

A Global Perspective

The Possibilities in International Equity Investing

Investors tend to prefer investing in their home country instead of taking a more global perspective.

Sources: MSCI, "Selected geographical issues in the global listed equity market" (Oct 2019)

This behavior is known as home bias.



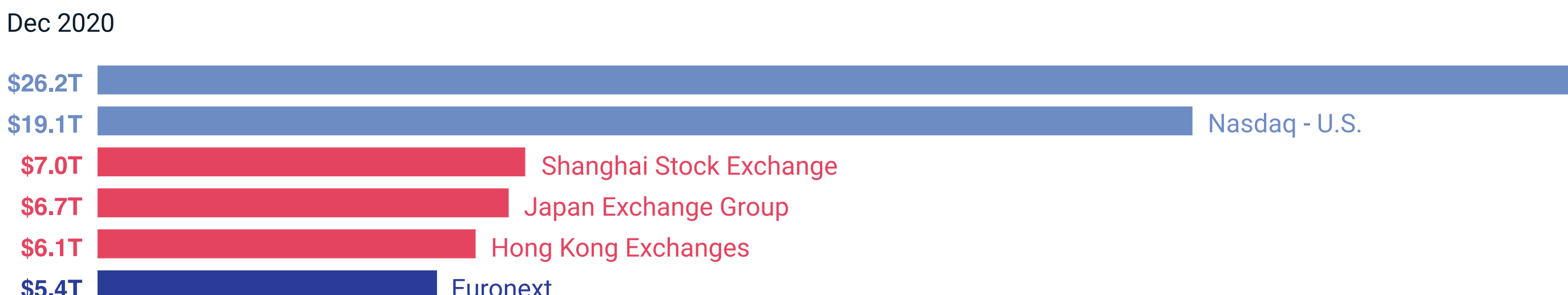
While stocks from an investor's home country may be more familiar and easier to understand, investors could consider expanding their geographic exposure.

Equity Home Bias

Dec 2019

Home bias captures how much domestic investors invest in their country's stocks, relative to the weight of their country's market globally!

The closer home bias is to 100%, the more the local investors overweight their local market.

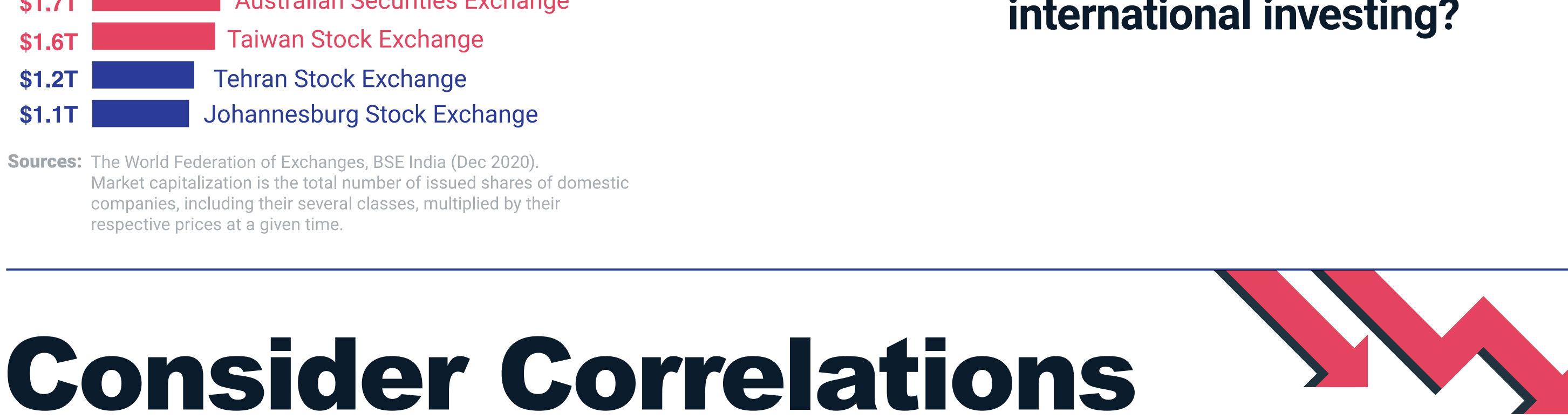


Sources: IMF, MSCI (Dec 2019). Values are reported on a normalized basis, where 100% is equivalent to total home bias. Total home bias means investors invest exclusively in their country's domestic stocks.

