.

The MSCI Emerging Markets Index captures large and middle market capitalization equity performance across 24 emerging market (EM) countries, including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

Correlation measures the degree to which two markets move in relation to each other. It is expressed as a coefficient with a value between +1 and -1, where +1 indicates perfect positive correlation and -1 indicates perfect negative or inverse correlation.

Indices are unmanaged and cannot be purchased by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any particular investment. Past performance does not guarantee future results.

Disclosures

These views represent the opinions of the author at OppenheimerFunds, Inc. and are not intended as investment advice or as a prediction of the performance of any investment. These views are as of the close of business on March 22, 2019, and are subject to change on the basis of subsequent developments.

Equities are subject to market risk and volatility; they may gain or lose value. Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and geopolitical risks. Emerging and developing markets may be especially volatile. Eurozone investments may be subject to volatility and liquidity issues. The mention of specific countries, companies or sectors does not constitute a recommendation by any particular fund or by OppenheimerFunds, Inc.

Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

Before investing in any of the Oppenheimer funds, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses and summary prospectuses contain this and other information about the funds, and may be obtained by asking your financial advisor, visiting oppenheimerfunds.com or calling 1 800 CALL OPP (225 5677). Read prospectuses and summary prospectuses carefully before investing.

Oppenheimer funds are distributed by OppenheimerFunds Distributor, Inc.
225 Liberty Street, New York, NY 10281-1008
© 2019 OppenheimerFunds Distributor, Inc. All rights reserved.

March 22, 2019

JS0322.001.0319