3 Reasons to Invest in International Equities

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For more than a decade, US equities have overshadowed their non-US counterparts, driven, in part, by robust earnings growth, valuation expansion, and a strong US dollar. However, the global playing field may have begun to even out.

Today, international equities are gaining ground and if the current environment is any indication of future returns, we think that these gains may be here to stay. As of April 2025, the MSCI EAFE Index outperformed the United States by the largest magnitude in more than thirty years (Exhibit 1).

Here are three compelling reasons we believe investors may want to consider increasing their allocation to international markets:

1. Earnings: Coming Together

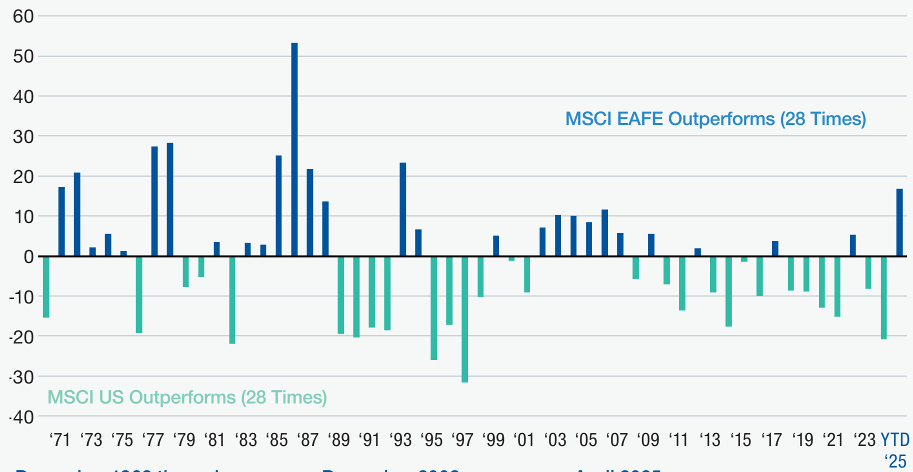
For the past five years, the outperformance of the "Magnificent 7"—Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla—has led to a significant concentration of the US equity market. At one point, these seven stocks represented more than one-third of the S&P 500 Index weight.[1] Their earnings growth outpaced all other companies in the index by more than five times during this period. Because of their dominant representation in the index, their contribution to the overall earnings growth of the US market was critical and likely added to the significant valuation expansion of the US market, compared to international markets.[2]

Now, the narrative is shifting. Earnings growth of the Magnificent 7 has begun to decelerate and is no longer significantly augmenting the earnings growth of the entire US market. At the same time, earnings growth for international markets has proven more resilient (Exhibit 2).

Exhibit 1

International Markets Gain Ground

MSCI EAFE - MSCI US Total Return (%)



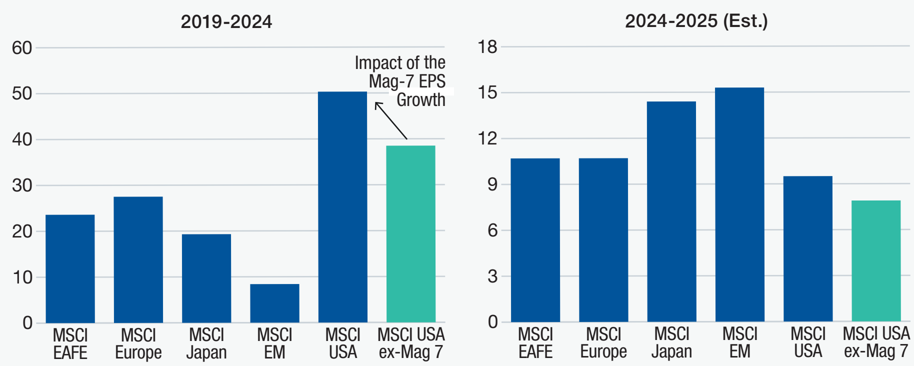
December 1969 through	December 2009	April 2025
MSCI US	+8.5%	+9.2%
MSCI EAFE	+9.5%	+8.1%

As of 30 April 2025. Returns since 1969 are annualized. The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard. It is not possible to invest directly in an index. Source: Lazard, MSCI

Exhibit 2

Magnificent 7 Loses Influence

Earnings Growth by Region, Then and Now (%)



As of 30 April 2025. Source: Lazard, FactSet, MSCI

At the start of this year, 2025 earnings growth in the United States was expected to be close to 14% compared to international at 7%. Since then, international companies have produced relatively better earnings than those of US companies. Now, consensus calls for 10% earnings growth in the United States compared to 11% for international.[3]

In Europe, a big push of fiscal stimulus, if enacted, could accelerate growth and lift GDP. For example, Germany, with much less debt than the United States relative to the size of its economy, plans to inject €500 billion (about $570 billion) into its economy. At the same time, defense spending across Europe is dramatically increasing, along with plans for infrastructure development. In Japan, companies continue to work to improve financial productivity and are becoming more shareholder focused, prioritizing better allocation of capital, potentially driving return on equity and, likely, earnings higher.

2. Valuations: A Compelling Opportunity

Despite the significant outperformance of international equities year to date in 2025, valuations remain discounted when compared to the United States. As the impact of the Magnificent 7 on the overall earnings for the US market diminishes, so could some of the valuation differential.

