

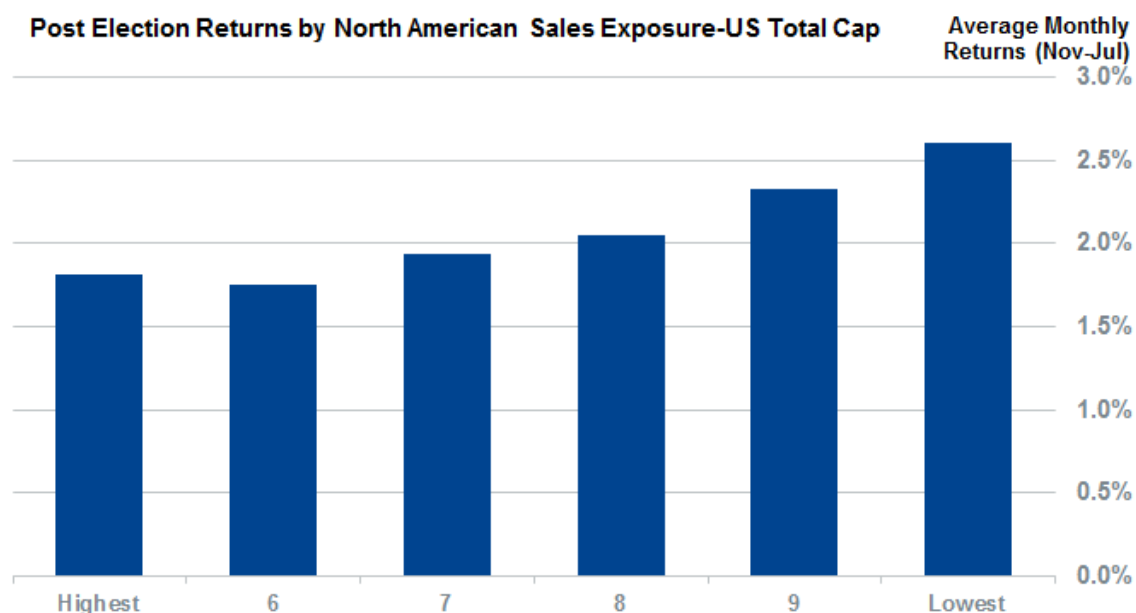
Trump's Wall Street rally rings hollow

Wednesday, August 2nd, 2017

Dow Jones hits all-time highs based on shares with international exposure

- Since the election, firms with more offshore sales outperform the market
- Tech shares are most likely to have greater foreign exposure
- Short sellers less skeptical of internationally-exposed stocks

President Donald Trump [believes](#) his political turmoil has no bearing on US stocks – this claim rings hollow, as data shows that firms with greater offshore sales have performed better since the election. Naturally, these shares offer a hedge against the domestic uncertainty which defines the Trump era.



