

# WHY INTERNATIONAL EQUITIES Q1 2024



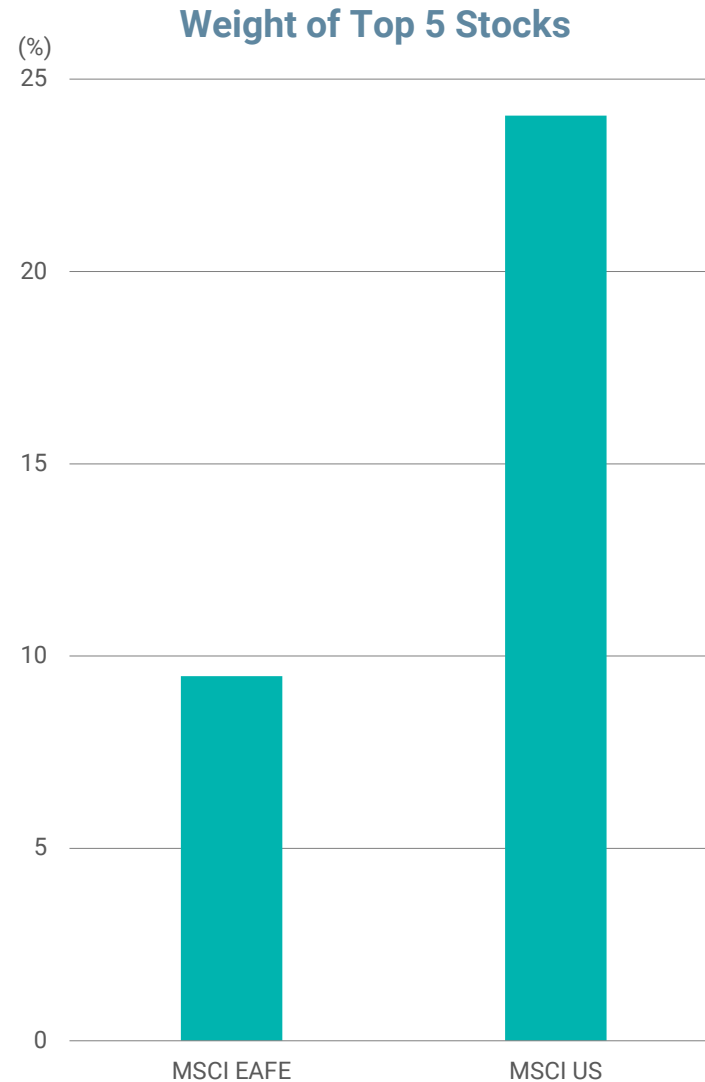
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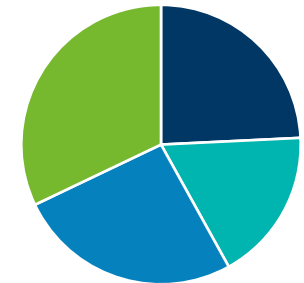
# 1. THE INTERNATIONAL INDEX IS MUCH MORE DIVERSE

Diversity can present more potential opportunities for active managers

- International investing isn't driven by one theme, allowing active managers to thrive in many different investing environments.
- The US market's 5 largest stocks make up nearly a quarter of the index and are entirely technology or internet related. In contrast, the international market's 5 largest stocks make up less than 10% of the index and are spread across multiple industries and regions.
- Over the past year, the top 10 holdings in the MSCI United States Index accounted for more than 30% of the index by ending weight, and more than 50% of returns. This is due to the US market's high concentration in technology stocks, which have recently been driven by the prospects for AI.
- Concentration in the United States has been a critically important driver of outperformance recently; however it can also be a pretty big negative (e.g, when the transition from high growth names that did well in the early days of COVID to value names presented a pretty big headwind to US stocks relative to international).