*Columbia Business School, Berkowitz, Geert and Wang, Xiaozheng, "Home bias revisited" (Feb 2009)

Stock Exchanges by Market Cap

Dec 2020



From Shanghai to London, 20 of the world's stock exchanges have a market capitalization above \$1T.

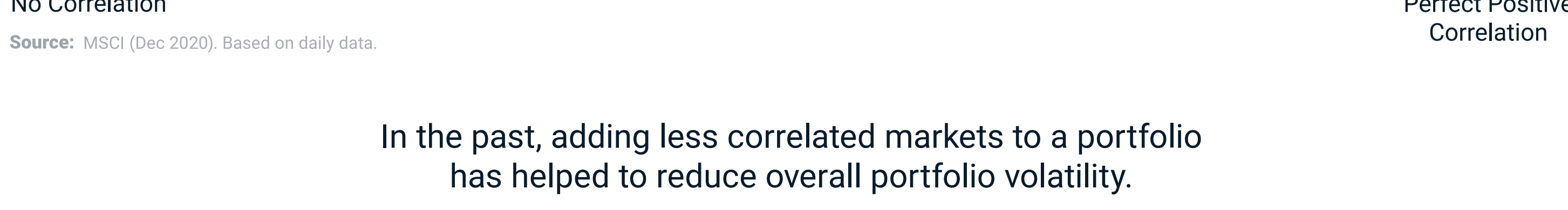
What are some of the possibilities in international investing?

Consider Correlations

Investors could consider including markets that have relatively low correlation with their home market. This means the market movements are not as closely aligned, and may behave differently.

Correlation Between U.S. and International Stock Markets

Dec 31 2015–Dec 31 2020



Sources: MSCI (Dec 2020). Based on daily data.

In the past, adding less correlated markets to a portfolio has helped to reduce overall portfolio volatility.

