Explaining America's Stock Market Dominance Since 2010

Plus, Insights From Fund Managers on Whether It Will Continue

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Key Takeaways

- U.S. equities have dominated their non-U.S. counterparts since the 2007-09 global financial crisis. While emerging markets hurt non-U.S. stock returns the most, developed markets hardly had a good showing. Moreover, the U.S. market achieved superior absolute returns with lower volatility than those outside the U.S., defying textbook logic that more risk contributes to higher expected returns.
- Currency movements and the sector composition of market indexes explain some—but far from all—of the performance divergence. The U.S. dollar has appreciated relative to a broad basket of foreign currencies, reducing non-U.S. asset returns denominated in U.S. dollars. Moreover, the U.S. market has far more exposure to areas of innovation like technology and communication services, while "old-economy" sectors like financial services, basic materials, and industrials tend to drive non-U.S. indexes.
- The bottom line is U.S. companies have had better fundamentals such as earnings growth. What's more, they have produced higher returns on capital even after accounting for U.S. tech-related giants like Facebook (now Meta Platforms), Amazon.com, Netflix, Google (now Alphabet), Apple, and Microsoft.
- The case for continued U.S. outperformance is that it remains the world's most competitively advantaged market, the center of global innovation, and the corporate governance benchmark. Its stocks are more expensive, but the premium may be warranted if the U.S. can maintain these advantages and its stronger fundamentals.
- The case for a non-U.S. resurgence is that it appears attractive when factoring in price multiples and currencies. Improving fundamentals and corporate governance could also serve as catalysts.
- As U.S. stocks rose, so did their absolute weighting in the Morningstar Global Markets Index and actively managed global equity funds. But on a relative basis, the median manager has become less optimistic about U.S. stocks in recent years.

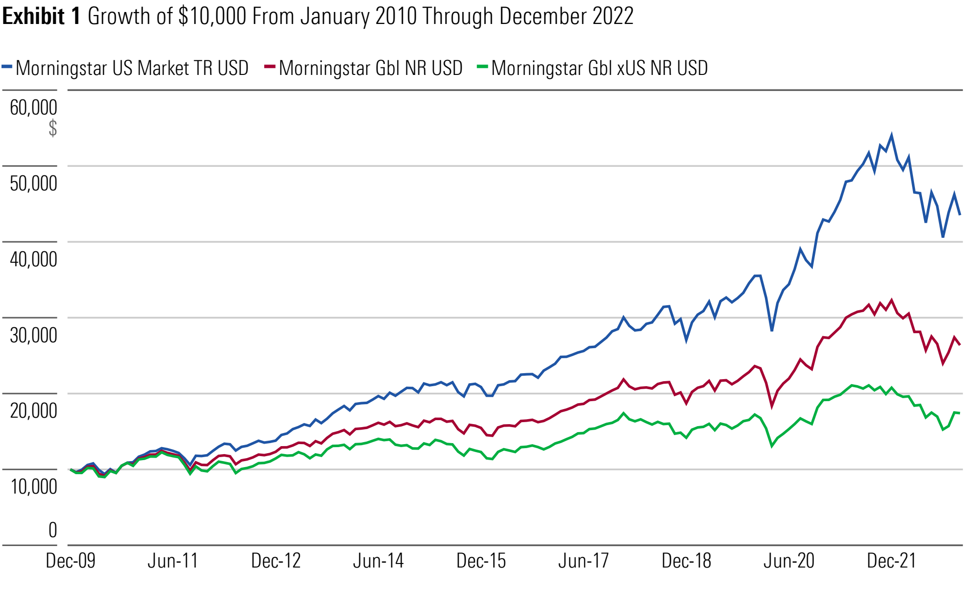
Introduction

While investors pay a lot of attention to professional money managers' skill, asset allocation exerts more influence on investment performance. Since the last bull market emerged from the global financial crisis, no allocation decision has loomed larger than the split between U.S. and non-U.S. equities. A U.S. equity-heavy portfolio likely outperformed one tilted toward non-U.S. stocks by a wide margin regardless of manager talent. Indeed, the best-performing actively managed foreign large-blend fund trailed nearly all active U.S. large-blend funds from the start of 2010 through year-end 2022. Given the critical role that equities play in many investors' portfolios, the U.S. stock market's dramatic outperformance warrants a closer look. This paper explores the reasons why U.S. stocks have led for more than a decade, asks if that trend can continue, and highlights what some fund managers Morningstar covers think will happen and why.

American Exceptionalism

U.S. equities have outperformed non-U.S. equities by a wide margin following the 2007-09 global financial crisis. Since the start of 2010, through December 2022, the Morningstar U.S. Market Index gained 12.0% annualized, trouncing the Morningstar Global ex-U.S. Index's 4.4%.[1] A $10,000 investment in the U.S. index would have grown to more than $43,000 during that time, while the same amount invested overseas would have grown to less than $18,000. While emerging markets hurt foreign stock returns the most, developed markets hardly made a good showing. The Morningstar Developed ex-U.S. Index gained 4.6% annualized over the same stretch, while the Morningstar Emerging Markets Index gained just 3.0%.

Exhibit 1 Growth of $10,000 From January 2010 Through December 2022



Source: Morningstar Direct. Data as of Dec. 31, 2022.

To be fair, currency movements exacerbated the performance divergence. The U.S. dollar has appreciated a cumulative 33%–or 2.2% annualized—relative to a broad basket of foreign currencies, reducing non-U.S. asset returns denominated in U.S. dollars. But the same story holds for non-U.S. returns in different currencies, including the euro, British pound, Japanese yen, and the Swiss franc. No matter how it's measured, U.S. equities have reigned supreme.

Exhibit 2 Global Ex-U.S. Index Returns in Different Currencies (2010-22)

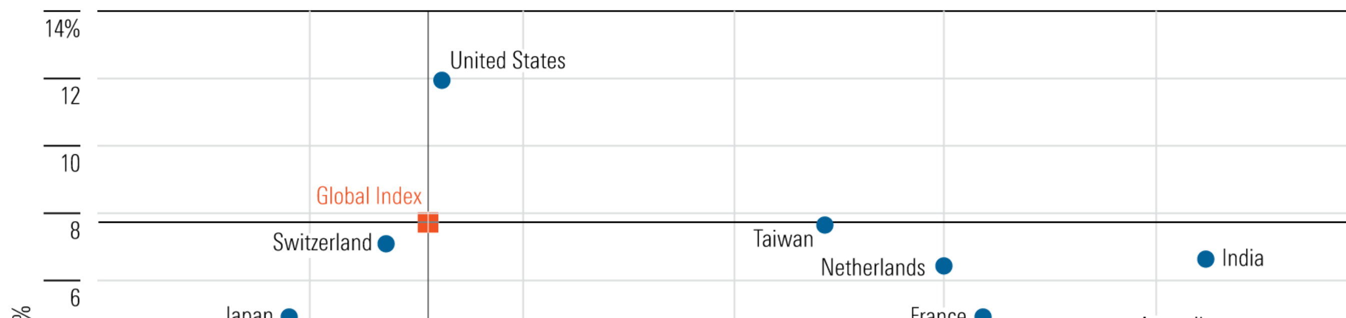
Name	Annualized Return (%)	Relative to U.S. Market Index (%)	Currency Effect (%)
Morningstar Gbl xUS NR USD	4.4	-7.6	-
Morningstar Gbl xUS NR JPY	7.2	-4.8	-2.8
Morningstar Gbl xUS NR EUR	6.8	-5.2	-2.4
Morningstar Gbl xUS NR GBP	6.8	-5.2	-2.4
Morningstar Gbl xUS NR CHF	3.5	-8.5	0.9

Source: Morningstar Direct. Data as of Dec. 31, 2022.

