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Turning Tides

Why International Equities Deserve a Fresh Look in Today's Market

Non-U.S. Stocks and U.S. stocks have alternated in powerful, long cycles of dominance. Multiple market drivers have shifted to give international time in the sun.

Bailard

Turning Tides: Why International Equities Deserve a Fresh Look in Today's Market

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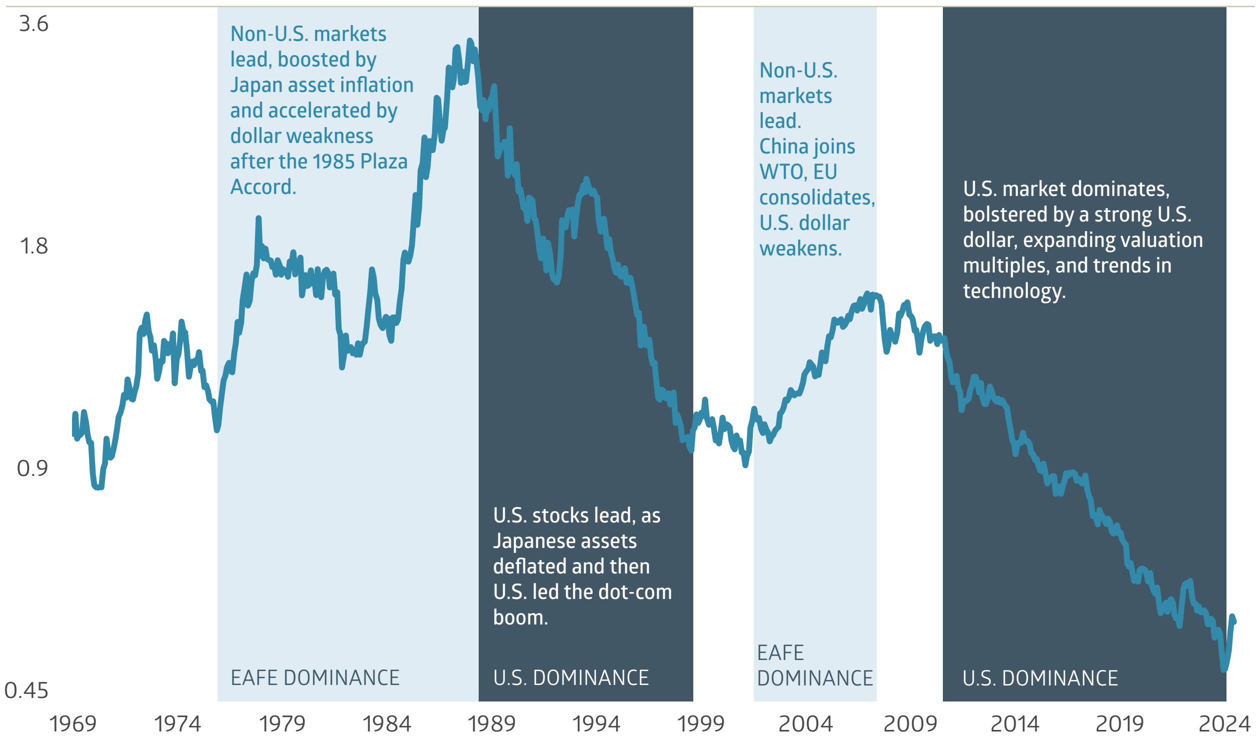
Timing global cycles can be one of the most difficult and humbling tasks investors face. Yet the value of maintaining a dynamic and diversified equity portfolio has rarely been clearer than it is today.

U.S. equities and non-U.S. equities have traded off dominance over the past 50 years.[1] In the 1980s, non-U.S. markets, particularly Japan, led the way. The late 1990s ushered in U.S. dominance, driven largely by the first wave of the technology revolution. Then came a strong period for international stocks after the dot-com bubble, as value outperformed growth, the U.S. dollar weakened, and markets such as Europe and China boomed on the back of deeper trade integration. These long, powerful cycles tend to last 5 - 10 years.