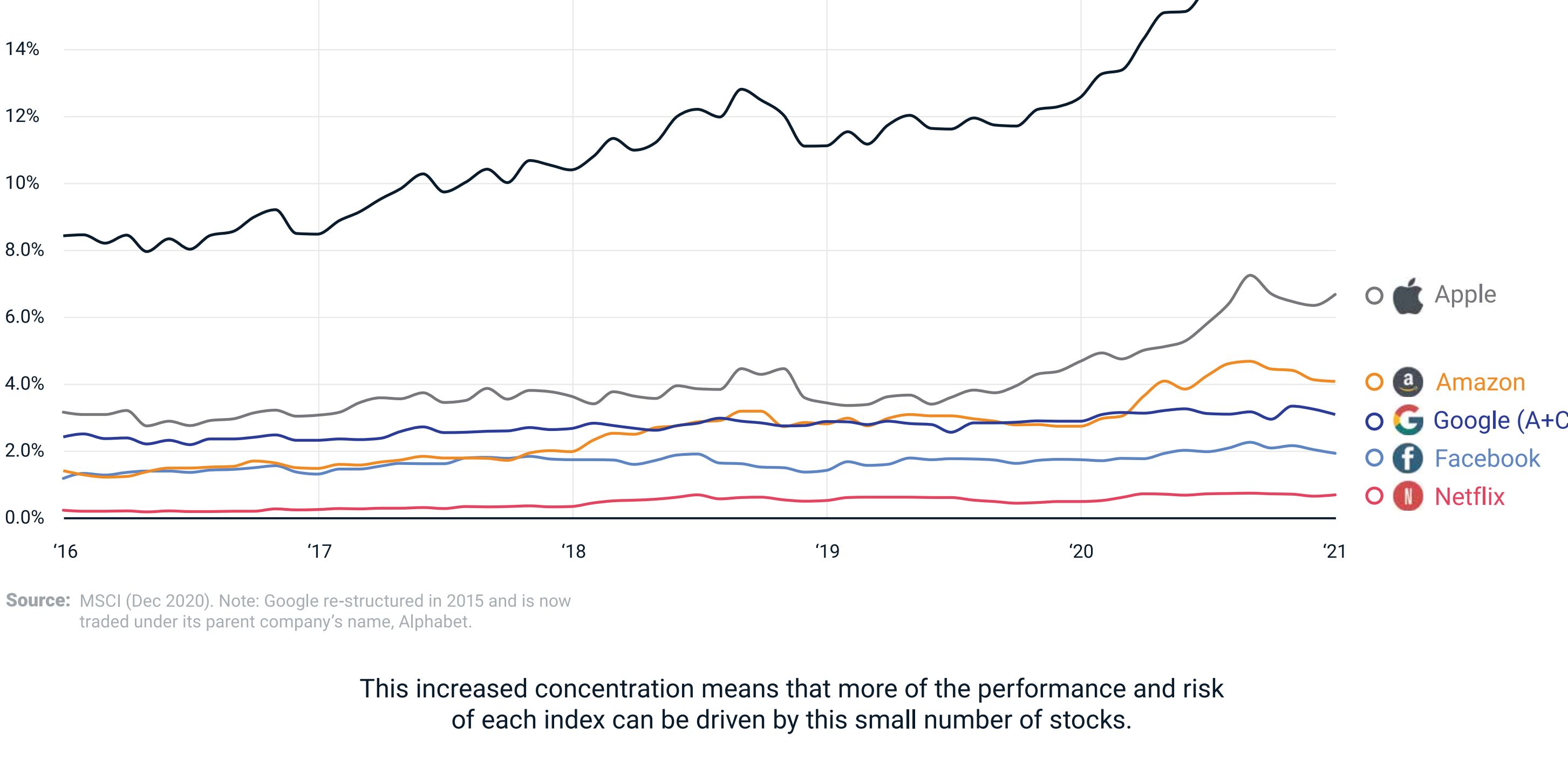
Sources: MSCI, "Selected geographical issues in the global listed equity market" (Oct 2019)

Manage Potential Concentration Risk

Tech-led companies have become more dominant in major U.S. stock indexes due to their strong performance.

Weight of FAANG Stocks

MSCI USA



Sources: MSCI (Dec 2020). Note: Google re-structured in 2015 and is now traded under its parent company's name, Alphabet.

This increased concentration means that more of the performance and risk of each index can be driven by this small number of stocks.

Branching out geographically has helped reduce that concentration risk.

Sources: MSCI, "Selected geographical issues in the global listed equity market" (Oct 2019)