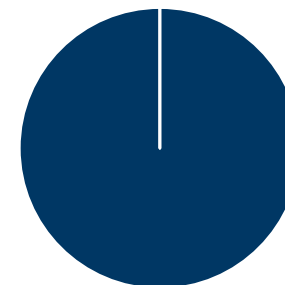


### Industries of Top 5 MSCI EAFE Stocks



- Tech Related
- Consumer Staples
- Health Care
- Consumer Discretionary

### Industries of Top 5 US Stocks



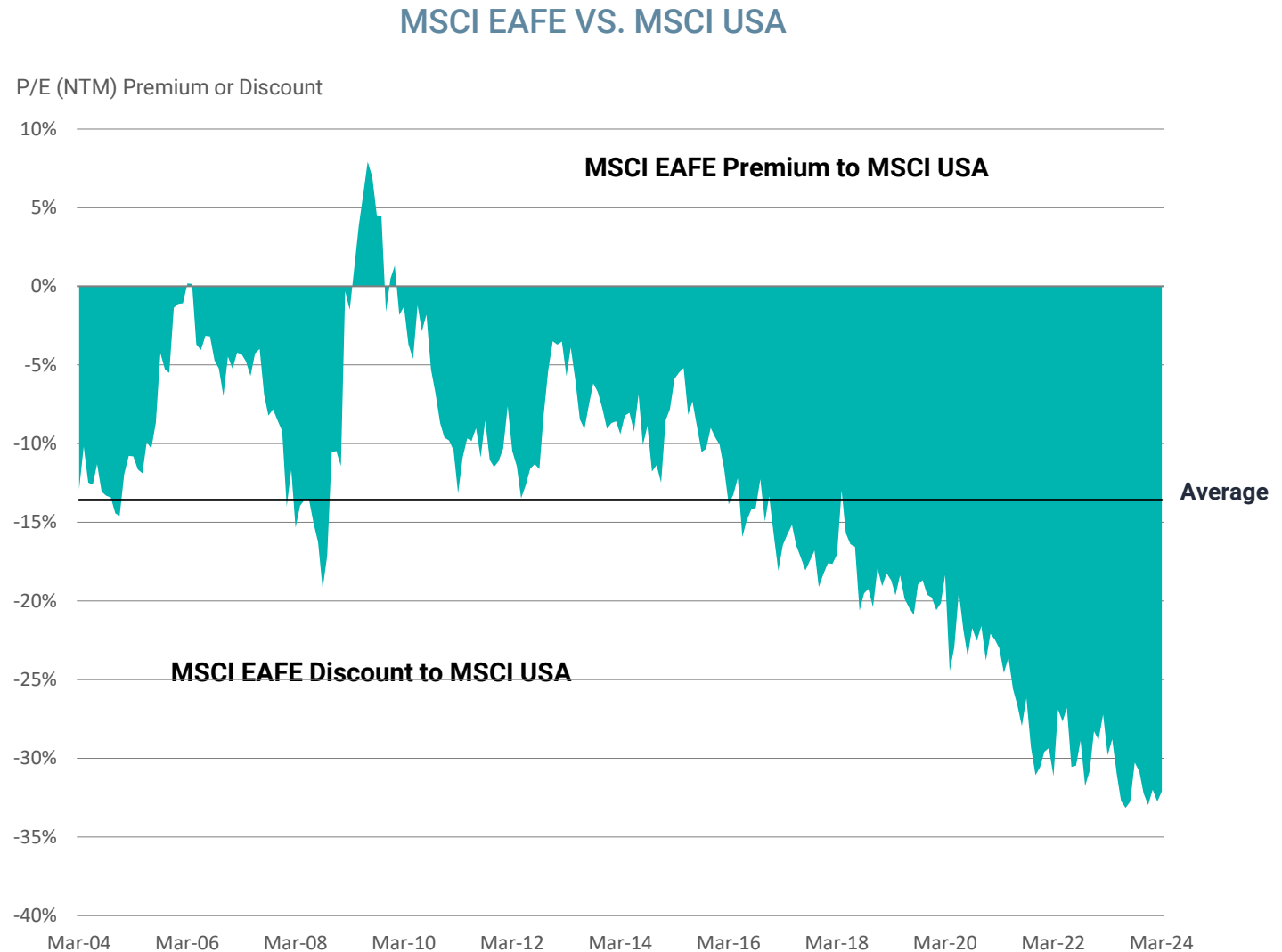
- Tech Related

As of 31 March 2024  
Source: Lazard, FactSet, MSCI

## 2. INTERNATIONAL EQUITIES ARE TRADING AT RECORD DISCOUNTS

EAFE's historic discount should continue to support international markets returns

- For most of the past decade, the US equity market significantly outperformed international equities. Historically low interest rates elevated the valuation of many growth stocks, whose profits are expected to materialize far into the future, to record levels.
- The US equity market is more geared towards growth stocks as the technology, biotech, and internet sectors make up more than 35% of the US equity market, compared to less than 10% for developed international markets.
- In contrast, Europe and other international markets tend to be more heavily weighted toward value companies, which are not as impacted by fluctuations in long-term discount rates as growth companies. As the US market continued to outperform, valuations on international stocks fell to record discounts of +30%.



