American Century Investments®

FIRST QUARTER 2017 – GLOBAL AND NON-U.S. EQUITY

Unexpected Outcomes Reinforce the Need to Consider Company Fundamentals

Several of the major events that rattled global markets this year continue to sow uncertainty as we head into 2017. Investors remain concerned about the long-term effects of Brexit and Donald Trump's improbable victory in the U.S. presidential race.

Besides catching pundits and pollsters off guard, the trait that the Brexit referendum and Trump election share is that they signal a growing rise in populist sentiment around the world. With the recent Italian constitutional reform referendum and upcoming elections in Germany and France, investors are watching closely for any additional signs of disaffection among the electorate that could lead to greater market volatility.

The exact details of how and when the U.K.'s exit from the European Union (EU) will be accomplished remain unclear. This uncertainty, along with the potential for contagion to other areas of Europe, continues to weigh on global investors' minds. The ultimate effects a "hard Brexit" (i.e., a clean break with the EU) will have on trade, currencies, and growth remain to be seen. Consequently, the outlook for the U.K., Europe, and the markets that are significant trading partners with the U.K. remains clouded by unknowns as well as the potential for additional populist or anti-globalization movements.

In the U.S., Donald Trump was swept into the White House, in part, by a wave of anti-establishment sentiment in voters who identified with his protectionist campaign rhetoric. While non-U.S. markets dropped sharply after the results of the election were initially known, U.S. stocks advanced in choppy, high-volume trading. Volumes remain elevated as we count down the days to the new administration's inauguration.

It remains to be seen how much of candidate Trump's rhetoric will make it through to President Trump's policies. As has been said many times since the election, it is much easier to campaign than to govern. The new president will not be able to simply enact all the new policies promised in his stump speeches. While the Republicans now control both houses of Congress, they hold a very narrow margin in the Senate. Also, many lawmakers in Trump's own party are not completely in agreement with many of his stated policies. Thus, some isolationist and protectionist trade moves may be difficult to achieve. However, it is generally expected that he will formulate an administration that will be able to create favorable conditions for many of his initiatives.

Therefore, we expect to see tax reform, fiscal expansion, increased infrastructure and defense spending, and deregulation (of financials, health care, and energy, at least) to be put forth early in the new administration. Such policies could help financials through less regulation, defense-related names via more defense spending, drug companies through a more free-market approach to price setting. Coal and oil (including hydraulic fracturing) could be beneficiaries of Trump energy policies, while alternative sources, such as solar and wind, could be less fortunate.

As we head into the new year, the uncertainty surrounding global markets is further evidence of why in-depth, company-level research is critical. Trying to react to shifting government policies and macroeconomic trends can cause one to miss how company-specific fundamentals are driving potential earnings growth. Thus, we will maintain our disciplined, bottom-up investment process regardless of which way the political and regulatory winds blow.

Keith Creveling, CFA
Chief Investment Officer
Global and Non-U.S. Equity

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