1 Indexes represent all-cap market exposure.

Of the countries that made up more than 1% of the Morningstar Global Markets Index as of December 2022, the only markets whose returns came within 5 annualized percentage points of the U.S. were Taiwan and Switzerland, which gained 7.7% and 7.1%, respectively. Taiwan's returns were more volatile than the U.S., as measured by standard deviation, while Switzerland's was in line. The breadth and depth of the U.S. market may contribute to lower volatility levels compared with most other markets: The U.S. index had nearly 1,500 stocks in it as of December 2022, compared with the British, Canadian, Australian, German, French, and Dutch indexes, each of which had less than 300 holdings and were far more concentrated in their top holdings. Only Japan, the second largest market in the global index with nearly 1,000 holdings in its index, was meaningfully less volatile than the U.S., but it gained just 4.9% annualized during the period. Overall, the U.S. market has achieved superior absolute returns with far lower volatility than those outside the U.S., defying the textbook, capital asset pricing model logic that more risk should come with higher expected returns.

Exhibit 3 Annualized Return vs. Risk by Market



Source: Morningstar Direct. Individual market data cited is for the corresponding Morningstar Index in USD. Data as of Dec. 31, 2022.

What has plagued foreign markets isn't a lack of standout companies, but rather too many slumping ones. Half of the best-performing 500 stocks from 2010 through 2022 were from outside the U.S., including India's Bajaj Finance and Denmark-based biotech Genmab A/S. However, over 80% of the worst-performing 500 stocks resided overseas, including failed European banks and commodity companies from various regions. The U.S.' top performers tended to be larger companies on average than their non-U.S. counterparts, which magnified their impact on market-cap-weighted benchmark returns. For example, one of the U.S.' top performers, electric vehicle maker Tesla, sported a nearly $400 billion market cap as of the end of 2022, while one of the best-performing non-U.S. stocks, British equipment renter Ashtead Group PLC, was just $25 billion.

Exhibit 4 Share of Top/Bottom 500 Performers by Region From 2010-22

U.S. Non-U.S.

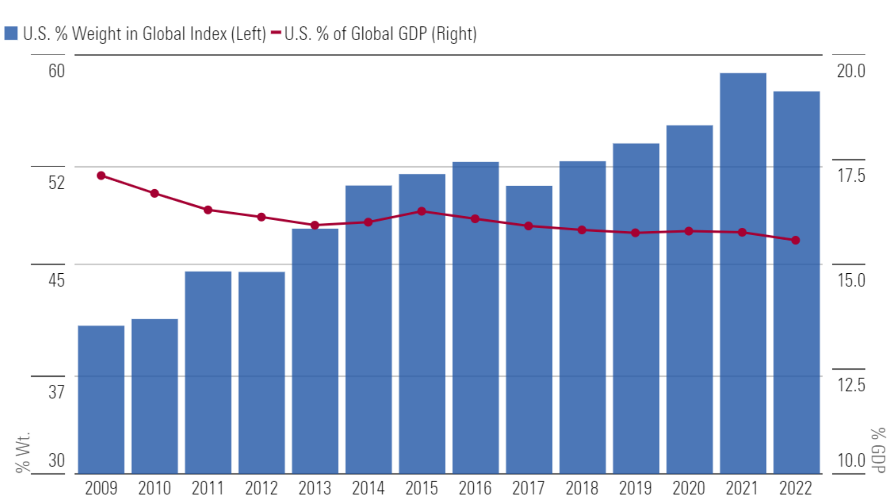
100 %
75
50
25
0

Share of Top 500 Performers
Share of Bottom 500 Performers

Source: Morningstar Direct. Data as of Dec. 31, 2022. Indexes used: Morningstar U.S. Market, Morningstar Global ex-U.S.

Because of this, U.S. companies now dominate global indexes. They claimed approximately 41% of the Morningstar Global Markets Index in January 2010, when three of the top-10 names by market capitalization were non-U.S. companies: HSBC, BP, and Nestle. By December 2022, however, U.S. stocks made up 57% of the global index, even though the U.S.' share of global gross domestic product (based on purchasing-power parity) declined to 15.6% in 2022 from 17.1% in 2009.[2] In other words, even though the U.S. makes up a smaller portion of global GDP now, it eats up more global market cap than ever. At the end of 2022 all of the Global Markets Index's top 10 holdings were U.S. companies, including behemoths Apple, Microsoft, Alphabet, and Amazon.com.

Exhibit 5 U.S. Weighting in Global Markets Index vs. U.S. Percentage of Global GDP



Source: Morningstar Direct. International Monetary Fund. Data as of Dec. 31, 2022.

2 https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD/USA

In fact, Apple alone was worth more than all but eight other countries in terms of non-float adjusted market cap as of Dec. 31, 2022, including Germany, Australia, Sweden, and South Korea.

Exhibit 6 Market Capitalization of Countries Relative to Apple as of Dec. 31, 2022 (USD Billions)

Source: Morningstar Direct. Data as of Dec. 31, 2022. Country market cap is estimated from Morningstar Global ex-U.S. Index.

Why Has the U.S. Stood Out?

Structural Advantages

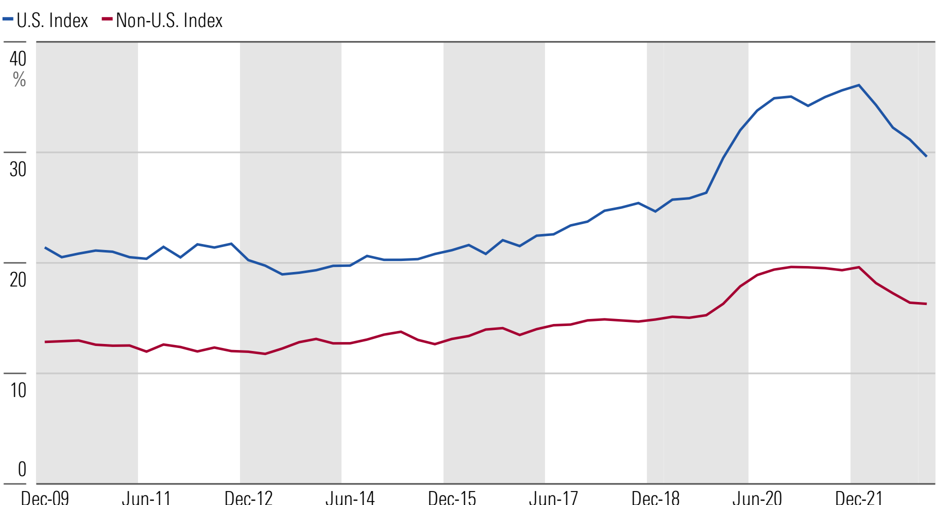
The United States has long been renowned for being the center of global innovation. It possesses most of the world's top universities, which attract top talent from within and abroad, and contribute to high levels of innovation and dynamism. But great ideas can't come to fruition without funding, and in that regard the U.S. offers entrepreneurs the best access to capital.

Moreover, the U.S. possesses a scale advantage that is hard to beat. After all, it is a single market with 50 states and a common language, making it essentially a country of countries. The European Union has tried to replicate what makes the U.S. special in that regard, but language and cultural and political barriers present major challenges, as the bloc recently learned when one of its key members—the United Kingdom—quit in 2020.

This confluence of factors contributes to the U.S. indexes having far more exposure to areas of innovation like technology and communication services. The U.S. has for a long time possessed an edge in these areas, but it has become more pronounced since 2010 as behemoths like Apple, Microsoft, Meta, and Alphabet soared. As of December 2022, tech and communication services comprised approximately 30% of the U.S. index, nearly double the non-U.S. index's weighting. These companies have reached great heights due to their network effects, product loyalty, scale, and brand. Companies in other sectors, such as Amazon and Tesla, have carved their own territory utilizing similar advantages. The prevalence of such competitively advantaged companies in the U.S. helps explain why 92% of the U.S. market that is covered by Morningstar equity analysts receives either a narrow or wide Morningstar

Economic Moat Rating as of December 2022. In comparison, about two thirds of the developed ex-U.S. universe covered by Morningstar stock analysts had a moat.[3]

Exhibit 7 Combined Technology and Communication Services Weighting



Source: Morningstar Direct. Data as of Dec. 31, 2022. Indexes used: Morningstar U.S. Market, Morningstar Global ex-U.S.