As of 31 March 2024  
Source: Lazard, FactSet, MSCI

### 3. INTERNATIONAL VALUATIONS ARE CHEAPER THAN SIMILAR INTEREST RATE REGIMES

International equities remain much less expensive than US equities. Looking at the last time long-term interest rates (the discount rate for equities) were in the range of where they are today, valuations were more expensive in every region except the US. We believe international valuations are not only extremely attractive compared to the US but also attractive relative to where they traded 20 years ago in a similar interest rate regime.



Forward PE (NTM)	MSCI USA	MSCI China	MSCI Japan	MSCI Europe
03/31/2004	16.8	13.3	20.0	13.4
03/31/2024	21.2	9.3	15.9	13.9
Change	26%	-30%	-21%	3%

As of 31 March 2024

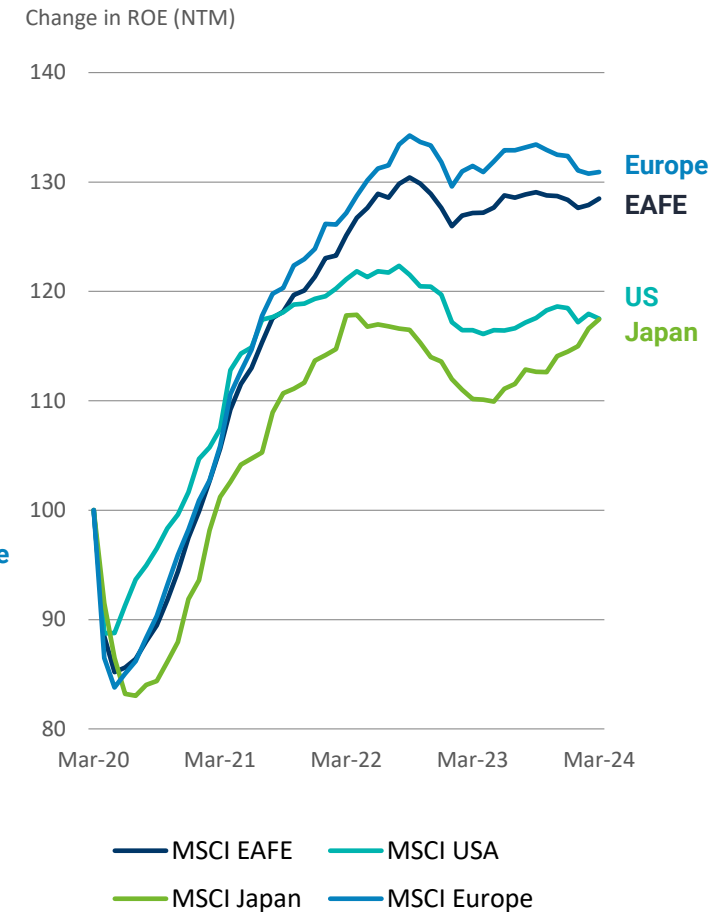
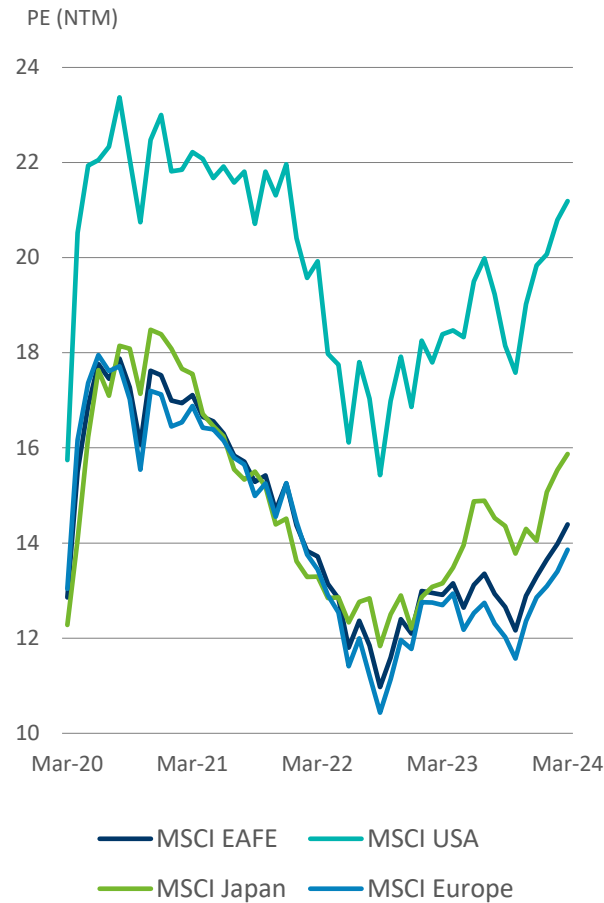
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Source: Lazard, FactSet, MSCI

