

# WHY INTERNATIONAL EQUITIES Q4 2023

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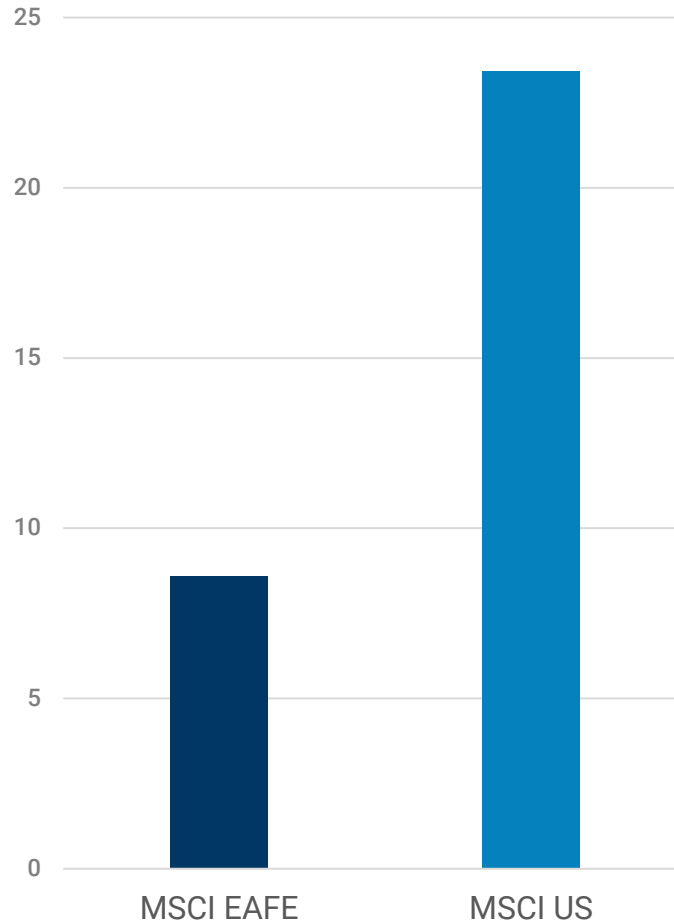
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# 1. THE INTERNATIONAL INDEX IS MUCH MORE DIVERSE

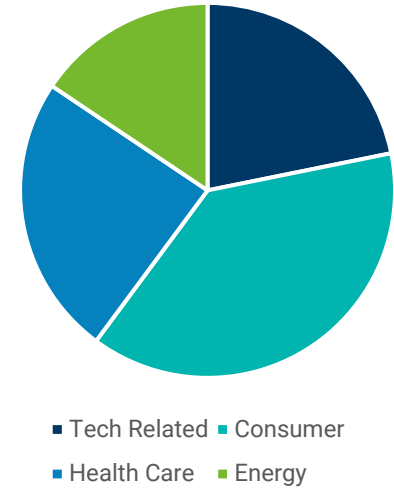
Diversity can present more potential opportunities for active managers

- 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.
- International stocks have had a strong year from an absolute return perspective but have lagged the US index more recently. This was due to the US market's high concentration in technology stocks, which have recently been driven by the prospects for AI.

