

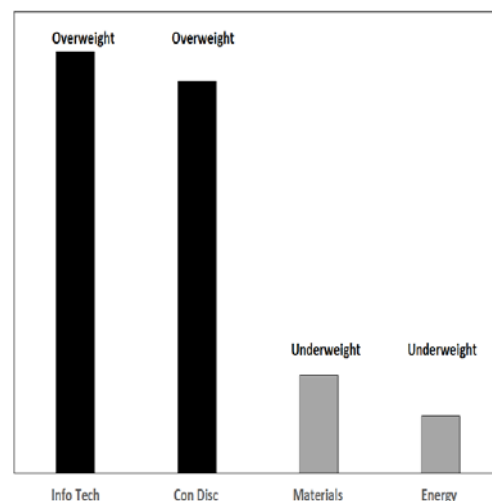
Regional and Sector Strategy: Monthly Update



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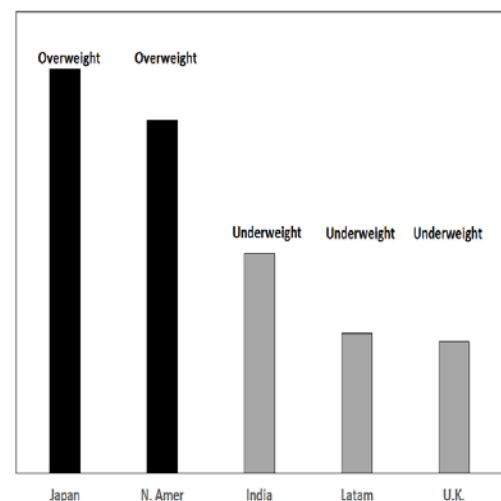
- **Energy and Materials: Still Sinking.** Earnings momentum in the Materials and Energy sectors has been negative *every month* since we launched our sector model 24 months ago. The valuation of both sectors *remains* unattractive.
- **Japan: Risk of a Value Trap?** We have been Overweight Japan since launching our regional model in April 2014. For the bulk of that period, *both* earnings and valuation factors were positive. However, for the 2nd consecutive month, Japan's earnings momentum has trended downward and earnings revisions have been negative. It's *only valuation* that supports its Overweight ranking, raising the risk of a value trap.
- **The Impact of ESG Factors in Regions.** In part reflecting the incorporation of ESG factors, Russia (weak ESG) is ranked 4th in our regional model, while North America (strong ESG) is ranked 2nd. If our regional model *did not* incorporate ESG factors the rankings would be flipped: Russia would rank 2nd and North America 5th.

Figure 1: Sector Over- and Underweights



Source: Cornerstone Capital Group

Figure 2: Regional Over- and Underweights



Source: Cornerstone Capital Group

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