## 4. INTERNATIONAL ROES HAVE IMPROVED MORE THAN US SINCE COVID

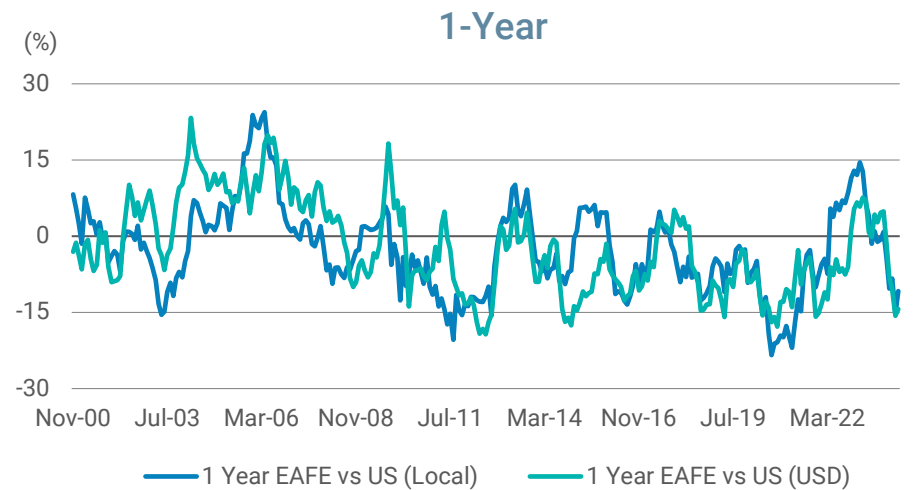
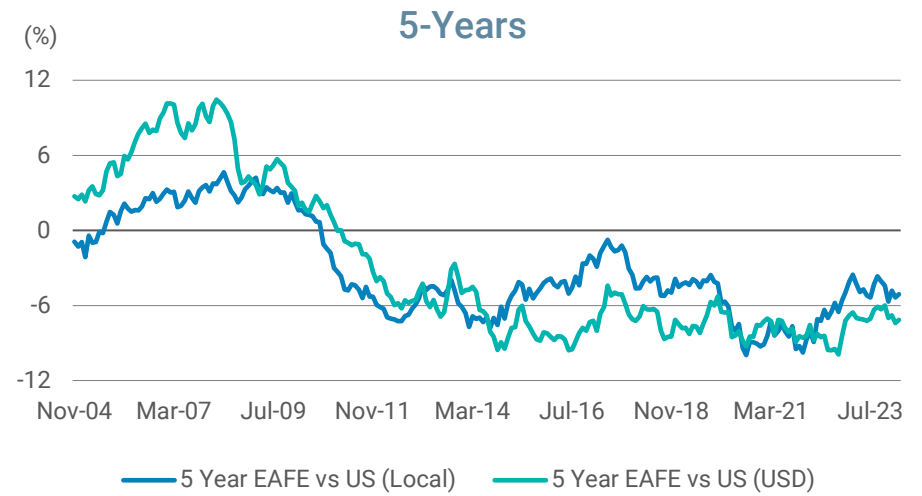
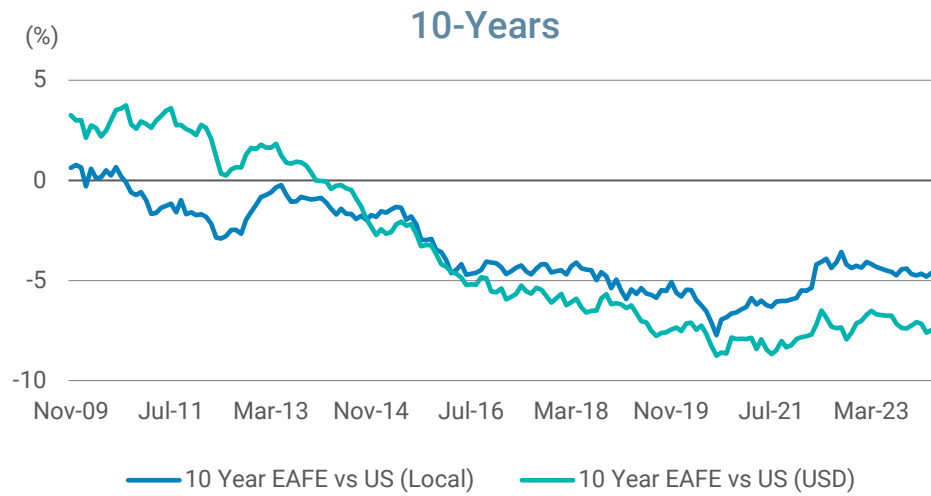
In our view, improving financial productivity and deep valuation discount set up International for continued outperformance, and stock picking should be rewarded

- International ROEs have improved more than those of the US since COVID.
- In our view, improving financial productivity and deep valuation discount set up International for continued outperformance, and stock picking should be rewarded.