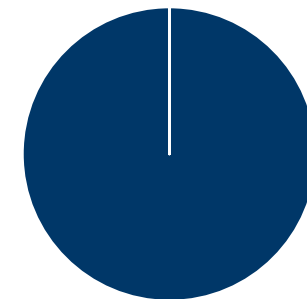
### Weight of Top 5 Stocks



### Industries of Top 5 MSCI EAFE Stocks



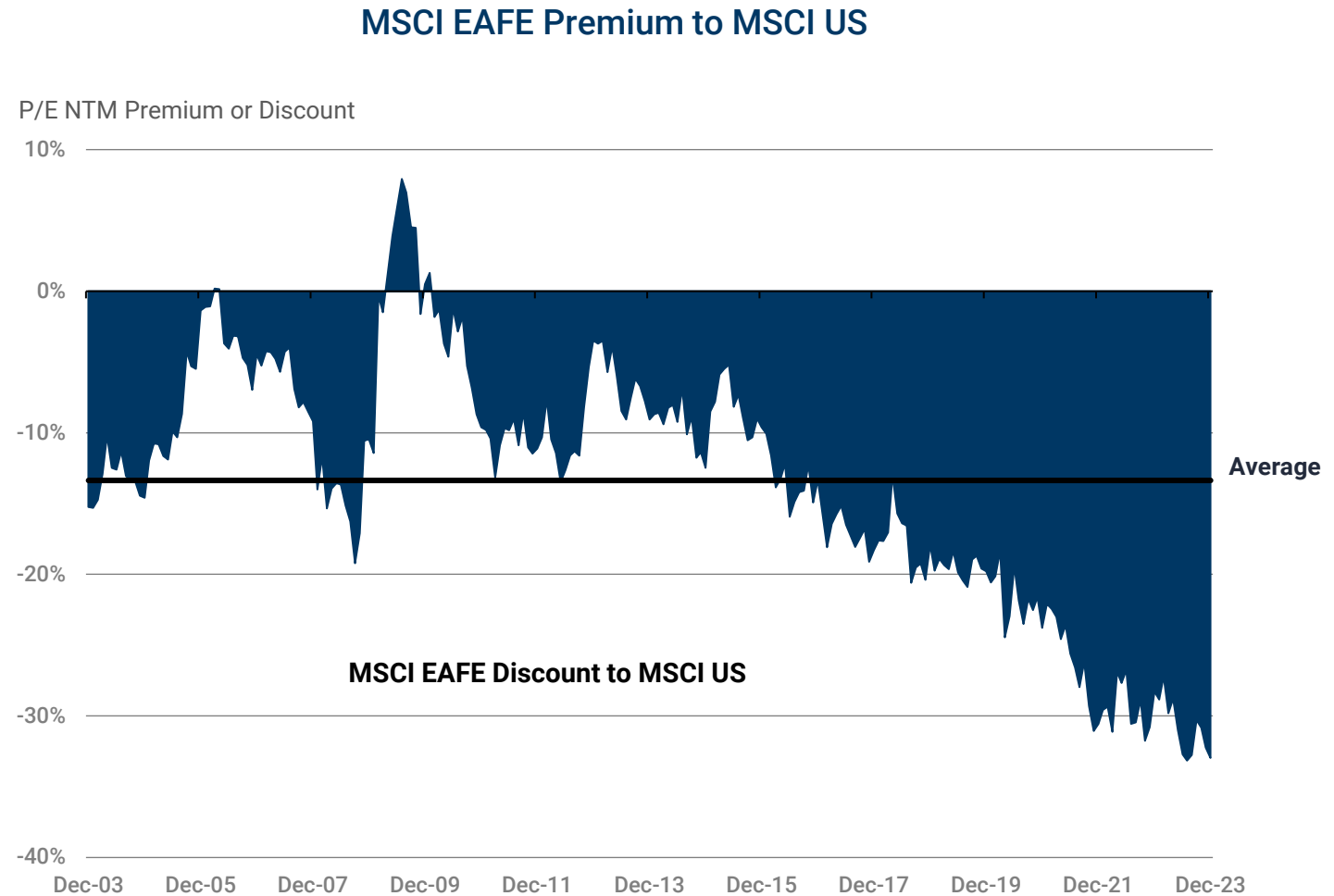
### Industries of Top 5 MSCI USA Stocks



## 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 toward growth stocks as the technology, biotech, and internet sectors make up more than 35% of the US equity market, compared with 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 December 2023  
Source: FactSet, MSCI

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

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.

US 10-Year Yield



Forward PE (NTM)	MSCI USA	MSCI China	MSCI Japan	MSCI Europe
12/31/2003	17.5	14.4	19.0	13.9
12/31/2023	19.8	9.3	14.0	12.9
Change	13%	-35%	-26%	-8%

