

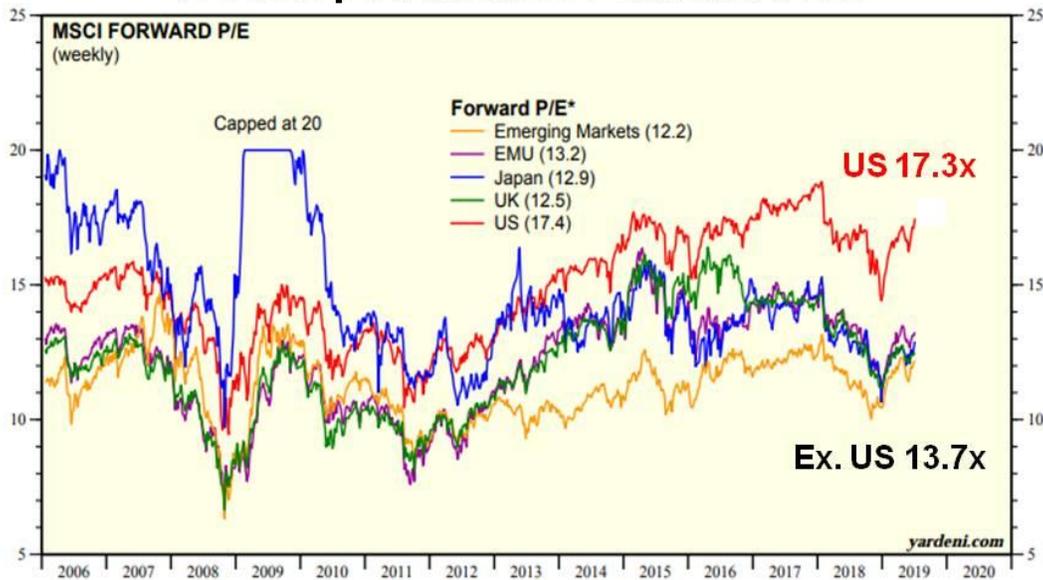
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July 19, 2019

Are Foreign Stocks Inexpensive?

The MSCI EAFE Index represents large and mid-cap stocks across 21 developed markets in Europe, Australasia and the Far East. It excludes the U.S. It is currently trading at a forward P/E of 13.7x.

Developed Market Forward P/Es



When we compare the MSCI EAFE forward P/E with the forward P/E of the S&P 500 index, the MSCI EAFE index looks inexpensive. The US forward P/E is 17.3x versus the MSCI EAFE forward P/E at 13.7x.

We know the relative prices, but it is important to understand the relative values. The pertinent question is what are we buying when we buy the S&P 500 versus the MSCI EAFE index?

In brief, the S&P 500 is technology stock dominated. 21.5% of the index is comprised of technology stocks. If you add the communication services sector, the percentage representation of the index jumps to 31.7%. By contrast, the technology sector weighting of the MSCI EAFE is 6.7% and 12.1% when you include the communication services sector.

The industrial and financial sectors carry a substantially higher weighting in the MSCI EAFE Index than they do in the S&P 500. The valuations of sectors vary by their growth and profitability characteristics. Technology companies tend to grow faster and are more profitable than industrial and financial companies. The P/E of the technology sector is substantially higher than the P/E of the industrial and financial sectors. Below is a comparison of index industry sector weightings with P/E's assigned to each sector.

S&P 500 vs. MSCI EAFE Sector Comparison

	S&P Industry		S&P Industry	S&P/EAFE		MSCI EAFE
	Sector P/E	S&P 500 Index	Sector	Weighting	MSCI EAFE	Sector
	Frwd. 12-month	Weightings	Weighted P/E	Differential	Weightings	Weighted P/E
Materials	17.3	2.8%	0.48	-4.6%	7.4%	1.28
Industrials	16.0	9.4%	1.50	-5.4%	14.8%	2.37
Financials	11.9	13.1%	1.56	-5.8%	18.9%	2.25
Energy	16.1	5.0%	0.81	-0.6%	5.6%	0.90
Cons. Discr.	21.2	10.2%	2.16	-0.9%	11.1%	2.35
Technology	19.2	21.5%	4.13	14.8%	6.7%	1.29
Comm Service	17.7	10.2%	1.81	4.8%	5.4%	0.96
Real Estate	19.3	3.1%	0.60	-0.5%	3.6%	0.69
Health Care	15.4	14.2%	2.19	3.0%	11.2%	1.72
Cons. Staples	19.2	7.3%	1.40	-4.4%	11.7%	2.25
Utilities	18.8	3.3%	0.62	-0.3%	3.6%	0.68
S&P 500		100.0%	17.3	MSCI EAFE	100.0%	16.7

When you buy the S&P 500, you are buying a faster growing, more profitable set of companies than when you buy stocks in foreign developed markets. Based on what is held in each index, the S&P 500 should be a higher priced index than the MSCI EAFE. The differential should be roughly ½ of a P/E point. Historically, the differential has been about 1 P/E point.