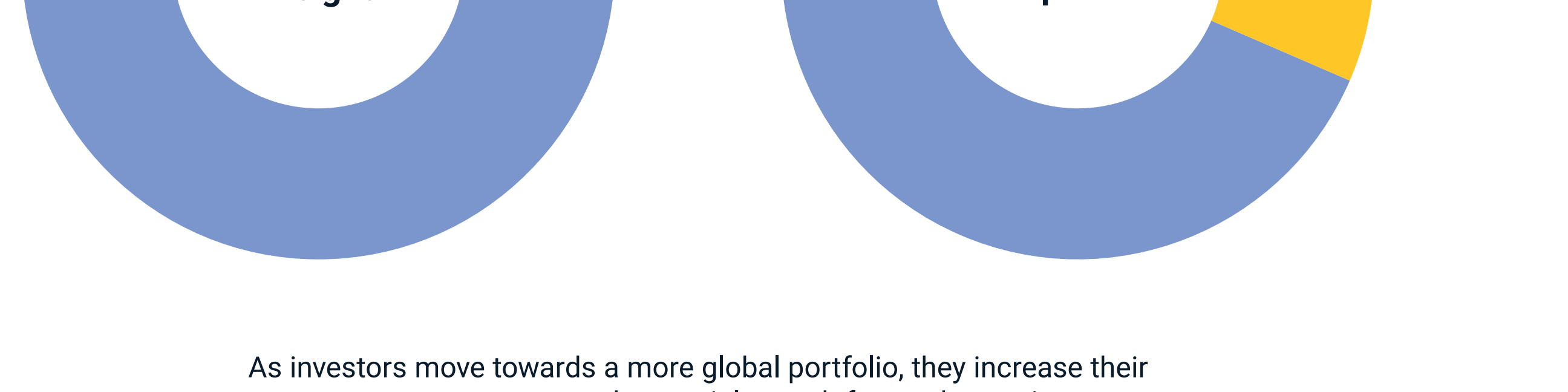
Access Alternative Revenue Sources

For investors that focus in the U.S., exposure to revenues and potential growth from other regions is limited.

Source: MSCI (Dec 2020)

MSCI USA Index

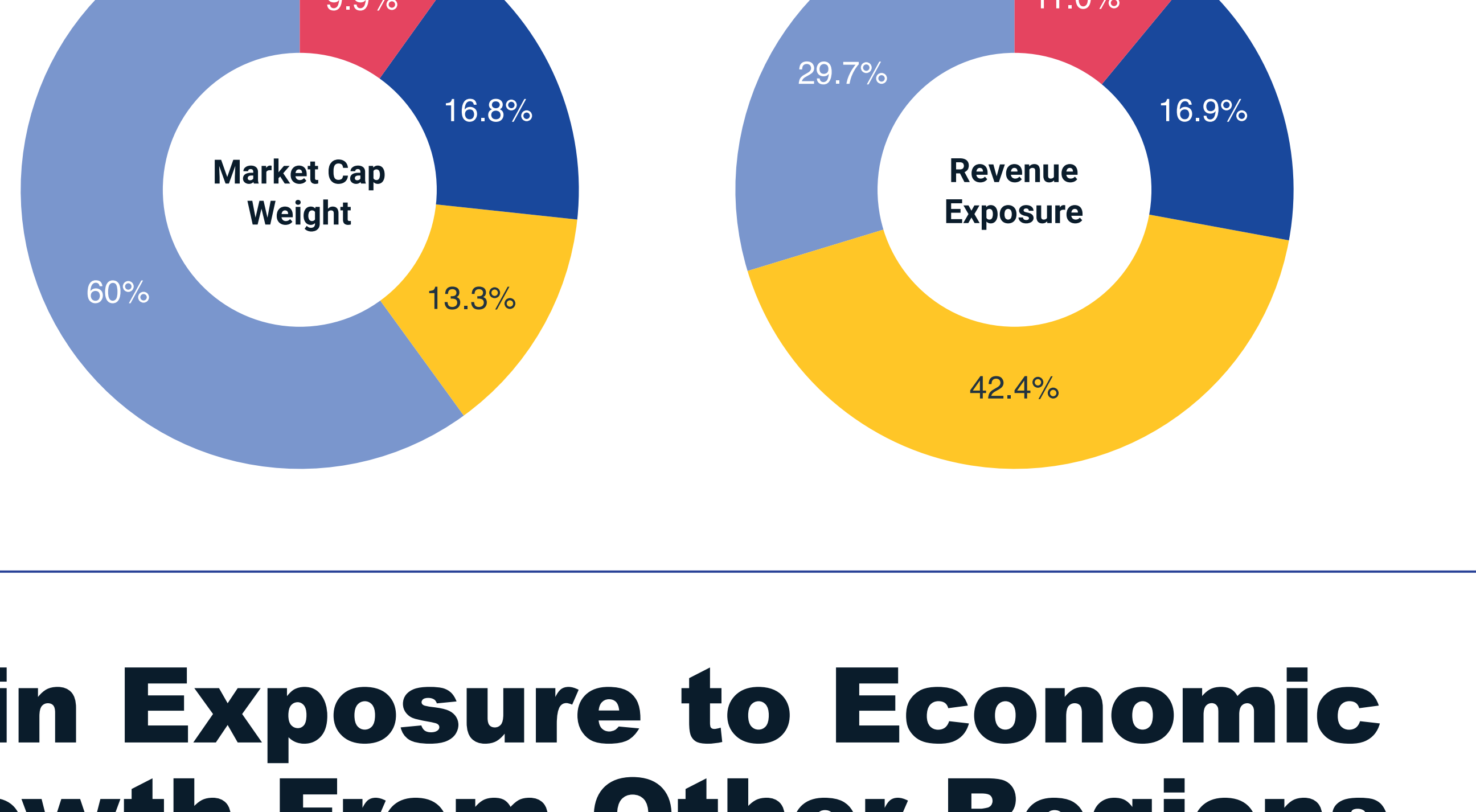
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As investors move towards a more global portfolio, they increase their exposure to revenue and potential growth from other regions.