As of 31 December 2023

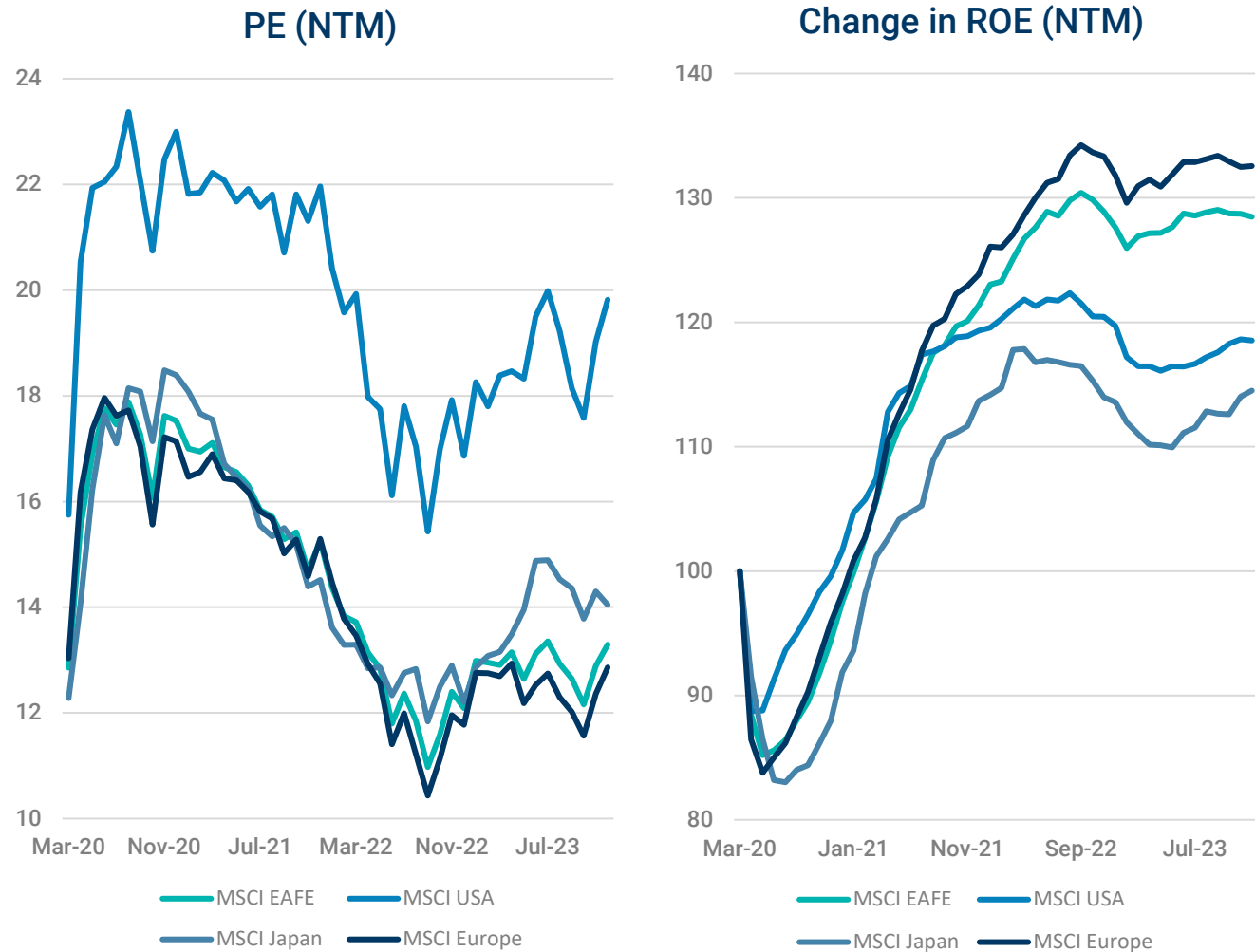
Source: Lazard, FactSet, MSCI

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## 4. INTERNATIONAL ROES HAVE BEEN IMPROVING MORE THAN US SINCE COVID

