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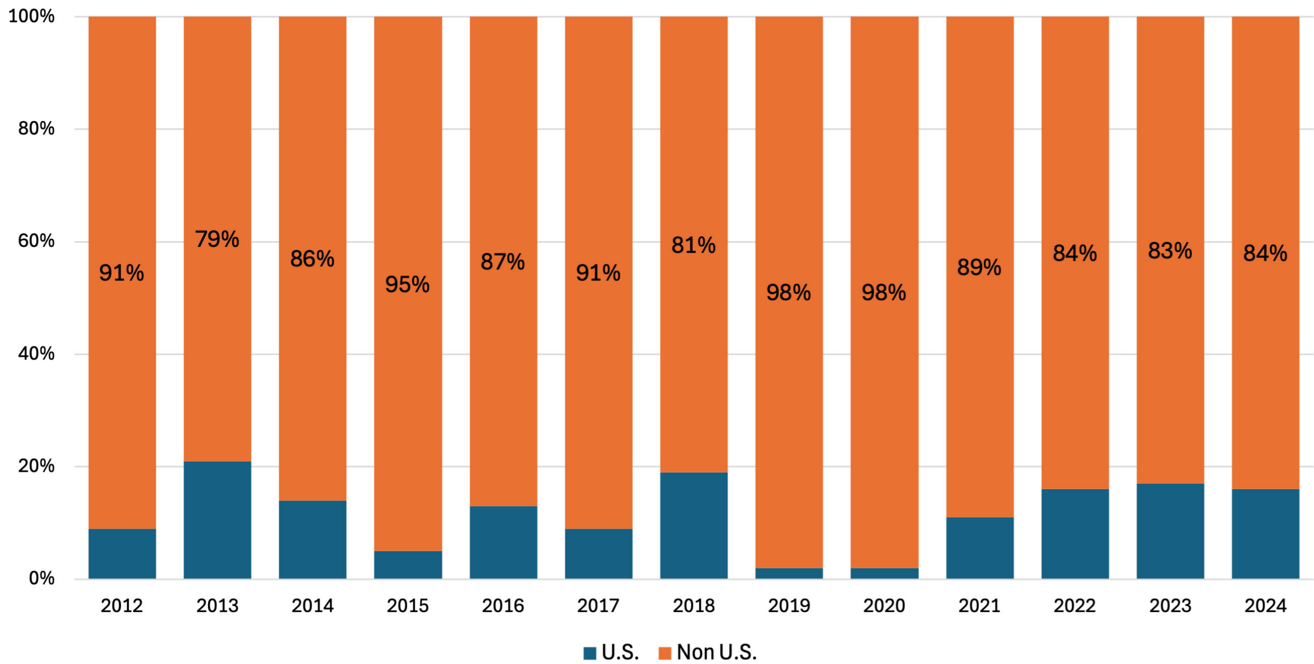
International Equities: Stock by Stock

- While the S&P 500 Index has significantly outperformed international markets for more than a decade, when looking at the top performers each year, the proportion of non-U.S. stocks on the list is remarkable.
- This highlights the breadth of high potential opportunities within the international universe. Which raises the question of whether an active approach may be warranted.
- Many international companies are under researched, offering skilled active managers the chance to uncover undervalued stocks.
- Information asymmetry is also more pronounced in international markets. Local events, regulatory shifts, and political developments may not be widely disseminated, providing an edge to managers with deep research capabilities to assess and manage these dynamics effectively.
- International indexes often include heavy exposure to state owned enterprises and concentrated sector or country exposures, potentially leading to inefficient allocations and unintended risks.
- Countries within international markets may also be in different parts of their economic cycle, which may require exposure adjustments.
- Historical studies suggest that active management in international and emerging markets may offer greater potential for outperformance, particularly in less efficient or more concentrated benchmarks.
- That said, not all active managers beat their benchmarks, and success can depend on timing and market conditions. We believe that manager selection is critical.

Percent of 100 Best Performing Stocks by Geography



Source: Bloomberg. The 100 best-performing stocks each year are based on those in the S&P 500, MSCI EAFE, and MSCI EM indexes.

Historical studies:

Cremers, M., Ferreira, M. A., Matos, P., & Starks, L. T. (2016). Indexing and active fund management: International evidence. Journal of Financial Economics, 120(3), 539–560.

Cambridge Associates. (2020). Emerging Markets Public Equities: Active Management Can Add Value. Research Note.

Word About Risk

Fixed-income securities can experience reduced liquidity during certain market events, lose their value as interest rates rise and are subject to credit risk which is the risk of deterioration in the financial condition of an issuer and/or general economic conditions that can cause the issuer to not make timely payments of principal and interest also causing the securities to decline in value and an investor can lose principal. When interest rates rise, the price of debt securities generally falls. Longer term securities are generally more volatile. Investment grade debt securities may be downgraded by a Nationally Recognized Statistical Rating Organization to below investment grade status. Non-investment grade debt securities are considered speculative with respect to the issuers' ability to make timely payments of interest and principal, may lack liquidity and has had more frequent and larger price changes than other debt securities. Equities are subject to market volatility and loss. Growth stocks may be more volatile than investing in other stocks and may underperform when value investing is in favor. Value stocks may not appreciate in value as anticipated or may experience a decline in value. Stocks of large-cap companies may be unable to respond quickly to new competitive challenges. Stocks of small- and mid-cap companies may be subject to more erratic market movements than stocks of larger, more established companies. Investments in foreign, and emerging market securities carry the associated risks of economic and political instability, market liquidity, currency volatility and accounting standards that differ from those of U.S. markets and may offer less protection to investors. The risks associated with investing in foreign markets are magnified in emerging markets, due to their smaller and less developed economies.

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For Index Definitions see: TouchstoneInvestments.com/insights/investment-terms-and-index-definitions

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