MSCI All Country World Index

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Gain Exposure to Economic Growth From Other Regions

While GDP growth in developed economies has been more consistent, growth in emerging markets has been higher.

Sources: MSCI, "Selected geographical issues in the global listed equity market" (Oct 2019)

For example, emerging markets typically experience higher GDP growth as they transition to industrial economies with higher standards of living.

Average Annual GDP Growth

Source: MSCI, IMF (Apr 2021)



Historical 2001-2020



Projections as of April 2021

*Represents Japan, Hong Kong, Singapore, Australia, New Zealand

**Based on "Developing and emerging economies" for IMF GDP growth and World Bank Population dataset

Emerging Markets had GDP growth that outpaced other regions in the past, and the International Monetary Fund projects they will continue to experience above-average growth.

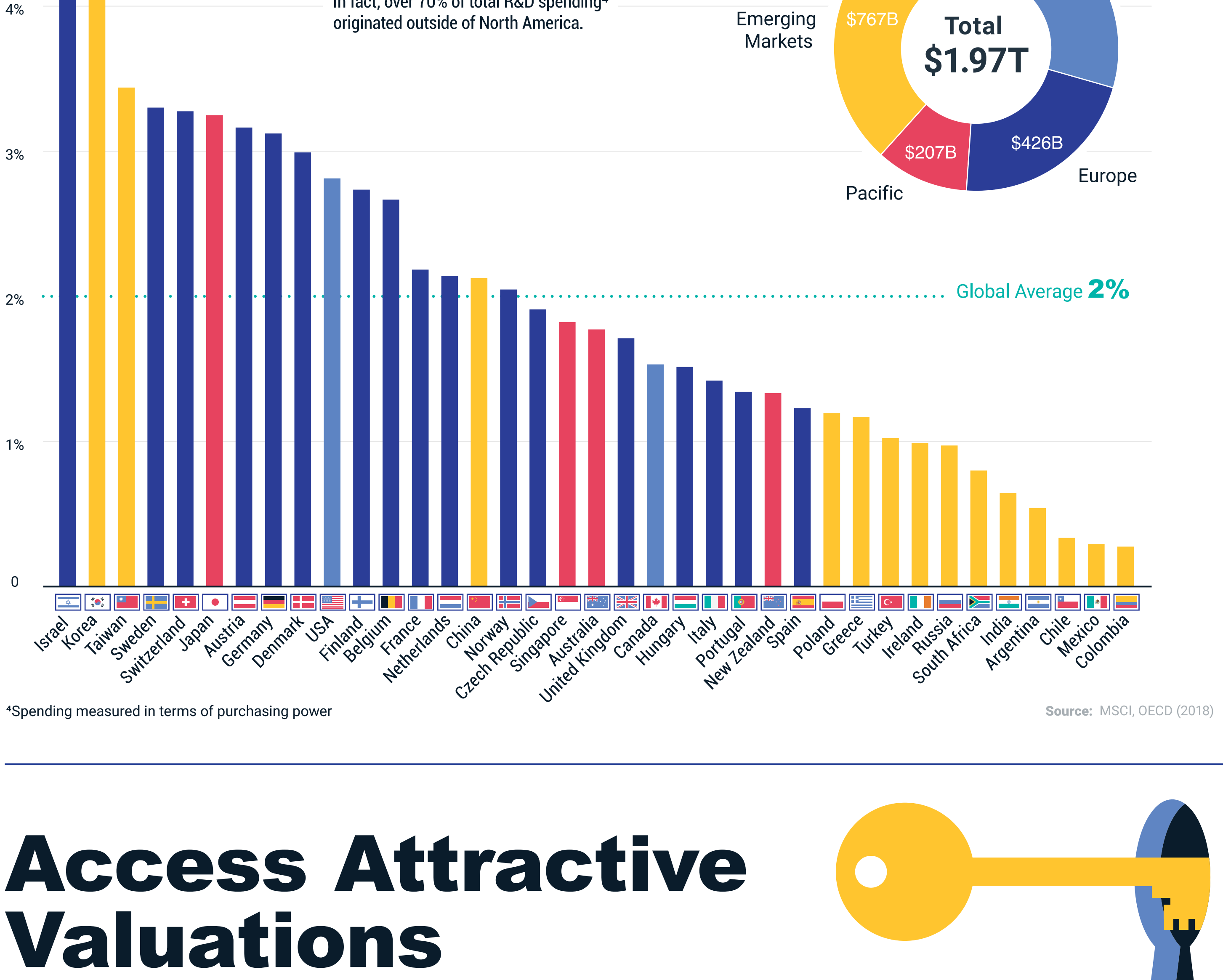
Past performance is not indicative of future results.