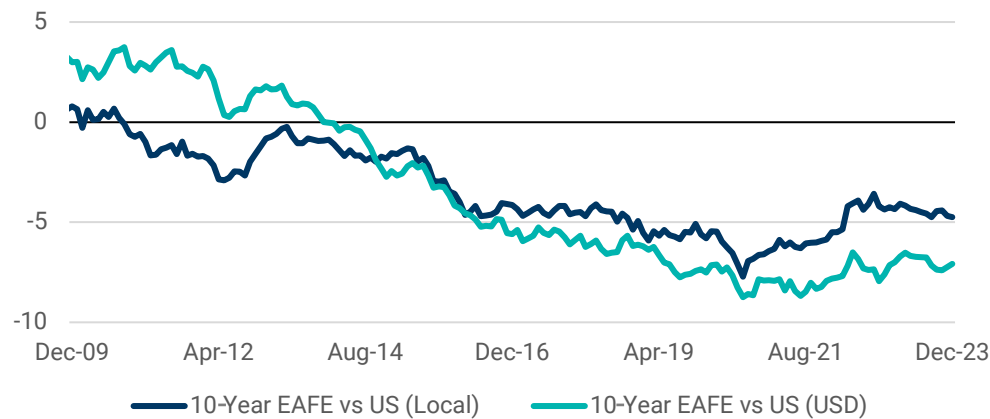
In our view, improving financial productivity and deep valuation discount set up International for continued outperformance, and stock picking should be rewarded

- International ROEs have been improving more than 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.