# 5. INTERNATIONAL PERFORMANCE COMPARED TO THE US HAS SLOWLY IMPROVED

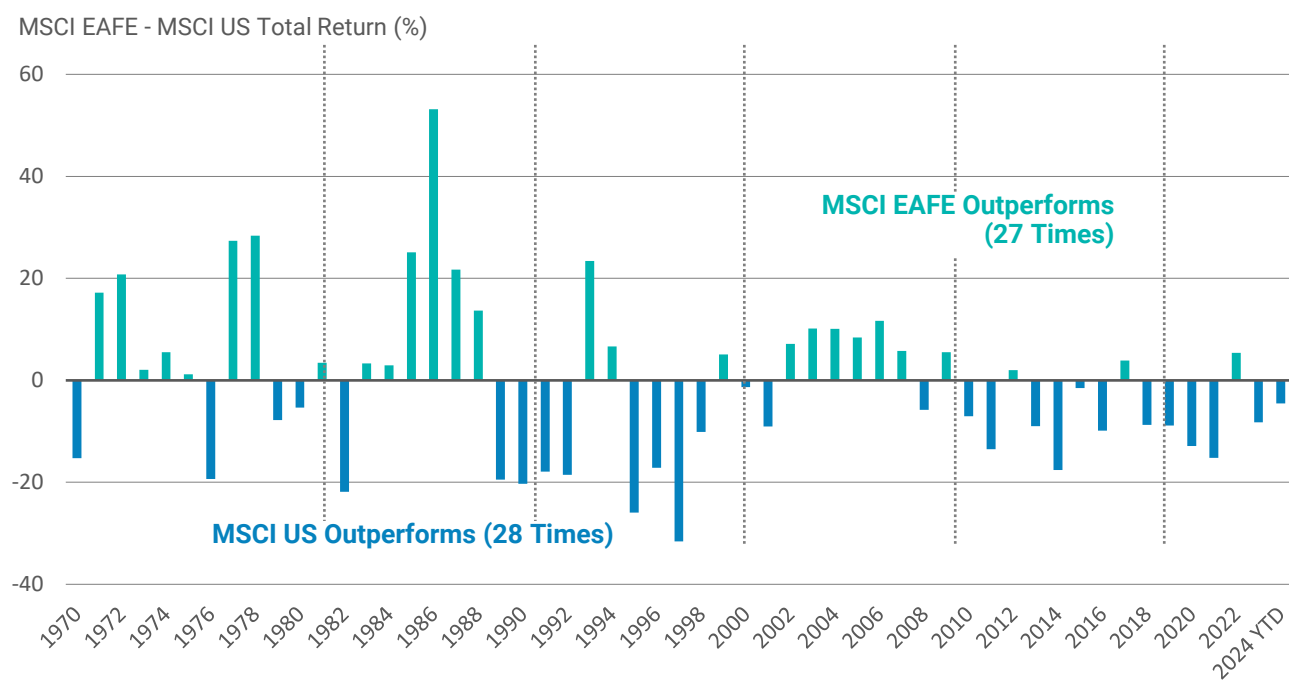


As of 31 March 2024  
Source: Lazard, FactSet, MSCI

## 6. FUNDAMENTALS AND VALUATIONS HAVE TILTED THE SCALE TOWARD INTERNATIONAL EQUITIES

US and EAFE returns are very similar over the long run

- Now that the era of lower-for-longer rates and the dollar's long rally appear to be ending, we believe fundamentals and valuations are tilting the scale toward international equities.
- We believe this favorable environment can continue.



### Dec 1969 thru Dec 2009:

MSCI USA	+8.5%
MSCI EAFE	+9.5%

### Dec 1969 thru Mar 2024:

MSCI USA	+9.0%
MSCI EAFE	+7.9%

As of 31 March 2024. Returns since 1969 are annualized.

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Source: MSCI

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The MSCI USA Index is designed to measure the performance of the large and mid-cap segments of the US market. The index covers approximately 85% of the free float-adjusted market capitalization in the US.

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

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