Increase Exposure to Innovation

R&D Expenditures as a Percentage of GDP

Source: MSCI, OECD (2018)

Innovation goes far beyond Silicon Valley, and is heating up abroad.

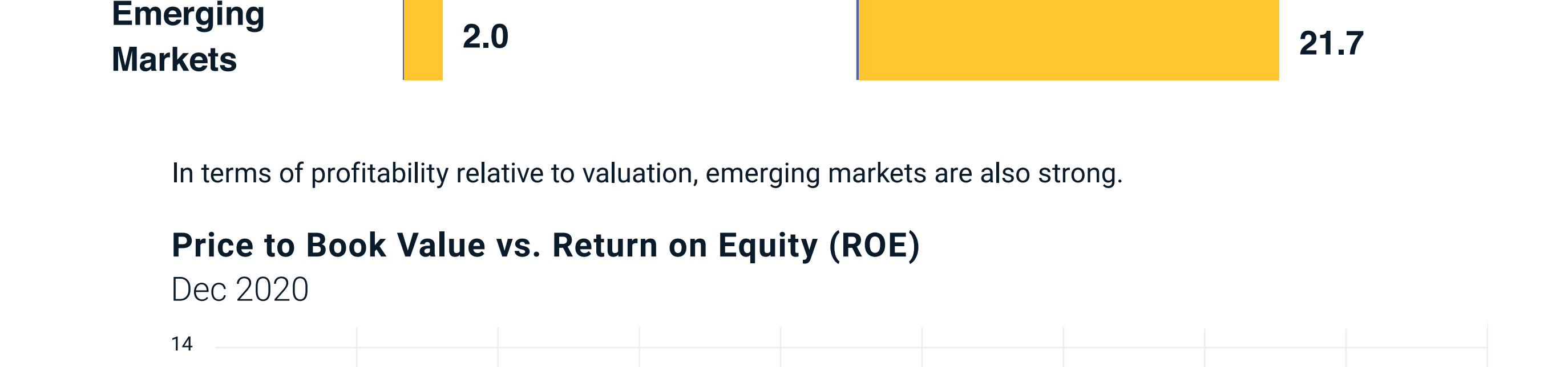


In fact, over 70% of total R&D spending⁴ originated outside of North America.