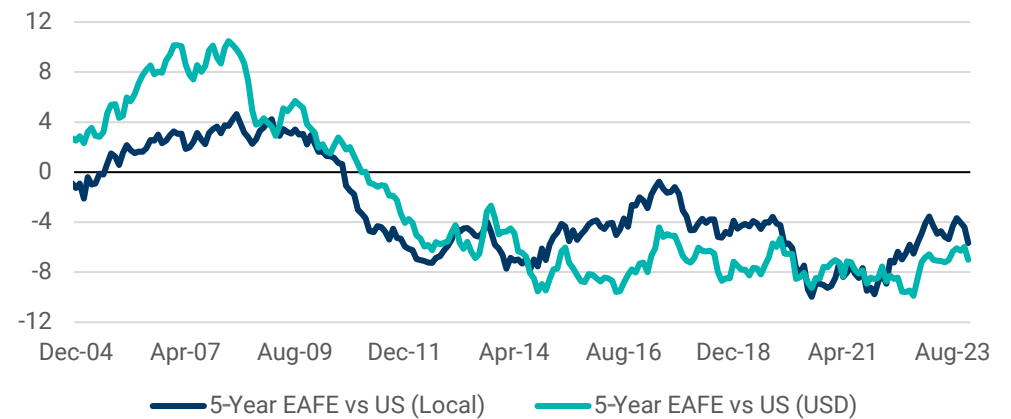


# 5. INTERNATIONAL PERFORMANCE COMPARED TO THE US CONTINUES TO SLOWLY IMPROVE

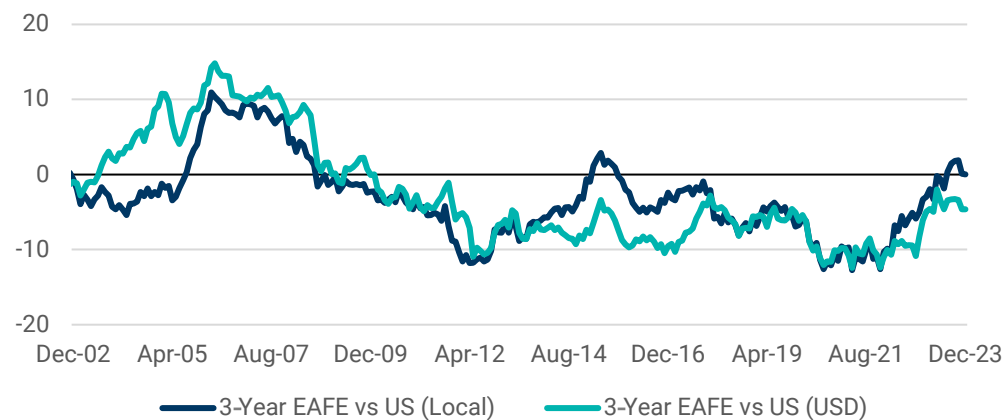
### 10-Years



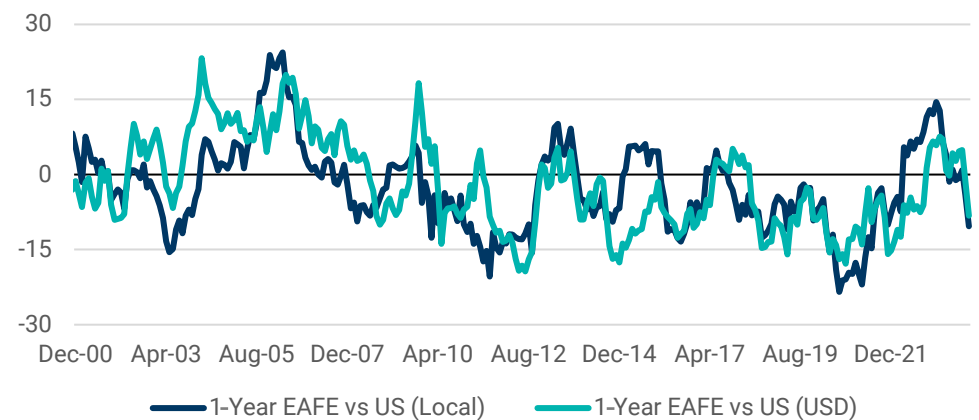
### 5-Years



### 3-Years



### 1-Year

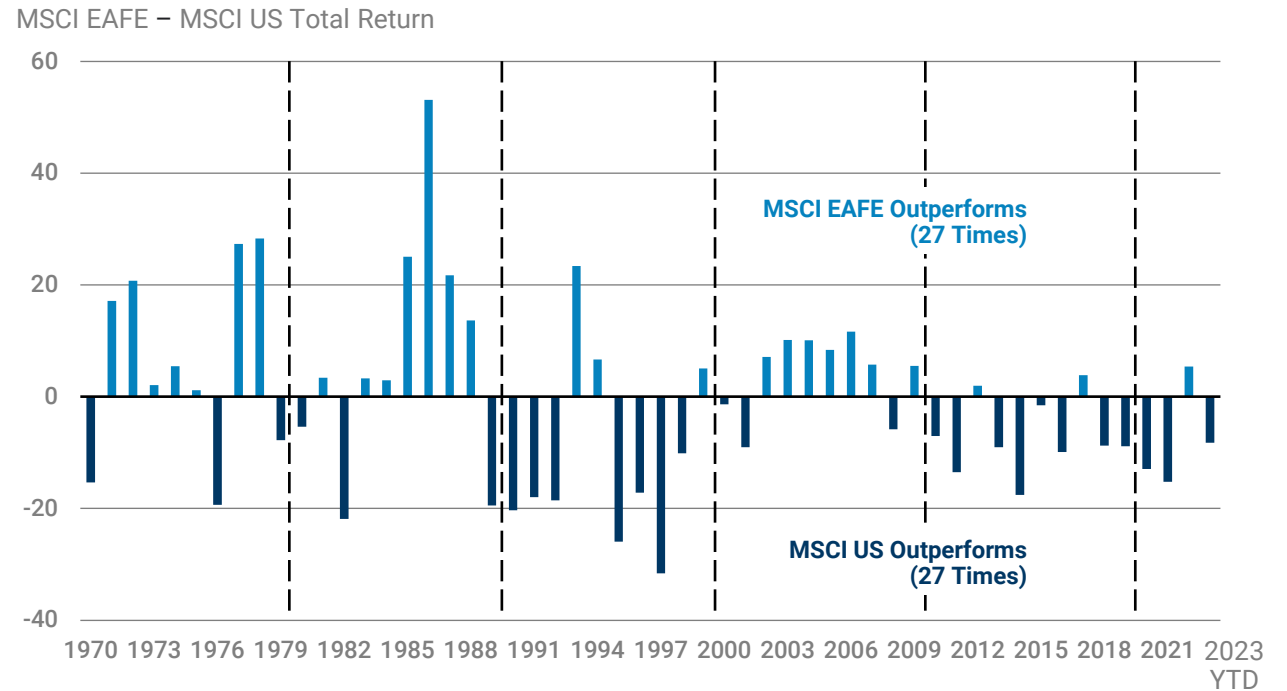


As of 31 December 2023  
Source: Lazard, FactSet, MSCI

# 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 US** +8.5 %  
**MSCI EAFE** +9.5 %

Dec 1969 thru Dec 2023:

**MSCI US** +8.9 %  
**MSCI EAFE** +7.8 %

As of 31 December 2023. Returns since 1969 are annualized.

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Source: MSCI, Lazard

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Published on 7 February 2024.

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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.

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 index is unmanaged and has no fees. One cannot invest directly in an index.

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