The current differential in P/E between the two indexes is roughly 3.6x. This suggests that if foreign developed economies continue to grow, an investor in the MSCI EAFE

may capture both earnings growth and roughly 3 points of multiple expansion. Multiple expansion combined with earnings growth can make for attractive returns.

The only difficulty with this analysis is that there is increasing evidence foreign developed market economies may be contracting rather than growing. As a group, the PMI (Purchasing Managers' Index for Manufacturing) for developed foreign markets has been below 50 (contraction) for the past two months and weakened from May through June. Until this turns around and it is clear that EAFE earnings have stabilized, foreign markets may not be such a bargain.

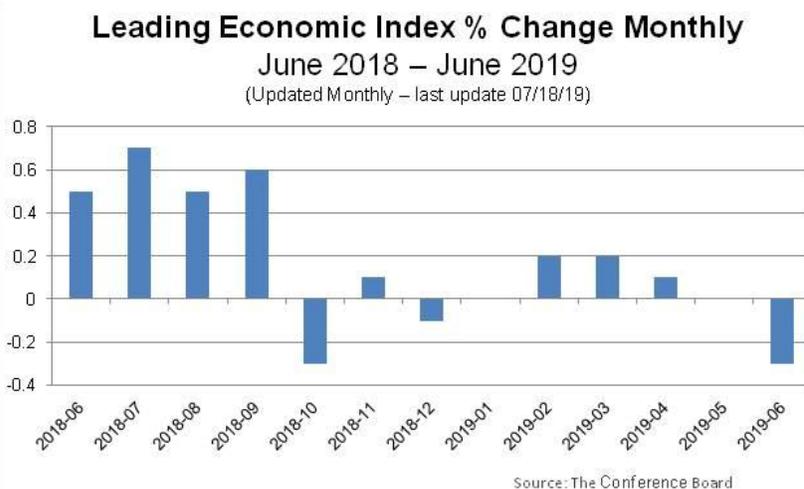
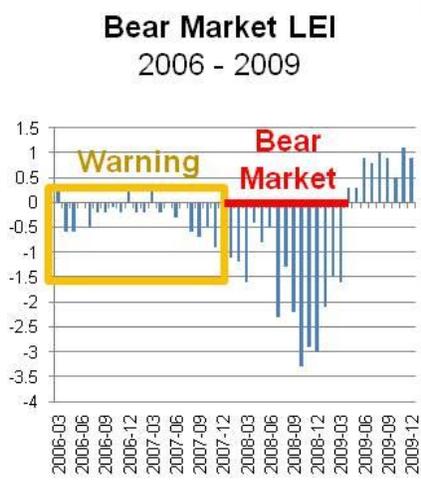
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"Want some mustard with your catsup?"

Delta Stock Market Dashboard



MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

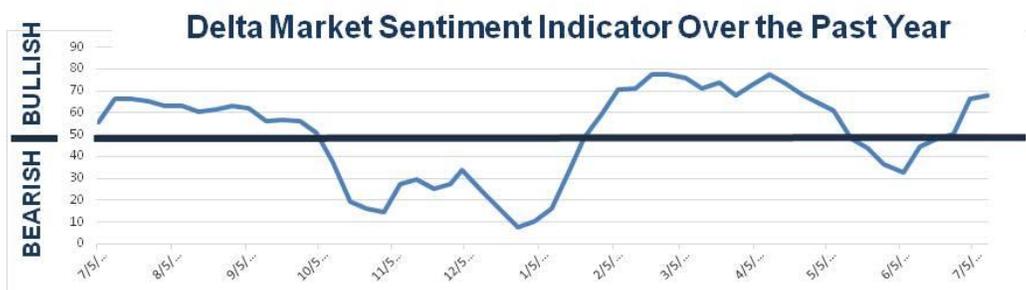
68.0

Our technical indicator increased
this week from 66.3 to 68.0

INDICATOR STATISTICS

Consecutive Bullish Weeks:	3
Cycle Inception Date:	6/27/2019
Range:	50.3 – 68.0
Mean:	61.5
Bullish Weeks YTD:	19
Bearish Weeks YTD:	9
*S&P 500	2.9%
*DJIA	2.1%
*NASDAQ	3.5%

**Percentage change during current cycle*



(Delta MSI is published every week in *Barron's*)

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