3Q 2019 Review: International Equity ETF

With just nine market days remaining in the third quarter, international equity markets (those outside the US) are coming to the close of another quarter of high volatility.

Market volatility continues to be driven by the destabilizing effects of the escalating US-China trade and technology disputes, as well as unresolved trade issues the US has with the European Union and other countries. The ongoing sharp political divisions in the United Kingdom about the UK's efforts to withdraw from the European Union (Brexit) have added to the uncertainties facing businesses and investors. Also, the continuing demonstrations in Hong Kong are likely harming its reputation as a stable and secure financial center and an attractive environment for foreign investment. And as the quarter comes to an end, the attack on Saudi Arabia's oil facilities has shocked oil markets and raised very troubling geopolitical and economic concerns.

The economic backdrop to all these headwinds for risk-taking is a global economy that is losing momentum, with a slowdown in the manufacturing sector in most countries. The J.P. Morgan Composite Output Index for August indicated that global growth was at the slowest pace in three years.

Despite the above factors, investors continued to support the international equity markets during the quarter thus far. Over the past 90 days through September 16, the iShares MSCI ACWI ex US ETF, ACWX, gained 2.8% on a total return basis. The advanced-economy markets of Europe and Asia-Pacific that are covered by the iShares MSCI EAFE ETF, EFA, also registered a 2.6% gain. The iShares MSCI Emerging Markets ETF, EEM, advanced slightly less, 2.4%. Stocks in emerging markets usually suffer in times of "risk off" investor sentiment.

The performance of individual national markets varied considerably. Selectivity among national markets and diversification across national markets are important for investors.

In Asia the iShares MSCI Japan ETF, EWJ, outperformed, gaining 6%, while Hong Kong, suffering from the political unrest and the slowdown in China, lost 1.5% according to the iShares MSCI Hong Kong ETF, EWH. Similarly, in Europe, the iShares MSCI France ETF, EWQ, advanced 3.3%, whereas German equities, impacted more by the global slowdown in trade, gained only 0.9% according to the iShares MSCI Germany ETF, EWG. Across the Channel, the iShares MSCI United Kingdom ETF, EWU, lost 1% over the past 90 days as the country continues to be rocked by political turmoil over Brexit.

Among the emerging markets, the iShares MSCI China ETF, MCHI, gained 6.3%, as the government further strengthened its efforts to counter a slowing economy. In contrast, the iShares MSCI South Korea ETF, EWY, is up only 1.7% and still down 1.4% year-to-date. That country remains locked in a political dispute with Japan over World War II reparations.

As the third quarter comes to an end, high uncertainty about trade disputes, Brexit, Iran, and the oil market continues. The very low interest rates around the globe and the prospect of increased fiscal stimulus should be favorable to equity markets, but the downside political risks remain significant.

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Sources: etf.com, HIS Markit, J.P. Morgan