Meanwhile, "old-economy" sectors like financial services, basic materials, and industrials tend to drive non-U.S. indexes. As of December 2022, for instance, financial services made up 20% and basic materials 9% of the non-U.S. index, but 14% and 3%, respectively, of the U.S. index.

That helps explain some of the performance differential. Since 2010, through December 2022, the Morningstar Global Technology Index gained an annualized 12.7%, more than double the Morningstar Global Financial Services Index's 6.1%. There were some top-performing non-U.S. technology names, such as Taiwan Semiconductor Manufacturing Company, or TSMC, Netherlands-based ASML Holding, and Japan's Keyence Corp., but U.S. names drove the tech index's performance and made up 74% of the benchmark as of December 2022.

It's no surprise that the financial-services sector trailed technology. Since the 2007-09 global financial crisis, banks have faced increased regulations, historically low interest rates, and disruption from financial technology startups—all of which have damaged profitability. Even among financial-services stocks, though, U.S. leadership has persisted, due, in part, to strong-performing nonbank companies, including Visa, Mastercard, MSCI, and S&P Global, which helps explain why the financial-services index's U.S. exposure increased to 48% from 31% since 2010. Visa and Mastercard joined U.S.-based names like JPMorgan Chase and Bank of America among the global financials index's top holdings, while former top non-U.S. holdings like HSBC holdings, Banco Santander, and BNP Paribas shrank.

3 As of Dec. 31, 2022, Morningstar analysts covered 89% of the U.S. market by market cap, and 67% of the developed ex-U.S. market as defined by the Morningstar U.S. Total Market and Morningstar Developed ex-U.S. indexes.

Morningstar attribution data confirms sector composition accounts for some of the performance gap between U.S. and non-U.S. equities, but it's a small fraction of the story. Exhibit 8 shows the sector allocation effect accounted for less than 10% of the U.S. index's outperformance relative to the non-U.S. index, while stock-specific factors accounted for more than 90%. Moreover, U.S. stocks performed better across all sectors.

Exhibit 8 Sector Performance Attribution: Morningstar U.S. Market Index vs. Morningstar Global ex-U.S. Index (2010-22)

	Average Weights %		**Return %**		**Attribution Effect %**		
	U.S. Index	Global ex-U.S. Index	U.S. Index	Global ex-U.S. Index	Allocation	Selection	Active Return
Cyclical							
Basic Materials	2.9	8.7	225.0	50.4	3.5	7.0	10.4
Consumer Cyclical	9.5	10.2	424.0	114.1	–0.4	25.4	25.0
Financial Services	14.4	20.2	291.2	61.2	2.2	37.6	39.8
Real Estate	3.6	3.7	229.2	62.7	0.5	6.4	6.9
Sensitive							
Communication Services	8.5	6.8	298.4	73.6	–1.7	21.1	19.4
Energy	7.0	6.7	129.1	26.5	–1.5	15.2	13.7
Industrials	10.4	13.3	343.2	117.4	–1.0	22.0	21.0
Technology	17.7	7.8	532.6	175.5	10.9	44.4	55.3
Defensive							
Consumer Defensive	8.1	8.9	307.5	121.1	1.2	13.1	14.3
Healthcare	13.7	8.2	442.6	154.9	6.0	30.8	36.8
Utilities	3.1	3.4	269.3	46.0	0.3	8.7	9.1
Total	**99.0**	**97.9**	**336.5**	**84.8**	**20.0**	**231.7**	**251.7**

Source: Morningstar Direct. Data as of Dec. 31, 2022. Average weights may not add up to 100% due to data limitations.

Market commentators have long used various acronyms to group together whatever U.S. tech-oriented stocks are dominating headlines. They were originally dubbed the FANG names, composed of Facebook (Meta), Amazon.com, Netflix, and Google (Alphabet). More recently they have been referred to as FANGAM names—to include Apple and Microsoft—but these six companies' influence has been less than the attention they and their various acronyms have received. Their performance explained just about 22% of the active return for the U.S. index versus the non-U.S. index between 2010 and 2022. That's not an insignificant amount, but it shows that the U.S. market's dominance stretches far beyond just a small number of stocks.

Exhibit 9 Biggest Individual Drivers of U.S. Market Outperformance vs Global ex-U.S. Market (2010-22)

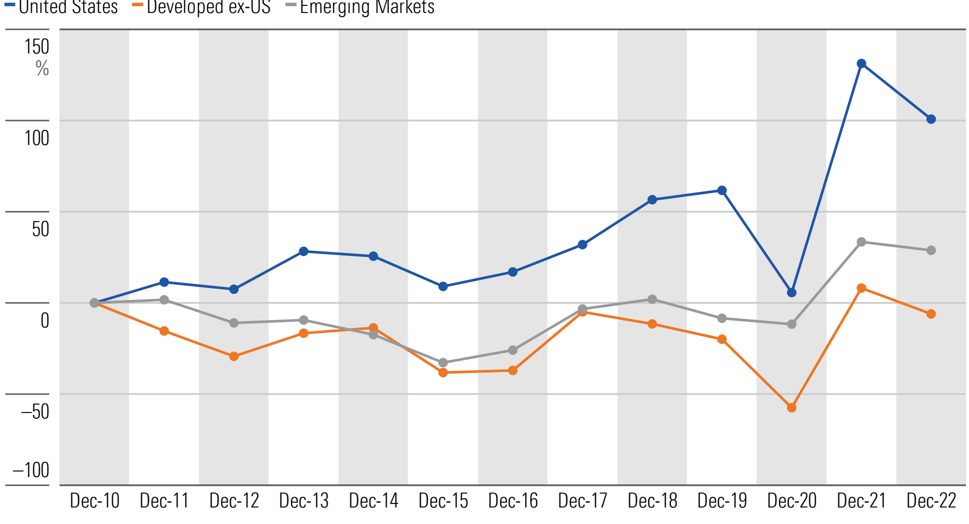
Name	Average % Weight in U.S. Index	Cumulative Return %	Active Return % *	% of Active Return *
Apple Inc	3.4	1,925.5	23.3	9.3
Microsoft Corp	2.7	928.3	15.0	6.0
Alphabet Inc	2.0	465.3	7.1	2.8
Amazon.com Inc	1.6	1,148.9	6.1	2.4
UnitedHealth Group Inc	0.6	2,008.8	4.7	1.9
The Home Depot Inc	0.7	1,381.6	4.0	1.6
Visa Inc Class A	0.7	941.9	3.4	1.3
NVIDIA Corp	0.4	3,309.2	3.1	1.2
JPMorgan Chase & Co	1.1	348.7	3.0	1.2
Mastercard Inc Class A	0.5	1,351.3	3.0	1.2
Morningstar US Market Index		336.52	251.7	

Source: Morningstar Direct. Data as of Dec. 31, 2022. *Relative to Morningstar Global ex-U.S. Index.

U.S. Fundamentals Have Painted a Prettier Picture

Since 2010, U.S. companies have fared better than their international peers in terms of earnings growth and multiple expansion—two key drivers of stock returns. For much of the last decade, global equity markets benefited from a potent combination of growing earnings and investors' willingness to pay a higher and higher price for a share of them. Global profits and valuations crawled out of near-trough levels after the global financial crisis, but the U.S.' stood out. Measuring from 2011, which excludes 2010's outlier results, through 2022, U.S. corporate earnings grew by 6.0% annualized, nearly triple emerging-markets' rate and far ahead of developed ex-U.S. stocks' roughly flat earnings over the period.