Global Average 2%

Access Attractive Valuations

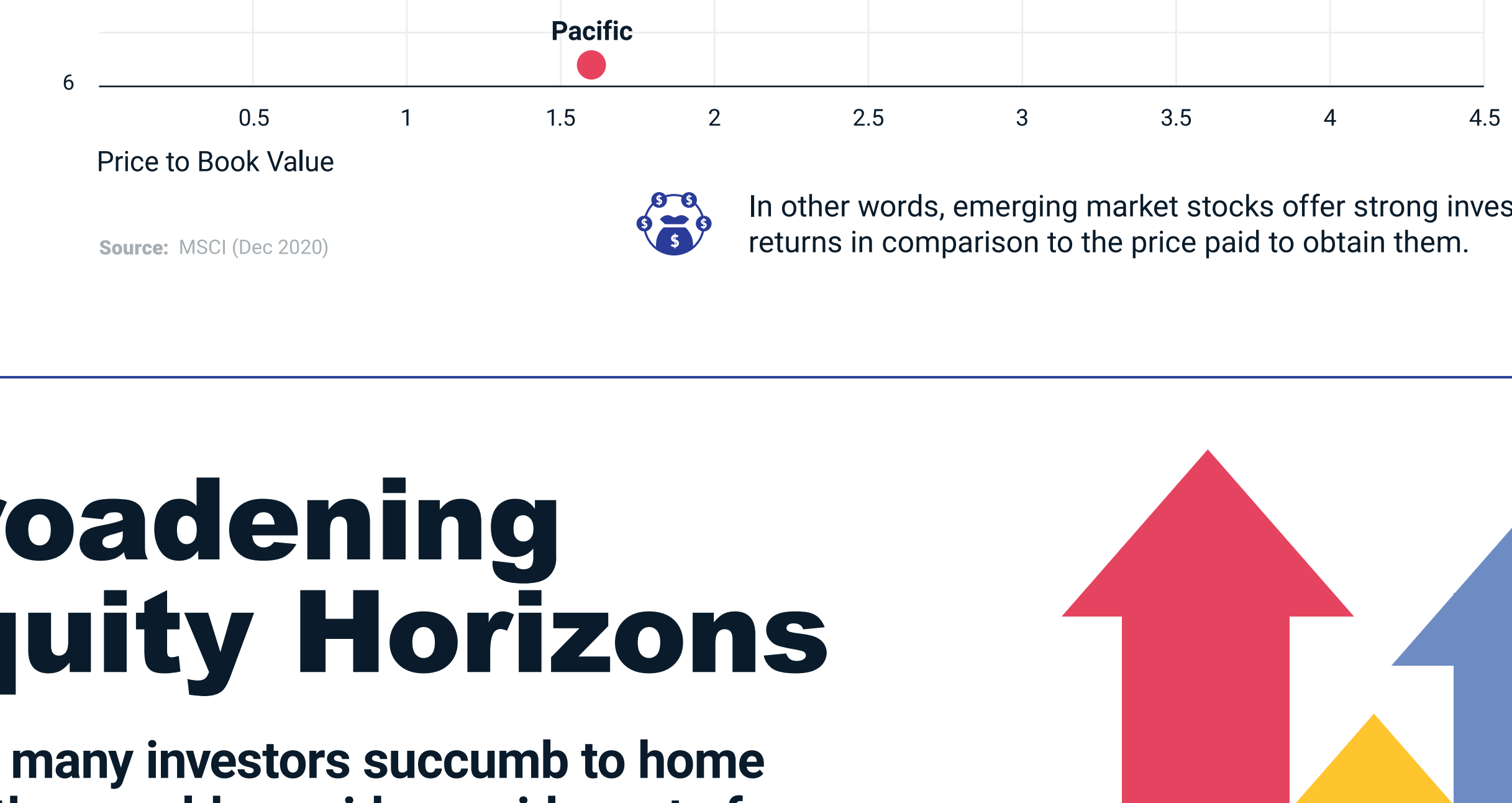
Relative to North America and world markets overall, emerging markets are more attractively priced.



In terms of profitability relative to valuation, emerging markets are also strong.

Price to Book Value vs. Return on Equity (ROE)

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EM Emerging markets offer the second highest ROE of the group, at a much lower P/B ratio compared to the U.S.

In other words, emerging market stocks offer strong investor returns in comparison to the price paid to obtain them.

Broadening Equity Horizons

While many investors succumb to home bias, they could consider a wider set of investment options around the world.

By having a broader equity portfolio, investors can:

- Aim to increase diversification and manage risk
- Take advantage of growth opportunities
- Access emerging markets

Global markets are changing. As innovation and growth accelerate outside North America, investors may want to consider new possibilities.