Why do you believe so strongly in non-U.S. equities outperforming in 2018?

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Nick Niziolek, Co-CIO, Head of International and Global Strategies and Senior Co-Portfolio Manager, describes the three tailwinds—the weak U.S. dollar, global synchronized growth and relative valuations—underlying Calamos' positive view.

We remain positive on non-U.S. markets heading into 2018, and across our global portfolios are overweighting non-U.S. equities compared to their counter U.S. equities.

Our primary reason for overweighting non-U.S. equities is that we see three tailwinds that can drive continued outperformance over the next few years.

The first tailwind is a weaker U.S. dollar. Over the last year we've seen the dollar start to weaken against most major currencies and we think this is the beginning of a multi-year cycle. The dollar had been strong for a five- to six-year period heading into last year, and it had been so strong given the strength of the U.S. economy that we think it became overvalued by more than 20% versus most major currencies.

In the coming years as global growth continues to recover and we start to see stronger growth overseas, we'd expect that relationship to revert and for the dollar to begin to weaken versus those major currencies.

Historically in a weak dollar environment, much better returns have been had from overseas assets and that's one of the reasons we continue to allocate overseas.

The second factor is the pick-up that we're seeing in global synchronized growth. This has been one of the first environments since just after the global financial crisis where we've seen growth picking up and improving across most major regions—with significant liquidity being added to the system from central banks, and reforms and initiatives starting to pull through and generate greater growth overseas. This is also supportive for non-U.S. assets.

And the third factor is relative valuations. When we look at the valuations that we're seeing in the U.S. it's not that they're extreme or the market is significantly overvalued, it's just that we're seeing better and more attractive valuations overseas, with markets like Europe and Japan and even emerging markets trading at significant discounts to the U.S. market and still cheap on historical measures.

So as we progress into 2018 we expect those tailwinds to continue to provide an opportunity for further outperformance of non-U.S. assets, and that is why our portfolios are positioned to be heavier and more overweight those markets.

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Ask the PORTFOLIO MANAGER

Video recorded 1/8/18.

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