Exhibit 10 Cumulative Earnings-Per-Share Growth: 2011-22, Measured Annually in USD



Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

There are important factors driving this stark gap. When considering growth in total earnings (as opposed to earnings per share), the U.S. grew by 6.5% annualized, developed ex-U.S. markets by 1.7%, and emerging markets by 5.0%. These rates are all higher than their corresponding per-share figures, implying that net new share issuance by companies diluted investors. However, the differences are much higher for non-U.S. stocks.

Exhibit 11 Earnings-Per-Share Growth vs Total Earnings Growth: 2011-22, Measured Annually

Region	Annualized EPS Growth	Annualized Total Earnings Growth	Impact of Change in Share Count
United States	6.0%	6.5%	-0.5%
Developed ex-U.S.	-0.5%	1.7%	-2.2%
Emerging Markets	2.1%	5.0%	-2.9%

Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

A key reason for this disparity is that U.S. companies have been much more aggressive in buying back their own shares. Buybacks can offset the impact of new share issuance or simply reduce the total shares outstanding, which both help prop up per-share fundamental metrics.

Exhibit 12 Buyback Yield by Region, Measured Annually

Source: MIM. Author Calculations. Data as of Dec. 31, 2022. Morningstar TME Indexes are used for each region.

U.S. stocks have long tended to trade at higher price multiples than non-U.S. stocks, but the gap has widened since 2010. There are a few potential explanations. First, a company's growth rate and the multiple placed on its earnings are often correlated; investors can be willing to pay more for a

company's near-term earnings if they believe those earnings will grow quickly in the future. Superior U.S. earnings growth likely persuaded more investors to pay up.

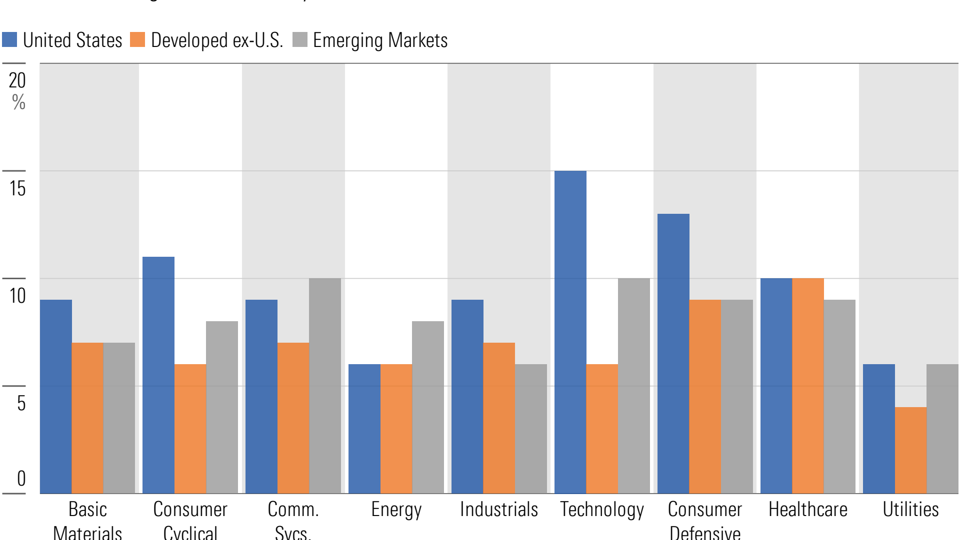
U.S. companies' superior financial strength and profitability also may have earned higher valuations. Companies with reliable cash flows tend to get higher valuations than those with less certainty. Emerging-markets companies, for instance, typically have more volatile earnings and stock prices and tend to trade at discounts to U.S. stocks. U.S. companies' better and more consistent average profitability has tended to be rewarded with higher valuations, and the difference has only widened with the disparity in fundamentals, encouraging investors to choose relatively sound U.S. companies over emerging- or developed-markets companies with weaker operating results and potentially more risk.

Exhibit 13 Annualized EPS Growth and Average ROE by Country: 2011-22, Measured Annually

14%
12
10
8
6
Average ROE 2011–22
United States
India
China
Switzerland
Brazil
Taiwan
Australia
United Kingdom
Germany
South Korea
France
Japan
8% –6 –4 –2 0 2 4 6 8
Annualized EPS Growth 2011-22

Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

Exhibit 14 Average Annual ROIC by Sector: 2010-22



Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

The U.S.' largest, most influential, exponentially growing stocks skewed its profitability advantage in certain sectors somewhat, but they don't explain away the entire discrepancy. The U.S. in aggregate still had the highest average return on invested capital in the technology and consumer cyclical sectors, excluding Facebook (Meta), Amazon, Netflix, Google (Alphabet), Apple, and Microsoft, and held onto second place in communication services.

Exhibit 15 Average Annual ROIC by Sector—Excluding Meta, Amazon, Netflix, Alphabet, Apple, Microsoft

Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

Better balance sheet management may have something to do with the U.S.' superior bottom line results. The U.S. market has operated with slightly higher leverage, particularly relative to emerging-markets companies, which can't raise debt as easily or as cheaply. Leverage can burden a struggling company but can help juice up returns for those with profitable projects to pursue. Thanks to their superior financial performance, U.S. companies are still able to cover their larger debt burden at a comparable, or better, rate.

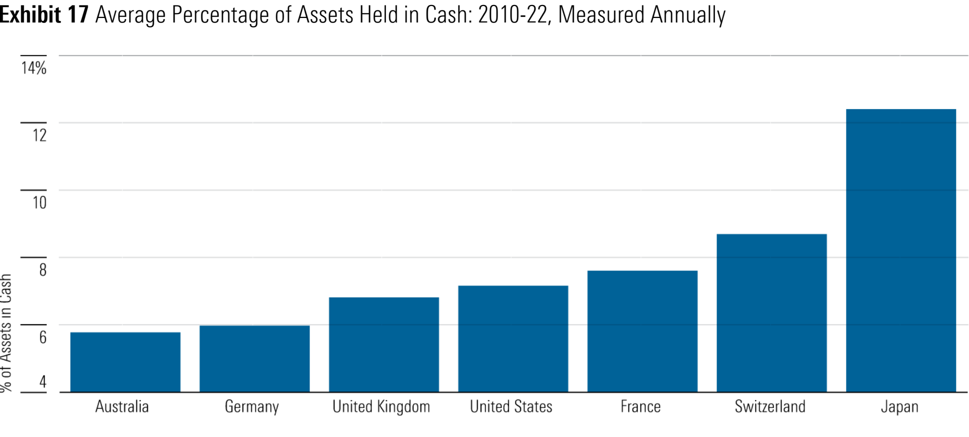
Exhibit 16 Average Financial Metrics, Measured Annually From 2010-22

Region	Net Margin	ROIC*	ROE	Debt to Capital*	Debt/EBITDA*
United States	9%	10%	13%	45%	2.4x
Developed ex-US	6%	7%	8%	41%	2.8x
Emerging Markets	9%	8%	10%	36%	2.3x

Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022. *Excludes financial and real estate sectors.

U.S. firms have also kept a relatively moderate cash buffer on their balance sheet, which is in stark contrast to Japan—the largest foreign equity market on a float-adjusted basis. Companies in Japan have long held a higher proportion of assets in cash relative to comparable nations, potentially serving as a drag on profitability, capital efficiency, and in turn, valuations.

Exhibit 17 Average Percentage of Assets Held in Cash: 2010-22, Measured Annually



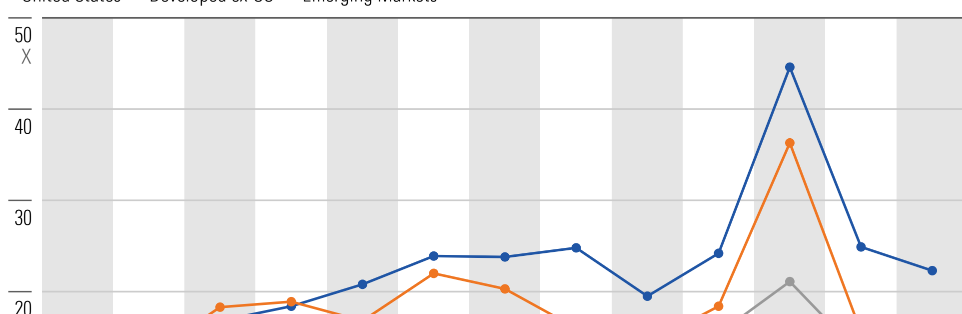
Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

A third, and difficult to measure, factor explaining the U.S. market's greater multiple expansion could be sentiment. Cheery attitudes typically follow good results, and eager investors may have rewarded U.S. stocks simply because they were enjoying a steady upward trend.

