

Equity Markets Have Only Become More Global

In an era of onshoring and 'slowbalizing,' Morningstar indexes' revenue sources show that interconnections are deepening.

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Dan Lefkovitz

Strategist, Morningstar Indexes

dan.lefkovitz@morningstar.com

We are living in a "postglobal world," according to the title of a new book that declares a "new age of economic localization." "Reinventing Globalisation" was a recent cover from *The Economist*. "Offshoring," popular in the 1990s and 2000s, has become a dirty word, while "onshoring," "reshoring," and "slowbalization" are trending. Even before the pandemic, inflation, and war in Europe exposed the downside of global supply chains, political currents had turned against globalization. Politicians extol the virtues of independence, self-sufficiency, and "taking back control."

What do equity markets tell us about globalization? Contrary to popular perception, business has become more global, according to Morningstar estimates based on revenue sources disclosed in public companies' annual reports. The world map below displays the share of revenue earned domestically for 48 markets, represented by Morningstar country indexes, which aggregate to the Morningstar Global Markets Index, a broad gauge of equities across developed and emerging markets that currently contains 8,399 constituents.

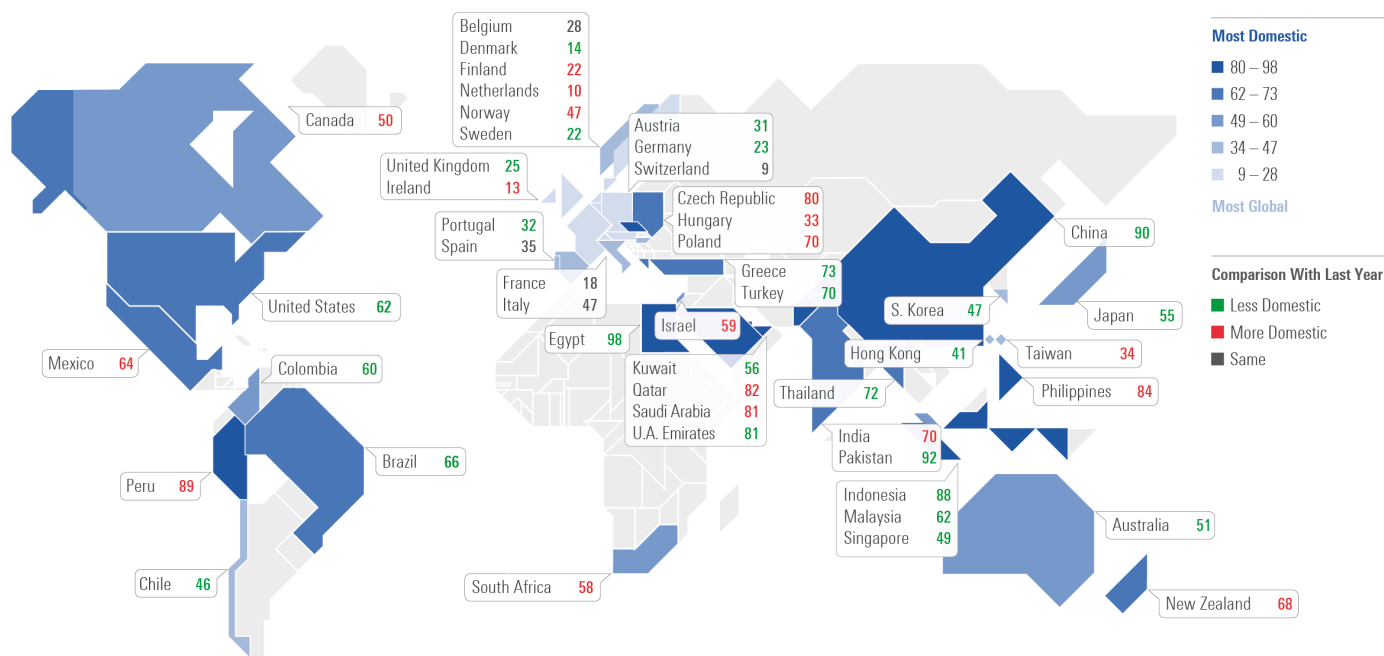
Key Takeaways

- ▶ Since the geographic revenue sources for Morningstar's 48 country indexes were last examined in June 2021, 25 markets became less domestic, 18 became more domestic, and five stayed constant. Equity markets in the United States, Japan, Germany, the United Kingdom, Brazil, China, and Australia all source more revenue outside national borders than they did in the prior year.
- ▶ The U.S., the world's largest equity market, sources more revenue internationally than it did last year because of multinationals like **Apple** AAPL, **Microsoft** MSFT, **Alphabet** GOOGL, **Tesla** TSLA, and **Johnson & Johnson** JNJ.
- ▶ The emerging markets of Egypt, Pakistan, China, Peru, Indonesia, the Philippines, and Persian Gulf States remain the most domestically oriented.
- ▶ European markets remain the world's most global. Germany and the U.K. both source more revenue externally than last year, while France and Switzerland remain highly global markets.
- ▶ Japan also became more global than last year, as players like **Toyota**, **Sony**, **Keyence**, and **Nintendo** upped their international revenue share.
- ▶ Canada and Australia, which are resources-heavy markets dominated by a few large banks, both source roughly half of revenues from outside their markets, though Canada became slightly more domestic and Australia slightly more international than last year.
- ▶ The U.S. represents more than 20% of revenue for Ireland, Canada, Switzerland, Denmark, Taiwan, the U.K., Germany, France, and Belgium, recalling the adage that when the U.S. sneezes, others catch the flu.

The Trend Toward Globalization Spans Region, Size, Sector, and Development Status

When geographic revenue sources for Morningstar's 48 country indexes are compared with June 2021, 25 markets became less domestic, 18 became more domestic, and five stayed constant.

Exhibit 1 Morningstar Indexes Global Revenue Map



Source: Morningstar Direct. Data as of 31 May 2022 and based on most recent corporate annual reports.

The trend toward globalization spans region. The world's four largest equity markets—the U.S., Japan, the U.K., and China—all source larger shares of revenue internationally than they did last year. None of the moves were dramatic. The U.S. went from 63% domestic last year to 62% this year, and Japan went from 57% to 55%; the U.K. from 27% to 25%; and China from 91% to 90%.

