



**Market Forecast for 2018**  
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# Understanding Where We've Been

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As of December 31, 2017

## 2016 – Policy resynchronization & cyclical economic / earnings recovery

### March / April

- Inflection point confirmed: EM / commodities / cyclicals reversal & outperformance

### November

- Trump victory / shock: Rotation to Value / Financials / U.S. Dollar

## 2017

### 1H 2017:

- Unwinding of Trump policy proposals: Return to growth / EM / International outperformance

### 2H 2017:

- China rebalancing success & Party Congress
- U.S. tax reform passed
- Synchronized global acceleration

## 2016-2017 – Japan & Europe

- Monetary support
- Cyclical / credit acceleration
- Political risks contained

# What's Ahead?

As of December 31, 2017

## Nearer Term: Temper your enthusiasm

- Fundamental strength meets moderating liquidity & monetary support
- Sweet spot for International / EM economic growth & earnings
  - ▶ Fairly well-discounted & high optimism
- Post-China Party Congress regulatory guidance & incremental tightening
- Upside overshoot followed by rising volatility, broad trading range, consolidation / correction

## Longer Term: International / EM outperformance sustainable

- Widespread favorable political direction relative to U.S.
  - ▶ Attractive reform agendas in Japan, India, China, Brazil, Argentina, Chile...South Africa?
- Room for Europe discount to narrow
- Hard Brexit becoming less likely
- U.S. good news largely discounted
- Populist shift a risk to corporations and capital owners? Peak margins?
- China targeting profit share gain in value-added sectors