MORNINGSTAR Wealth

Investment Insight

International Stocks – A Portfolio's Missing Piece?

Morningstar Investment Management LLC
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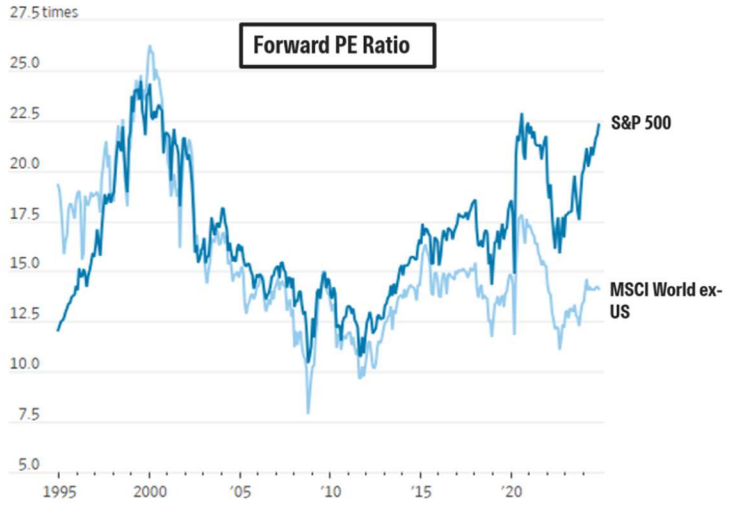
If you were building a contrarian investor checklist, international stocks would check just about every box.

Valuations? Near historical extremes.

Entering the year, US stocks were trading at over 22x forward earnings, compared with just 14x for international stocks—the widest valuation gap in at least 30 years.

Widest Valuation Premium Ever?
Forward P/E Ratio—US vs. Rest of World (December 2024)



Source: Wall St. Journal, LSEG. Data as of December 2024. Investment can't be made directly into an index.

Positioning? Most investors hold a material underweight to international stocks.

According to Bloomberg, the average US equity investor held 81.3% of their total equity allocation in US stocks, despite the US representing just 64.2% of global market cap.

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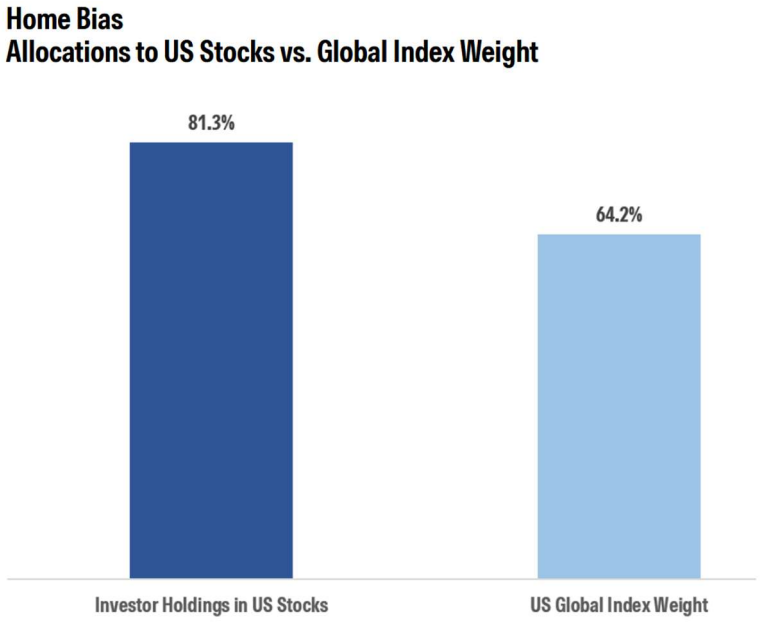
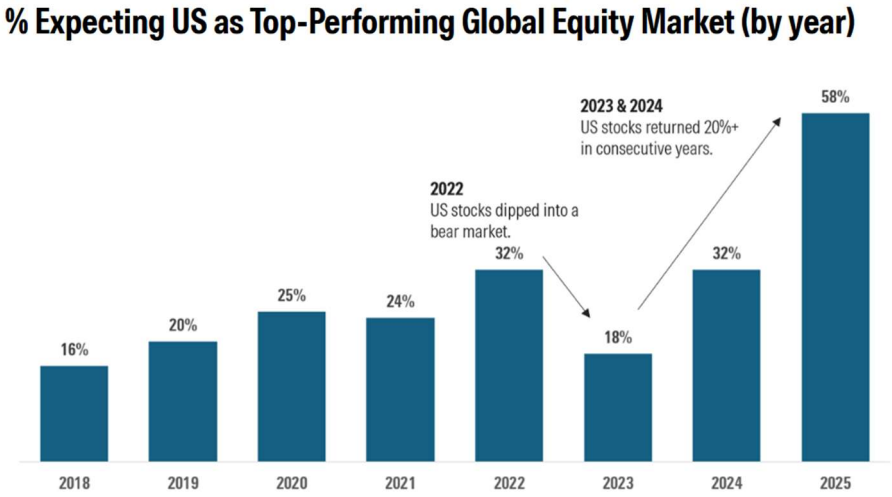


Source: Bloomberg. Data as of January 2025.

Investor sentiment? US stocks were seen as the *"only place to be."*

In Goldman Sachs' annual client survey, 58% of respondents expected US stocks to be the top-performing region in the year ahead—nearly double last year's figure and four times higher than in 2018.



Source: Goldman Sachs Global Strategy Conference client survey. January 2025.

But relying on recent performance can lead to poor diversification and missed opportunities elsewhere. As Morningstar portfolio manager Nabil Salem notes, US stocks entered 2025 after their best 15-year run since 1970. His take?

"People shouldn't use the past 15 years to set forward expectations."

That view may already be proving prescient. Through mid-June, the US ranks 39th out of 44 global stock markets this year—firmly in the bottom 15% year-to-date. Meanwhile, international markets are gaining momentum, with 7 of the top 10 performing countries located in Europe. This outperformance appears to be supported by improving fundamentals and rising earnings expectations across the region.

In the latest episode of *Simple, But Not Easy*, we explore why now might be the time to revisit international diversification. Our wide-ranging conversation covers:

- Morningstar's **Contrarian Investor Checklist**—and why international fits the mold
- How **active management** can potentially flourish in unloved and inefficient non-US markets
- Why **behavioral biases** often lead investors to ignore international exposure
- How Morningstar is **positioning its multi-asset and international equity portfolios**

They also share a practical framework for thinking about an international allocation. For instance, the MSCI All Country World Index (ACWI)—a global benchmark—allocates roughly 35% to non-US stocks. If that's your benchmark, how far off are you? Are you overweight or underweight by design—or has it not even been a consideration?

Understanding where you stand is step one. From there, it becomes easier to build a more balanced, globally diversified portfolio—one that may be better positioned to weather shifts in market leadership.

While the benefits of diversification have been easy to overlook given recent US equity performance, we don't believe diversification is dead. This episode explores why international stocks may be the most overlooked part of your portfolio.

Check out the latest episode of Simple, but Not Easy—available on all major podcast platforms. And if you enjoy the content, don't forget to subscribe!

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