U.S. and non-U.S. stocks both shared one factor, though. After 2010 interest rates across the globe dropped to the lowest levels on record, even dipping into negative territory in some regions. Theoretically that should have boosted both U.S. and non-U.S. stocks by lowering both the discount rates applied to future cash flows and the yields of investment alternatives, like bonds. International stocks, however, did not enjoy much of a bump.

Regardless of how the exact attribution of the U.S. valuation premium shakes out, the results have been stark. The U.S.' price/earnings ratio jumped from 16.4 at the end of 2010 to 22.3 by the end of 2022, equal to about a 2.5% annualized increase. In contrast, developed ex-U.S. stocks enjoyed only a roughly 1.0% annualized boost (from 13.1 times to 14.8 times), while emerging-markets multiples were roughly flat at around 12.

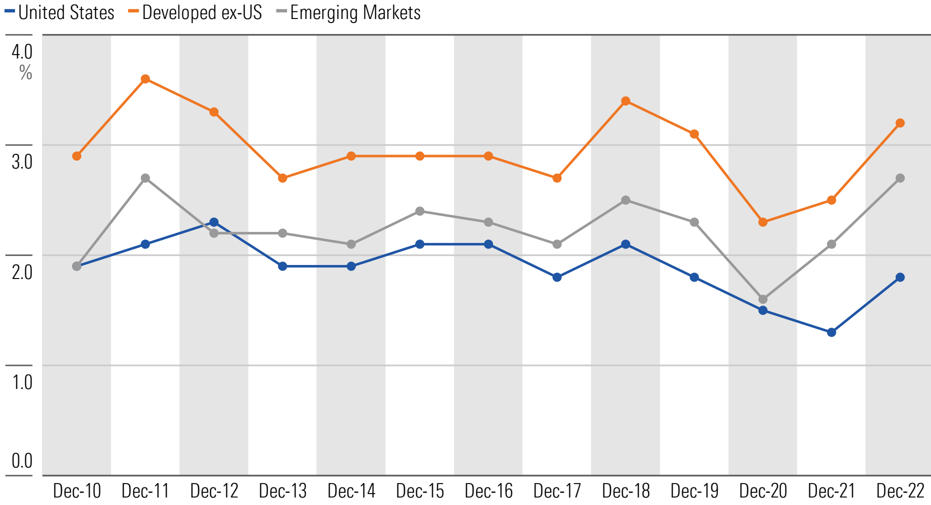
Exhibit 18 Trailing Price/Earnings Multiple, Measured Annually: 2010-22



Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

International stocks have one edge on their U.S. counterparts: dividend yield. Indeed, non-U.S. stocks, particularly in developed markets, have tended to offer higher yields. Such dividend payments must be funded with cash and developed ex-U.S. stocks have posted commensurate or better earnings quality, as defined by operating cash flow relative to reported earnings, than U.S. stocks.

Exhibit 19 Dividend Yield Across Regions, Measured Annually



Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

Exhibit 20 Operating Cash Flows Divided by Earnings (Excluding financials and real estate)

Source: Morningstar Direct. Author Calculations. Data as of Dec. 31, 2022.

What to Expect: The Case for Continued U.S. Market Leadership

If the status quo persists the U.S. can continue to lead. While the U.S. market surely has its risks, including internal strife, political gridlock, and relatively lofty stock market valuations, it arguably remains the world's most competitively advantaged market. That's factoring in its size, geographic location, abundant natural resources, corporate governance practices, and top talent; plus, it has the world's deepest capital markets. Developments outside the U.S.—ranging from the U.K.'s exit from the European Union, sovereign debt crises, China's deteriorating growth and demographic situation, and Russia's invasion of Ukraine—have only made the U.S. seem more appealing. Warren Buffett has said repeatedly over the years that investors should not bet against America. In his 2023 shareholder letter, he said, "Despite our citizens' penchant — almost enthusiasm — for self-criticism and self-doubt, I have yet to see a time when it made sense to make a long-term bet against America. And I doubt very much that any reader […] will have a different experience in the future."[4]

U.S. stocks have stood out more for their relative lack of catastrophic losses than their share of winners. Given the volatility stemming from some foreign countries' political and regulatory regimes, this could continue. A supposedly moderating Chinese government surprised investors in 2021 by nearly regulating its for-profit educational system out of existence and yanking the reins on some of its biggest tech companies. Chinese regulators investigated ride-share company DiDi Global and froze its app after the company's IPO and forced financial giant Ant Group to reorganize its business after nixing its IPO in 2020. Shares of DiDi peaked at over $15 a share but finished 2022 at just over $3, while the Ant IPO remains in limbo, sticking some asset managers with illiquid private shares of the company. Other

4 https://www.berkshirehathaway.com/letters/2022ltr.pdf

managers also had solid fundamental reasons to own Russian stocks like Sberbank, until Russia invaded Ukraine in early 2022 and subsequent swinging economic sanctions wiped out their share prices.[5]

The U.S. market has long been more expensive based on price multiples than non-U.S. markets. Though that relationship is more pronounced today, it isn't a guaranteed headwind. One can argue the premium is justified because it reflects stronger earnings growth, profitability, and better balance sheets. If the U.S. can sustain stronger quality and growth, then it is far from a forgone conclusion that the current cycle will end. U.S. stocks will likely continue to garner a premium, and corporate America's insatiable drive to maximize shareholder value will continue to squeeze every ounce of profit out of a relatively mature yet innovative economy. The structural advantages the U.S. has won't disappear overnight, either. Like the quip about economic expansions, U.S. leadership won't die of old age.

Indeed, some fund managers have leaned toward U.S. companies because of their superior fundamental profiles and other considerations. Manager David Giroux of T. Rowe Price Capital Appreciation, which has a Morningstar Medalist Rating of Gold, has favored U.S. stocks more than his peers over the prior decade for their financial strength and growth potential. Similarly, Rick Rieder of Gold-rated BlackRock Global Allocation has been overweight U.S. stocks since taking control of the fund in 2019 and changing the fundamental equity process to focus more on companies with growing free cash flows. That led to a higher U.S. weighting at the expense of cheaper developed ex-U.S. markets, though Rieder is ready to pivot if growth prospects improve outside the U.S.

Neutral-rated Templeton World had long been a classic value fund that tended to underweight U.S. stocks. But it became a quality-growth fund when a new manager, Warren Pustam, took the reins in 2021 and added U.S. names like Amazon.com, Microsoft, Alphabet, Meta, and Salesforce. Its U.S. stake rose to 60% from 38% in the two years ended December 2022.

Finally, Fidelity Strategic Advisors opts to overweight U.S. stocks across their multi-asset model portfolios because of a different kind of "quality" attribute: the U.S. dollar tends to appreciate relative to many foreign currencies during times of market panic or stress.

What to Expect: Why the Future May Be Brighter for Non-U.S. Stocks

Several scenarios—or combinations of them—could lead to a non-U.S. market resurgence, including better relative earnings growth, improved corporate governance, scrambled globalization, a weakening dollar, and reversion to the mean.

Earnings growth is a key driver of equity market performance, so higher earnings growth among non-U.S. companies could boost their share prices and multiples. For that to happen, growth in old-economy sectors that drive markets outside the U.S.—financial services, basic materials, and industrials—would have to speed up and/or the expansion of tech and innovation industries would have to slow down.

