BlackRock Has It Wrong on U.S. Stocks, Russell Investments Says

By **Cormac Mullen**

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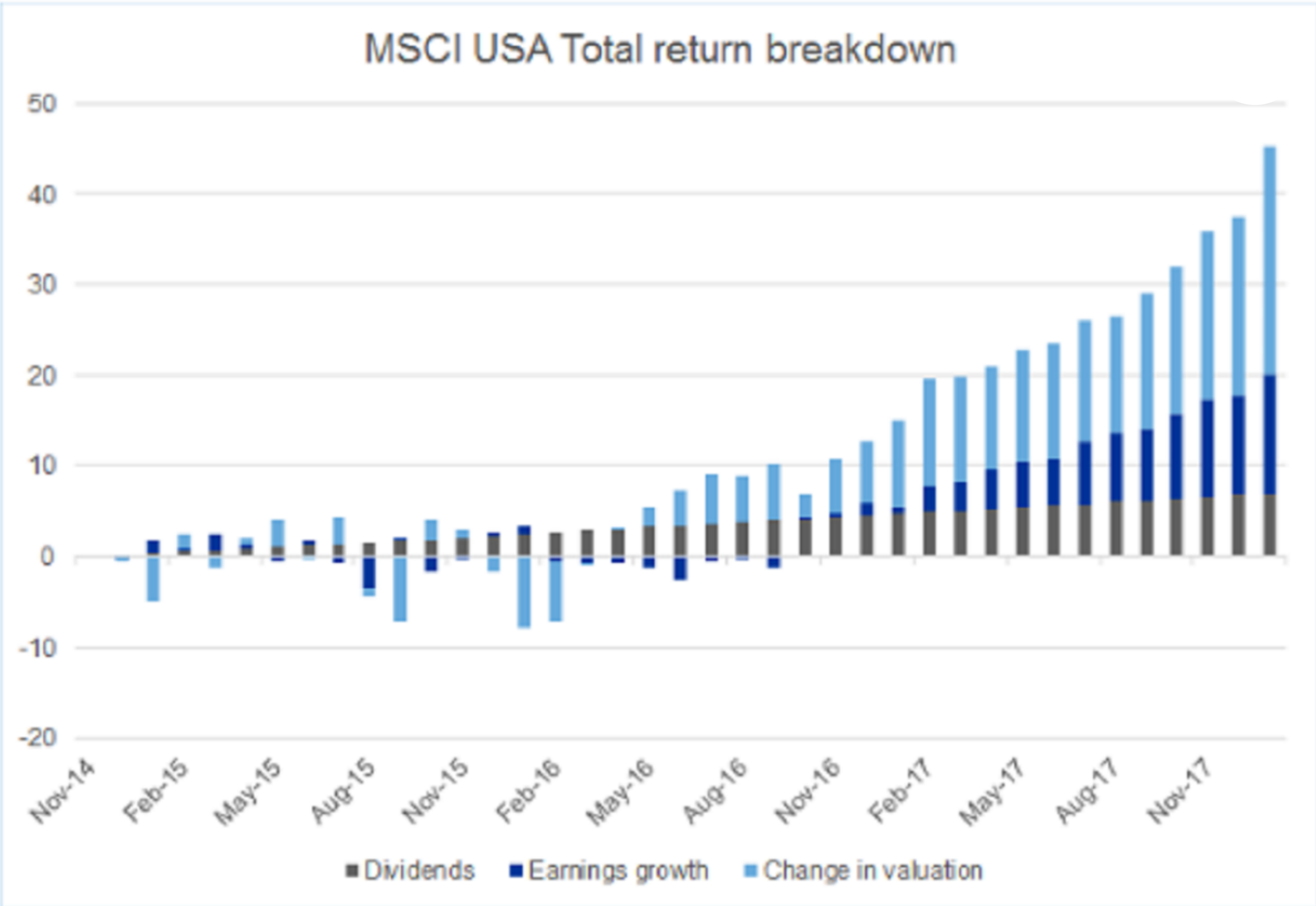
- European equities are clear preference over U.S.: Sturkenboom
- Washington fiscal stimulus seen as risk to valuation multiples

A difference of opinion is what makes a market -- and BlackRock Inc.'s bullish case <https://www.bloomberg.com/news/articles/2018-02-20/blackrock-says-buy-u-s-stocks-as-tax-plan-supercharges-earnings> for U.S. equities over their European counterparts last week has prompted a rebuttal <http://blog.russellinvestments.com/counterargument-why-giving-up-on-europe-favor-us-wrong/> from Russell Investments, which argues the world's largest money manager has got it the wrong way round.

The strong earnings momentum in U.S. stocks championed by BlackRock is actually a cause for concern to Russell's Wouter Sturkenboom, senior investment strategist at the $297 billion asset manager. It raises the hurdle for positive profit surprises and the earnings revisions ratio highlighted in the BlackRock note doesn't have a great track record as a leading indicator of returns, he said.

"While we admire the strategists at BlackRock and other industry pundits who share this view" on U.S. stocks, he wrote in a blog post, "we respectfully disagree."

For Sturkenboom, the U.S. government's fiscal stimulus will increase inflation, grow the budget deficit and cause interest rates to move higher. This poses a risk to valuation multiples, he said, an expansion of which has been behind much of the strong returns in U.S. stocks in recent years.



Source: MSCI USA index

"The chart clearly shows the majority of return has come from a change in valuation, which the recent selloff did not really impact at all," he wrote in a blog post. "As a result, we take the risk of higher inflation, interest rates and monetary policy uncertainty much more seriously."

While BlackRock's global chief investment strategist, Richard Turnill, also noted the risk to multiples in his note, he argued earnings growth matters more than valuations over shortertime horizons at this stage of the economic cycle.

The strategists also differ in their views on Europe. BlackRock downgraded its view on European stocks to neutral, while for Russell Investments they are the “clear” preference over their U.S. peers.

Europe has strong economic growth, expanding corporate margins and “virtually nonexistent” inflation risk, according to Sturkenboom. Monetary policy is expansionary and expected to stay that way for the foreseeable future.

“Europe may lack the sugar high of a large fiscal stimulus,” he wrote. “But both in terms of return potential as well as risk, in our opinion it is superior.”