Economic sector also does not seem to be a strong driver of change from last year. For example, some resources-heavy markets became more global, including Australia, Brazil, Chile, and the United Arab Emirates, but others, like Canada, Peru, Saudi Arabia, Norway, South Africa, and Qatar did not. The market for resources is obviously global, so producers might be expected to increase international revenues in an era of high prices and soaring demand.

Similarly, no clear trend was discernible within technology-heavy markets (technology being another very global sector). The U.S., Korea, and Germany—all of which have significant tech representation—globalized. Taiwan, the Netherlands, Israel, and India did not.

Emerging Markets Tend to Be Domestic and Europe the Most Outward-Looking

Emerging markets, such as Egypt, Pakistan, China, Peru, Indonesia, the Philippines, and Persian Gulf states, remain the most domestically oriented. The fact that the Morningstar China Index sources an estimated 90% of revenue from China, despite the Chinese economy's export orientation, can be explained by the domestic focus of its top constituents: **Tencent**, **Alibaba**, **Meituan**, **China Construction Bank**, and **JD.com**.

European markets are the world's most global. With the exception of Greece, which is an inward-looking market, European markets are dominated by global companies. The Morningstar Switzerland Index, which includes **Nestle**, **Roche**, and **Novartis**, is the most global, with the U.S. representing an estimated 30% of revenues. Amazingly, the Morningstar Netherlands Index sources more revenue from Taiwan (an estimated 13%) than from the Netherlands (10%). It's less surprising to see countries with small populations like Ireland and Denmark among the world's most global, than countries with large domestic markets like France, Germany, and the U.K. Other European countries are the largest source of revenue for the Morningstar Europe Index, followed by the U.S. (an estimated 22%) and China (9%).

The U.S., the world's largest equity market, is home to many global giants. Some large companies, including Microsoft, Alphabet, **Meta Platforms** FB, and **Nvidia** NVDA, earn most of their revenues from outside the U.S. Other big constituents of the Morningstar US Market Index, like **Berkshire Hathaway** BRK.B, **UnitedHealth** UNH, **Amazon.com** AMZN, and **JPMorgan Chase** JPM, are largely domestically focused. After the U.S., China and the eurozone are the two biggest sources of revenue for the Morningstar US Market Index (both roughly 9%), according to Morningstar estimates. Latin America represents 3% of revenue, as does the U.K.

Japan, the world's second-largest equity market (a distant second), is home to such global companies as Toyota, Sony, Keyence, and Nintendo. But the Morningstar Japan Index also counts some of the largest domestic players in its top 10, including **Mitsubishi UFJ Financial Group** and **KDDI**. Japan sources an estimated 14% of revenue from the U.S. and 10% from China.

Canada and Australia both source roughly half of their revenues from outside their markets. They are also both resources-heavy markets dominated by a few large banks; and their economies and populations are comparable in size. But whereas Canada sources an estimated 30% of revenue from the U.S., China is the biggest external market for Australia at 13%. Only Taiwan (18%) and Hong Kong (17%) depend more on Chinese revenues.