5 https://www.morningstar.com/funds/did-fund-managers-misjudge-risks-russias-most-popular-stock

Non-U.S. equity managers often get excited about the prospects of improving corporate governance and regulatory situations within their investment universe. It's understandable why: fewer perceived risks and better capital allocation can lead to lower costs of capital, better economic returns, and therefore higher stock prices. Some investors believe that Japan has the most to gain from improving governance. In fact, the Tokyo Stock Exchange is working to improve awareness of cost of capital, stock valuation, and stock price among listed companies' management teams.[6]

Bronze-rated Tweedy, Browne International Value and Tweedy, Browne Value, have both added more than 10 smaller-cap Japanese holdings since the start of 2020. The funds' managers have said the companies are repurchasing shares and revamping executive remuneration—both shareholder-friendly actions—and have compelling valuations.

Bronze-rated AMG Yacktman Global also piled into Japanese stocks beginning in 2020. The fund's Japan stake was 13% as of December 2022, about double the Morningstar Global Markets Index's exposure. Japanese companies' rock-bottom valuations, better balance sheet management, and new willingness to consider sales to realize unappreciated book values can lead to compelling risk-adjusted returns, comanager Adam Sues said.

Geopolitical tensions between the U.S. and China jeopardize globalization, but a more fragmented global economy could create opportunities, say many emerging-markets managers. Bronze-rated BlackRock Emerging Markets' Gordon Fraser has been overweight Mexico for several years and remains so even after taking some profits in 2022. He believes it will benefit from structural shifts in global supply chains. Jorry Nøddekær and Naomi Waistell of Bronze-rated Polar Capital Emerging Markets Stars have favored India and Vietnam for similar reasons. Businesses diversifying their operations and supply chains away from China—as part of a so-called China-plus-one strategy—are increasingly setting up shop in those countries, they said.

With the U.S. dollar trading near multidecade highs, many managers believe foreign currencies are poised to appreciate relative to the dollar. If that were to occur, it would benefit non-U.S. equity returns when translated back to U.S.-dollar portfolios. Several highly rated non-U.S. equity managers have removed tactical currency hedges. Gold-rated Oakmark International and Silver-rated Oakmark Global hedge foreign-currency exposures when the managers believe a country's currency is 20% or more overvalued. But given the strength of the U.S. dollar in recent years, the percentage of the hedged portions of the portfolios gradually declined; the team removed its lone outstanding hedge on the Swiss franc in 2022's first half. Gold-rated Artisan International Value also removed its hedge on the Japanese yen in 2022's first half.

Perhaps the strongest rationale for a non-U.S. equity resurgence is the market's most pervasive phenomenon: mean reversion. Market history is defined by cycles, rotations, and changes in leadership.

6 https://www.jpx.co.jp/english/news/1020/e20230130-01.html

Non-U.S. stocks have outpaced U.S. stocks for extended periods in the past, such as the mid-1980s and from the late 1990s into the mid 2000s. U.S. stocks have led since 2008 and could be due for a reversal. If history is a guide, most companies that grow to dominate benchmarks struggle to stay there. At the start of 2010, U.S. energy giant Exxon Mobil was the biggest company in the world by market-cap and three of the top-10 holdings were non-U.S. stocks: HSBC Holdings, BP Plc, and Nestle SA. As of year-end 2022, all of the top-10 holdings were U.S. companies, including giants Apple, Microsoft, Alphabet, and Amazon.com. It is far from guaranteed that today's U.S.-domiciled heroes will remain on top.

At Morningstar's April 2023 Investment Conference, Silver-rated Artisan Global Value manager Dan O'Keefe said, "If you think the U.S. market is going to outperform international equities, which in many cases are at single-digit price/earnings ratios, you have to believe Apple is going to expand its multiple and grow its earnings. I wouldn't make that bet at all." Artisan Global Value had 40% of assets in U.S. stocks, and was overweight Switzerland, the U.K., and France as of December 2022. British energy giant Shell PLC and its French contemporary, TotalEnergies, have U.S.-level capital allocation and business processes but trade at much lower valuations; that valuation gap should close over time, O'Keefe has said.

Exhibit 21 Top 10 Stocks in Morningstar Global Markets Index

December 2009

Company	Country	% Weight
Exxon Mobil	United States	1.2
Microsoft	United States	0.9
HSBC	United Kingdom	0.7
Apple	United States	0.7
Johnson & Johnson	United States	0.6
BP	United Kingdom	0.6
Procter & Gamble	United States	0.6
Nestle	Switzerland	0.6
IBM	United States	0.6
AT&T	United States	0.6

December 2022

Company	Country	% Weight
Apple	United States	3.0
Microsoft	United States	2.8
Alphabet Inc	United States	1.6
Amazon.com	United States	1.2
Berkshire Hathaway	United States	0.9
UnitedHealth Group	United States	0.8
Johnson & Johnson	United States	0.7
Exxon Mobil	United States	0.7
JPMorgan Chase	United States	0.6
NVIDIA	United States	0.6

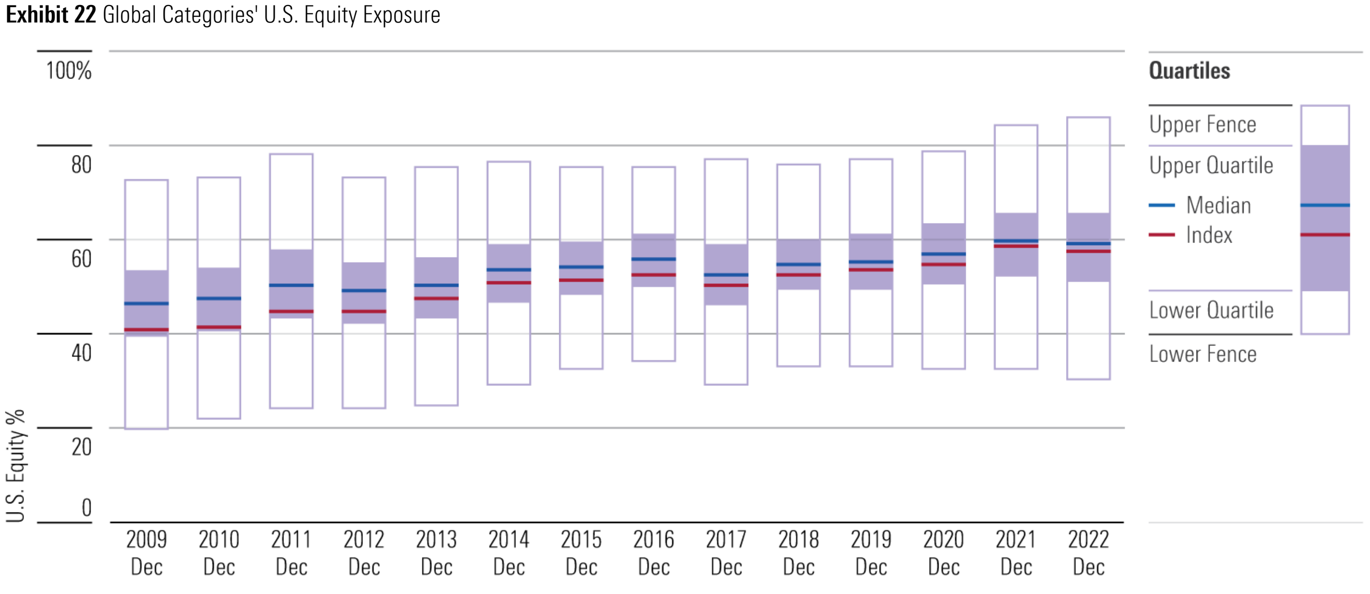
Source: Morningstar Direct. Data as of Dec. 31, 2022.

What Global Equity Managers Think in Aggregate

Global equity managers' absolute allocation to U.S. stocks has increased drastically since 2010. That comes as no surprise: As U.S. stocks rose, so did their weightings in the Morningstar Global Markets Index and actively managed funds.