Return on capital historically has been somewhat higher for US companies than international. This, too, contributed to higher valuations for US companies. Today, the trade-off between the return on capital and valuation for international stocks compared to those in the United States is the best it has been in more than 15 years. As the big drivers of relative outperformance for the United States shift, we believe this large discount could continue to support international market returns (Exhibit 3).

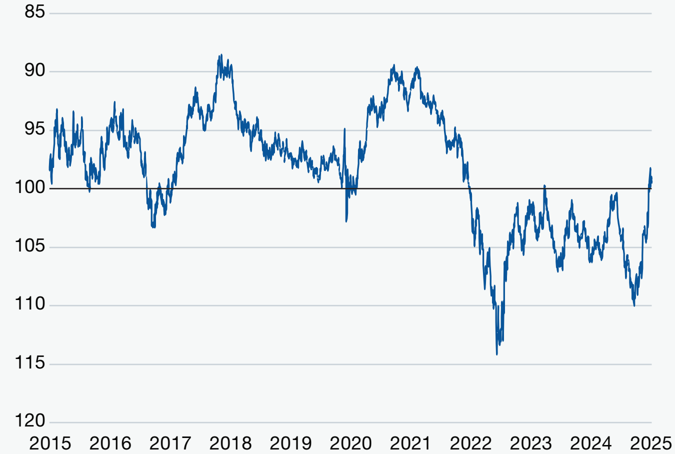
3. Currency: The Weight of Change

Until recently, US dollar strength bolstered domestic markets while creating headwinds for international equities. Despite strong stock returns over the past five years for the MSCI EAFE Index

Exhibit 4

International Currencies Strengthening Relative to the US Dollar

United States Dollar Index (DXY, Inverted)



As of 30 April 2025. Source: Lazard, FactSet

in local currency terms,[4] performance was less impressive when converted to US dollars.

But the story appears to be changing (Exhibit 4). The US dollar has declined due, in part, to US policy uncertainty and tariff concerns. At the same time, plans for more aggressive fiscal stimulus in Europe are energizing international currencies, which appear to be building a position of strength.

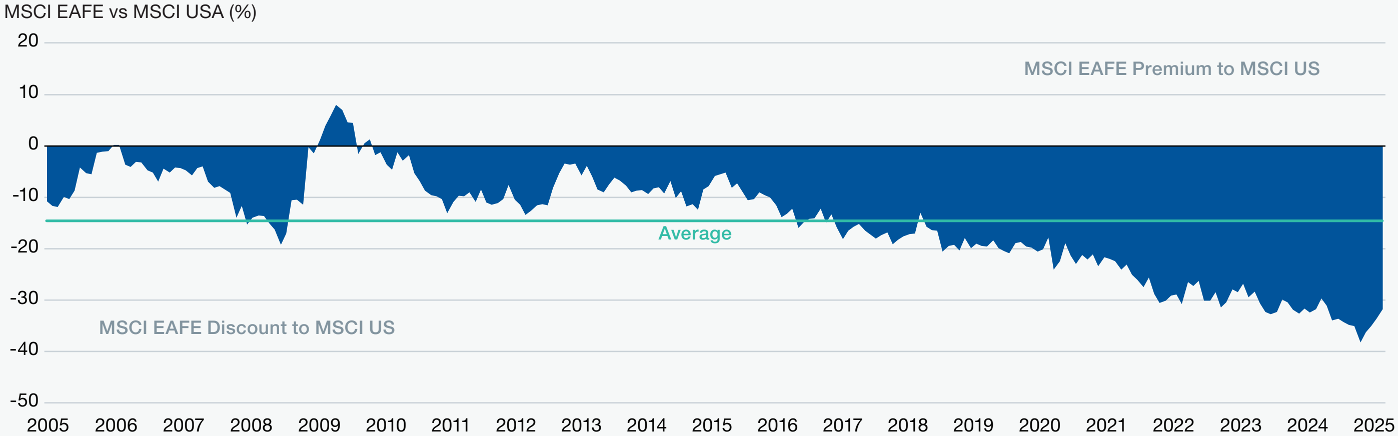
Why International Now

We believe international equities are poised to make gains as some of the drivers contributing to the US stock lead are tempering. At the same time, we believe the relative valuations for international companies remain extraordinarily compelling compared to the United States, while government policy initiatives outside the US appear increasingly beneficial too.

Exhibit 3

International Discount Is Appealing vs. US Stocks

MSCI EAFE vs MSCI USA (%)



As of 31 March 2025. Source: Lazard, FactSet, MSCI

Important Information

Notes

1. Source: Lazard, Bloomberg, FactSet, S&P; As of 31 December 2024.
2. Source: Lazard, FactSet, MSCI; As of 31 December 2024.
3. Source: FactSet; As of 29 April 2025.
4. Source: Lazard, FactSet, MSCI; As of 31 December 2024.

Disclosures

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The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

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The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, consisting of developed market country indices excluding the United States and Canada.

The MSCI World Index is a free-float-adjusted market capitalization index that is designed to measure global developed market equity performance comprised of developed market country indices.

The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market.

The MSCI Emerging Markets Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of emerging markets country indices including: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The MSCI All Country World Index (ACWI) is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI Europe Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the developed markets countries of Europe.

The MSCI Japan Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in Japan.

The U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

These indices are unmanaged and have no fees. One cannot invest directly in an index.

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