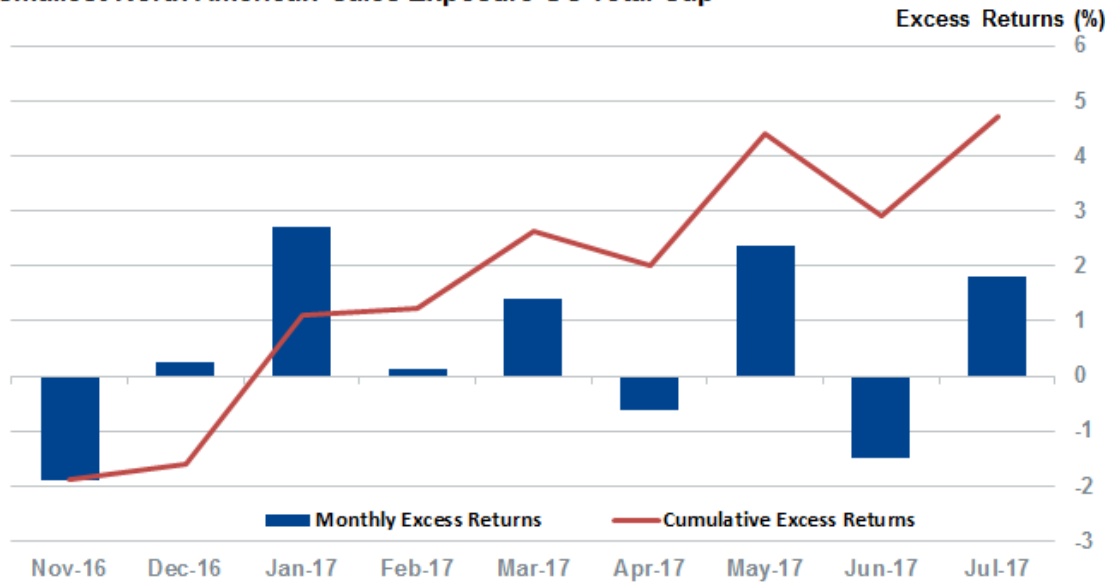
Source: IHS Markit

Change of Heart

In the weeks following the election, investors preferred shares with low overseas exposure. The top 10% of US shares by international revenue underperformed their

market peers by 1.9% in November; however, this was only a momentary setback, and internationally-exposed shares have since recovered all lost ground.

Smallest North American Sales Exposure-US Total Cap



Source: IHS Markit

Since December 2016, US shares with the largest portion of overseas revenue returned a monthly average of 2%, according to IHS Markit Research Signals. Compared with the majority of constituents from the IHS Markit Research Signals US Total Cap list – which derive the entirety of their revenues domestically – these returns are more than double.

For four of the six subsequent months, overseas-exposed US stocks have outperformed the market by a combined 4.6%.

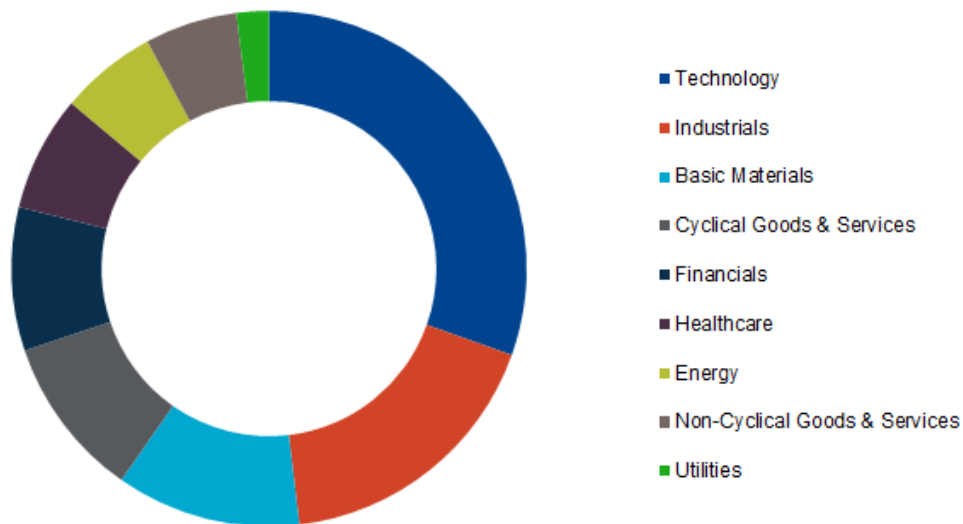
The desire to gain shelter from a turbulent domestic environment isn't the only likely tailwind for US cosmopolitan stocks. The [falling dollar](#) has made export-dependent companies more competitive, and boosted the value of foreign profit streams.

Tech less exposed

Tech firms have disproportionately benefited from overseas exposure; they are heavily represented among the group of US shares that derive the most revenue from outside North America.

In fact, there are 105 tech firms represented in the latest sector rankings – 44 more than industrials, which are the second most represented sector.

Proportion of US Stocks With the Most Overseas Revenue Exposure



Source: IHS Markit

Materials firms, such as chemical and aluminum producers, complete the three sectors most likely to draw revenues from overseas.

Short sellers taking part

Short sellers haven't been willing to take on the other side of the rally – they have a lower than average exposure among internationally-exposed shares.

While only 10% below the overall universe of shorts, this positioning is significant. It indicates the rally over the last few months may still have legs, and has so far failed to attract skepticism of a perceived bubble market.

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