What is more interesting is how active managers have positioned their portfolios relative to broad indexes that they are paid to beat. By that measure, managers have become, on average, less optimistic about U.S. stocks in recent years. At the start of 2010, the median global equity manager held 46% in U.S. stocks, about 5 percentage points more than the global equity index's 41%. While managers largely maintained that overweighting as U.S. stocks surged during the ensuing decade, enthusiasm waned in 2019-20. As of December 2021, the median manager's 59% U.S. exposure matched that of the index. Managers added marginally to U.S. stocks as global markets faltered in 2022, but they still ended the year with 59% of assets allocated to U.S. stocks, just above the index's 57%.

Exhibit 22 Global Categories' U.S. Equity Exposure

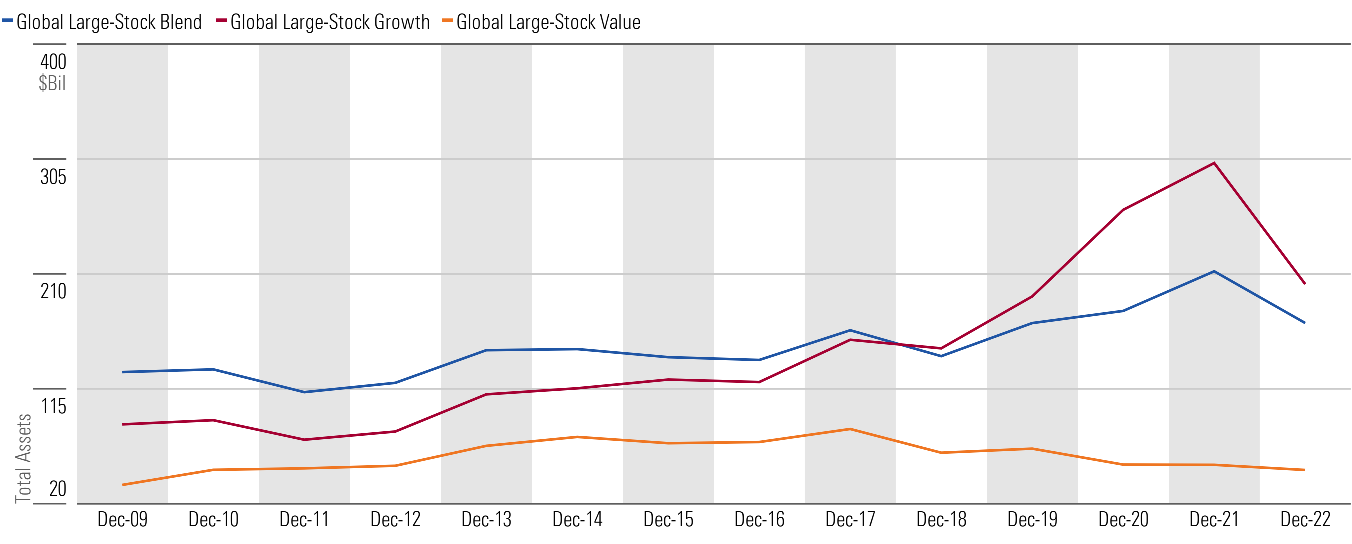


Source: Morningstar Direct. Only includes active funds. Data as of Dec. 31, 2022.

Global managers' investing styles partially skew the aggregate data. Growth-oriented managers have tended to have more U.S. exposure than value managers. As growth stocks have led the way since the global financial crisis, assets have flown more into growth funds, while value funds have become a tougher sell. Indeed, the total amount invested in actively managed global large-stock growth funds according to Morningstar was $201.6 billion as of December 2022, 135% higher than their $85.6 billion entering 2010. Meanwhile, actively managed global large-stock value funds had $47.9 billion, only 35% higher than their $35.6 billion asset level at the start of 2010. The number of global growth funds also rose more than 150% during the same period—to 99 from 39—while the number of global value funds

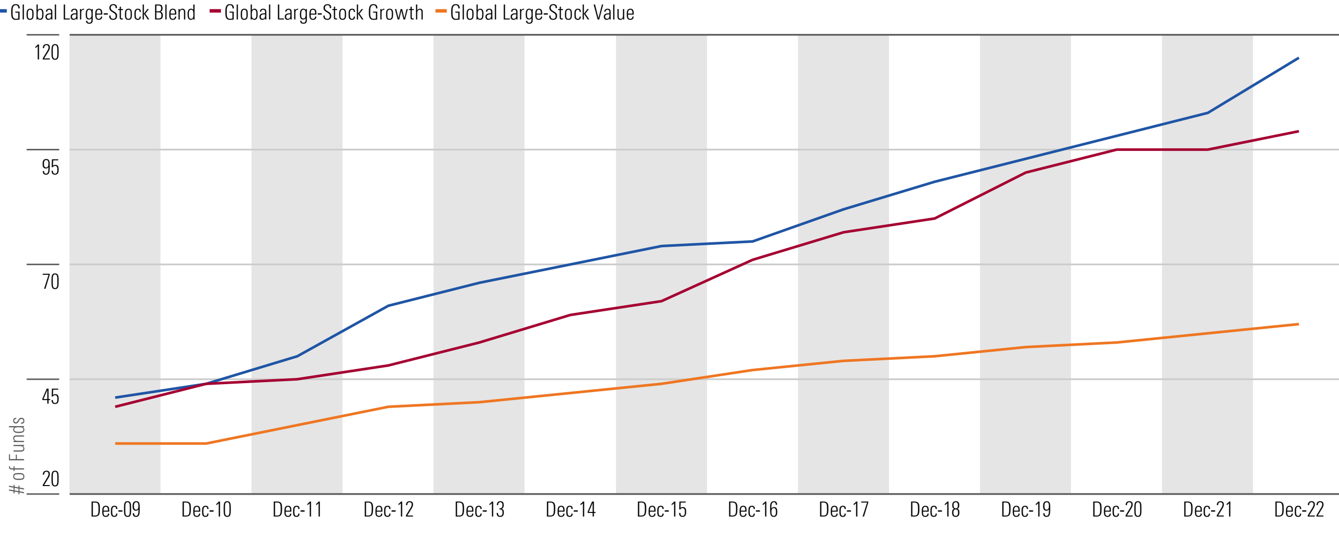
only rose 84%—to 57 from 31. Even global blend funds grew more, expanding 180% to 115 at year-end 2022, from 41 entering 2010.

Exhibit 23 Global Large-Stock Fund Assets by Morningstar Category



Source: Morningstar Direct. Data as of Dec. 31, 2022.

Exhibit 24 Number of Active Funds in Global Large-Stock Morningstar Categories



Source: Morningstar Direct. Data as of Dec. 31, 2022.

Across Morningstar's qualitative global equity coverage universe, almost all managers that had more U.S. exposure than the Morningstar Global Markets Index had a growth bias. Neutral-rated Guinness Atkinson Global Innovators had the highest U.S. equity exposure, as of December 2022, at 81% of fund assets. Key positions in the portfolio run by Matthew Page and Ian Mortimer include electronic-

connectors maker Amphenol, software provider Roper Technologies, and payment technology firms Mastercard and Visa.

William Lock's Bronze-rated Morgan Stanley Institutional Global Franchise also tends to bet heavy on the U.S., where it had 75% of its assets as of December 2022. Lock and his team target firms with durable growth potential, preferring high returns on capital, recurring revenues, predictable cash flow, modest debt, and capital-light business models. It's a top-heavy portfolio with classic growth names like Microsoft and Visa, but tobacco giant Philip Morris International was also a top-5 position.

Bronze-rated Ninety One Global Franchise's Clyde Rossouw had 70% of the assets of his concentrated portfolio of 25-40 stocks in U.S. companies as of December 2022, including Microsoft, Visa, and Philip Morris in the top five.