The U.S. represents more than 20% of revenue for Ireland, Canada, Switzerland, Denmark, Taiwan, the U.K., Germany, France, and Belgium.

Companies Across Sectors and Geographies Are Globalizing

To understand how revenue streams have globalized, consider company-level examples from different sectors and regions (after all, stock markets are markets of stocks).

First, take Keyence, a Japanese manufacturer of electronic equipment, whose revenues from outside Japan, including China and the U.S., grew by more than its domestic revenue, contributing to the Japanese market's globalization.

Exhibit 2 Keyence's International Business Grew More Than Its Japanese Business Last Fiscal Year



Source: PitchBook Platform. Morningstar Equity Data.

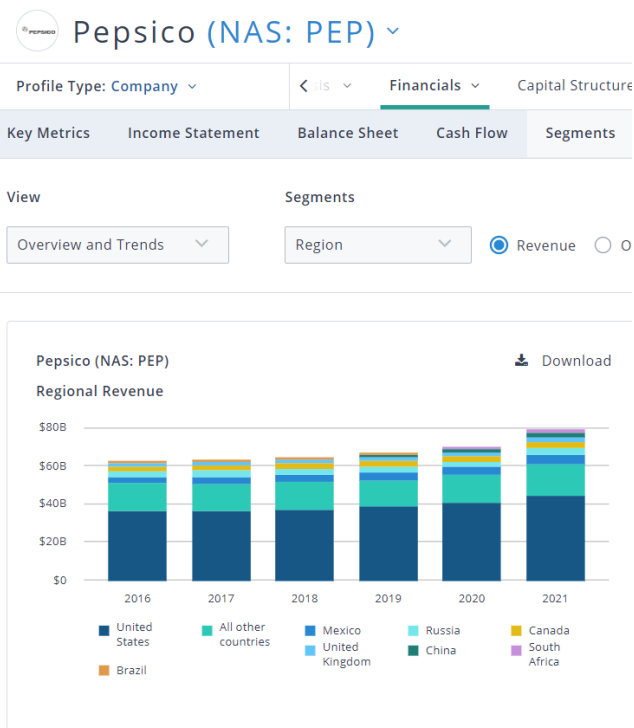
Next, consider **Sanofi**, the French pharmaceutical giant. Sanofi reported that its U.S. revenue share grew in 2021. The same was true for its revenue in Europe outside of France. Companies like Sanofi make France one of the world's most global markets.

Exhibit 3 Like Many French Companies, Sanofi Is a Very Global Business; It Became Even More Global in 2021

Source: PitchBook Platform. Morningstar Equity Data.

Third, consider **PepsiCo** PEP, the U.S.-based food and beverage giant classified in the consumer defensive sector. In 2021, Pepsi's revenue from drinks and snack sales outside the U.S. grew by a faster rate than its domestic business.

Exhibit 4 Pepsi Earned a Bigger Share of Revenue Internationally in 2021



Segmentation (Fiscal Year)	FY 2021	FY 2020
Amounts in thousands (USD) or percent	End: 31-Dec-2021 Filed: 10-Feb-2022 View 10-K	End: 31-Dec-2020 Filed: 10-Feb-2022 View 10-K
Amount in thousands		
Region		
United States	44,545,000	40,800,000
All other countries	16,729,000	14,754,000
Mexico	4,580,000	3,924,000
Russia	3,426,000	3,009,000
Canada	3,405,000	2,989,000
United Kingdom	2,679,000	1,882,000
China	2,102,000	1,732,000
South Africa	2,008,000	1,282,000
+ Historical Segments		
Percent of total		
Region		
United States	56.05%	57.98%
All other countries	21.05%	20.97%
Mexico	5.76%	5.58%
Russia	4.31%	4.28%
Canada	4.28%	4.25%
United Kingdom	3.37%	2.67%
China	2.64%	2.46%
South Africa	2.53%	1.82%

Source: PitchBook Platform. Morningstar Equity Data.

Revenue Sources Blur the Lines Between Domestic and Foreign

The fact that markets are globalizing certainly runs counter to the dominant narrative that supply chains are onshoring and countries are pursuing self-sufficiency. It's important to remember, though, that markets are not national economies. Revenue sources for public companies represent just a piece of the

mosaic. There are many other ways to measure economic globalization—the most common being trade as a percentage of gross domestic product.

For investors, globalized revenue sources blur the lines between home market and international portions of a portfolio. While it's true that global exposure can often come through domestic companies, it's also true that leading players in an investor's home market may be based offshore. As ever, a global portfolio offers the broadest opportunity set. ■■

About Morningstar Indexes

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Contact:
indexes@morningstar.com



22 West Washington Street
Chicago, IL 60602 USA

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