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Resources Management Corp

MARKET COMMENTARY

GEOPOLITICS & INVESTING

Much like globalization has permeated most corners of the U.S. economy, investing in the stock market has become more of an international venture than ever before. The S&P 500, which includes the 500[1] largest publicly traded businesses in the United States, has significant exposure to the global markets, with between 40% and 50% of aggregate revenue being generated internationally each year since 2000[2]. While this expansion abroad has allowed for substantial growth opportunities for U.S. companies, it has also increased the complexity of evaluating the fundamentals of the underlying businesses. Differences in business dynamics across various markets can create complications for investors, but geopolitical considerations tend to have a far more marked influence on stock prices in the short term.

There are ample examples of global events impacting U.S. markets, with the most recent being fears surrounding Italy's political situation. Without revisiting all of the details, the markets abruptly became very concerned that Italy would make a push to withdraw from the European Union, resulting in broader issues across Europe (not to mention within Italy itself). With a collapse in the country's debt structure being the largest financial impact at the forefront of investor's minds, the Italian bond market suffered the most, negatively impacting equities worldwide. The S&P 500, for example, dropped 1.2% from the previous week's close on Tuesday, May 29th in reaction to these fears. The market, however, regained all of this ground (and more) by the end of the next trading day as Italy's political situation diffused. Similarly, markets have made substantial moves in recent weeks as trade discussions with China (and the rest of the world) have dominated headlines. Fears of a trade war have sent the S&P spiraling, while optimism that tensions have begun to cool has sparked recovery.

In the midst of all this news (noise?), however, we have seen a relatively strong earnings season in which many key companies have topped analysts' estimates and raised guidance for the remainder of the year. Reported earnings, when evaluated over the long term, offer far more insight into an investment's prospects than reports of subtle changes to global dynamics do. This is not to say that the result of trade talks with China (and the many other countries the government is currently negotiating with) will not have an impact on the businesses we have selected, but that we are focused on building portfolios that are not dependent on any one particular outcome or economic backdrop.

Macroeconomic and geopolitical events, over time, drive the overall direction of the business atmosphere which, in turn, impacts the fundamentals of the businesses in which we invest. As events actually play out, we spend substantial amounts of time understanding how the long-term value of each business will be impacted. We do not, however, make portfolio adjustments based on rumors or unfounded predictions. Instead, we attempt to identify businesses that are positioned to be successful in a wide variety of economic and political environments and are run by high quality managers with experience navigating different business climates. By selecting a well-diversified mix of companies with these qualities, we aim to position all portfolios to achieve their respective investment objectives over the long term.