Silver-rated American Funds New Economy, which looks for firms that can benefit from innovation and capitalize on the shift from a manufacturing-dominated economy to one based on services and technology, had 69% of the fund in the U.S. as of December 2022. There are more innovative opportunities in the U.S. and the few domiciled outside of the U.S. are typically more fully valued, according to management. The fund’s top holdings include Microsoft, semiconductor firms Broadcom and Micron, and healthcare firms UnitedHealth Group and Thermo Fisher Scientific.

Not every growth-oriented fund tilted toward the U.S. Gold-rated T. Rowe Price Global Growth was light on the U.S.—48% of assets, as of December 2022—compared with most growth-oriented funds. Manager Scott Berg has tried to diversify away from some of the mega-cap technology and consumer names, and he typically invests about a fourth of the portfolio in emerging markets, such as China, India, Indonesia, and Vietnam.

Bronze-rated Baron Global Advantage's Alex Umansky sold Alphabet and Amazon.com in 2022's second half, dropping the fund's U.S. weighting to 47% from 60% in the six months through December 2022. Umansky parted ways with Alphabet because he felt it had matured and was no longer a high-growth company, and he swapped out of Amazon in favor of other opportunities deemed to have better risk/reward outlooks—though he remains a fan of the company.

Value managers remain the biggest U.S. skeptics. Gold-rated Causeway Global Value is underweight the U.S. for valuation reasons, holding just 36% there as of December 2022. Meanwhile, the team owned eight United Kingdom names, including 2022 purchases Reckitt Benckiser and Barclays. Its 18% U.K. exposure was well above the index's 4%. It also overweights France and Italy, with holdings like rail infrastructure company Alstom and electricity firm Enel Green Power.

Gold-rated value fund Dodge & Cox Global Stock has been underweight U.S. stocks since 2016; it had 49% there as of December 2022. Like Causeway, Dodge & Cox owned a lot of British and French stocks, including healthcare companies GSK and Sanofi.

Bronze-rated Tweedy, Browne Value has been underweight the U.S. by varying degrees since 2013 but has become more so in recent years. It held just 33% of assets there as of December 2022. The team's biggest overweight was to France, which made up 11% of assets, including defense firm Safran and energy firm TotalEnergies.

One exception to the broader trend was Columbia Global Value, a value-oriented fund that had 67% of its assets in U.S. stocks as of December 2022. The management team increased its U.S. exposure throughout 2022, adding at least 18 new positions, including healthcare picks Merck & Co., Zoetis, and Jazz Pharmaceuticals, and consumer defensive stocks Walmart, Constellation Brands, and The Hershey Company.

See Appendix A for a list of Morningstar's highest-rated active global equity options.

Conclusion

U.S. stocks have dominated since 2010, but investors have a lot to consider as they position their portfolios for the future. One could continue betting on the U.S. It arguably remains the world's most competitively advantaged market, is the center of global innovation, and is the benchmark for corporate governance practices. Yes, its stocks are more expensive, but the premium may be warranted going forward if the U.S. can maintain those advantages, in addition to stronger earnings growth, profitability metrics, and balance sheets. There are risks, most notably the market's most pervasive phenomenon, mean reversion, both at the stock and currency levels. Moreover, any deterioration in the U.S.' fundamentals would likely be detrimental for price multiples.

Alternatively, investors could bet against the U.S. by overweighting non-U.S. markets. Many of the risks that could undermine continued U.S. market leadership present opportunities for non-U.S. markets. Non-U.S. stock valuations and currency levels appear relatively attractive. Closing the gap in fundamental performance and corporate governance with their U.S. counterparts could be catalysts for non-U.S. stocks. But that does shift the onus to foreign companies to perform better, otherwise such a bet could become a value trap.

Finally, investors could resort to a passive approach and simply match the global market's allocation. The U.S. weightings of global indexes will naturally increase if U.S. stocks continue to lead and decrease if they lag.

Whatever route investors take, predicting the future is notoriously difficult. Few, if any, managers would have accurately forecast how the market landscape looks today back at the beginning of 2010. Overall, as with any investment decision, it's important to understand the risks involved. M

Appendix A Analyst-Covered Global Equity Morningstar Medalists

Name	Morningstar Medalist Rating	Morningstar Category	U.S. Equity % as of Dec. 31, 2022
American Funds Global Growth Port R5	Gold	Global Large-Stock Growth	49.3
Dodge & Cox Global Stock I	Gold	Global Large-Stock Value	49.2
T. Rowe Price Global Growth Stock	Gold	Global Large-Stock Growth	48.2
Causeway Global Value Inst	Gold	Global Large-Stock Value	36.3
American Funds New Economy A	Silver	Global Large-Stock Growth	69.2
DFA Global Equity I	Silver	Global Large-Stock Blend	67.9
Vanguard Global Equity Inv	Silver	Global Large-Stock Blend	56.7
BNY Mellon Global Stock - I	Silver	Global Large-Stock Growth	55.7
Vanguard Global Minimum Volatility Admr	Silver	Global Large-Stock Blend	52.2
MFS Global Equity B	Silver	Global Large-Stock Blend	50.9
Baillie Gifford Long Term Global Gr 2	Silver	Global Large-Stock Growth	50.1
American Funds New Perspective A	Silver	Global Large-Stock Growth	48.2
American Funds Capital World Gr&Inc A	Silver	Global Large-Stock Blend	46.0
Boston Partners Global Equity Instl	Silver	Global Large-Stock Value	45.6
Oakmark Global Investor	Silver	Global Large-Stock Value	43.3
Artisan Global Value Investor	Silver	Global Large-Stock Value	39.6
Morgan Stanley Inst Global Franchise I	Bronze	Global Large-Stock Blend	74.8
Ninety One Glb Franchise I	Bronze	Global Large-Stock Growth	70.3
BNY Mellon Worldwide Growth A	Bronze	Global Large-Stock Growth	66.0
BlackRock Unconstrained Equity Instl	Bronze	Global Large-Stock Growth	63.4
Harding Loevner Global Equity Advisor	Bronze	Global Large-Stock Growth	61.4
Impax Global Environmental Markets Instl	Bronze	Global Large-Stock Blend	58.0
Artisan Global Opportunities Inv	Bronze	Global Large-Stock Growth	53.6
Oakmark Global Select Investor	Bronze	Global Large-Stock Value	53.3
Eaton Vance Richard Bernstein Eq Strat I	Bronze	Global Large-Stock Blend	51.4
Impax Global Opportunities Institutional	Bronze	Global Large-Stock Growth	48.6
Morgan Stanley Inst Global Opp I	Bronze	Global Large-Stock Growth	47.5
Baron Global Advantage Institutional	Bronze	Global Large-Stock Growth	46.8
Virtus Vontobel Global Opportunities A	Bronze	Global Large-Stock Growth	45.7
Polaris Global Value	Bronze	Global Large-Stock Value	45.4
PGIM Jennison Global Opportunities Z	Bronze	Global Large-Stock Growth	43.4
Vanguard Global ESG Select Stk Admiral	Bronze	Global Large-Stock Blend	42.1
Davis Select Worldwide ETF	Bronze	Global Large-Stock Blend	42.1
Thornburg Global Opportunities I	Bronze	Global Large-Stock Blend	33.6
Tweedy, Browne Value	Bronze	Global Large-Stock Value	33.4
AMG Yacktman Global I	Bronze	Global Large-Stock Value	19.1

Source: Morningstar Direct. Morningstar Medalist Rating data as of June 16, 2023. Oldest share class used.

Important methodology note:

Index-level fundamental data points are calculated by aggregating metrics for each constituent in an index. For example, earnings per share for an index is calculated by aggregating the earnings for index constituents divided by aggregated shares outstanding. Data is float-adjusted. Metrics are measured annually and in U.S. dollars unless otherwise noted.

For earnings-growth rate calculations, a given year's growth rate is measured using only companies that were in the index during both the year of measurement and the preceding year.

Return on Invested Capital, or ROIC, is defined as earnings before interest, divided by total invested capital.

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