Since the Great Financial Crisis, U.S. equities have had a historic leadership run of more than 15 years. For the last few months, that story has changed, indicating we may be witnessing a changing of the guard. Year to date, Europe, Australasia, and the Far East ("EAFE") has taken the lead as several underlying

U.S. and EAFE Cycles of Dominance: MSCI EAFE Index/MSCI USA Index Ratio



The above graph displays the ratio of the MSCI EAFE Index level divided by MSCI USA Index. The MSCI Europe, Australasia and Far East (EAFE) Index includes a selection of stocks from 21 developed markets outside of the U.S. and Canada and is a common benchmark for foreign stock funds. A rising graph indicates MSCI EAFE outperformance relative to MSCI USA, while a falling graph indicates MSCI USA is outperforming—not necessarily positive or negative returns. Colored bands roughly indicate index leadership. Data 12/31/1969 - 5/31/2025. Source: MSCI. ***Past performance is no indication of future results.*** *All investments involve the risk of loss.*

1 *Data and market performance are based on the MSCI USA Index and MSCI EAFE Index.*

drivers of U.S. outperformance—the strength of the U.S. dollar, high domestic valuations, and the dominance of Big Tech—shift.

The Dollar: A Currency Adrift in Changing Seas

The impressive run of U.S. outperformance has been marked by strong appreciation of the U.S. dollar against most major currencies—a tailwind for U.S. assets and a headwind for dollar-based investors in international markets. This strength has been underpinned by multiple factors, including comparatively strong GDP growth, increasing U.S. energy independence, attractive interest rate spreads, policy cohesion, and the dollar's status as the world's reserve currency.

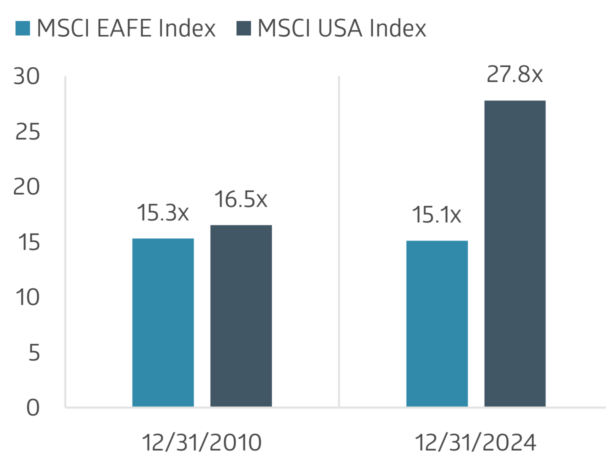
There's strong evidence these factors are changing. U.S. policy direction on key issues such as trade relationships, taxation, and public investment has become increasingly unclear, while other developed markets—notably the Eurozone—are showing newfound cohesion. The most striking example of this shift in outlook came in March, when Germany (the Eurozone's largest economy and second-largest equity market) committed to broader infrastructure investment and other policy changes designed to enable increased defense spending amid America's withdrawal. Broader European solidarity on defense and economic reform produces the certainty and stability that investors favor, and is a stark contrast to the discord of the region's early-2010s debt crisis. We are seeing early signs of structural shifts in reserve allocations and a growing chorus of discussions about the long-term desirability of the dollar's "exorbitant privilege."

Fiscal dynamics are also diverging. The U.S. now carries a higher debt-to-GDP ratio (at 120.8%)[2] than most of its developed peers and Moody's recently downgraded the country's debt from AAA. Add to this a narrowing gap in GDP growth expectations between the U.S. and other developed economies, and the stage is set for a weaker dollar over the medium term—a potential boost to international equity returns for dollar-based investors.

Valuations: U.S. Multiples Have Swelled While Global Markets Remain Anchored

Until recently, we've seen valuation multiples in the U.S. expand, while non-U.S. valuations remained stable. At the end of 2010, the MSCI EAFE index traded at 15.3x trailing earnings, compared with 16.5x for the U.S.—a 7.5% discount. By the end of 2024, investors paid 15.1x for EAFE earnings, but 27.8x for the U.S.—a near-record 45.9% discount.[3] Put another way,

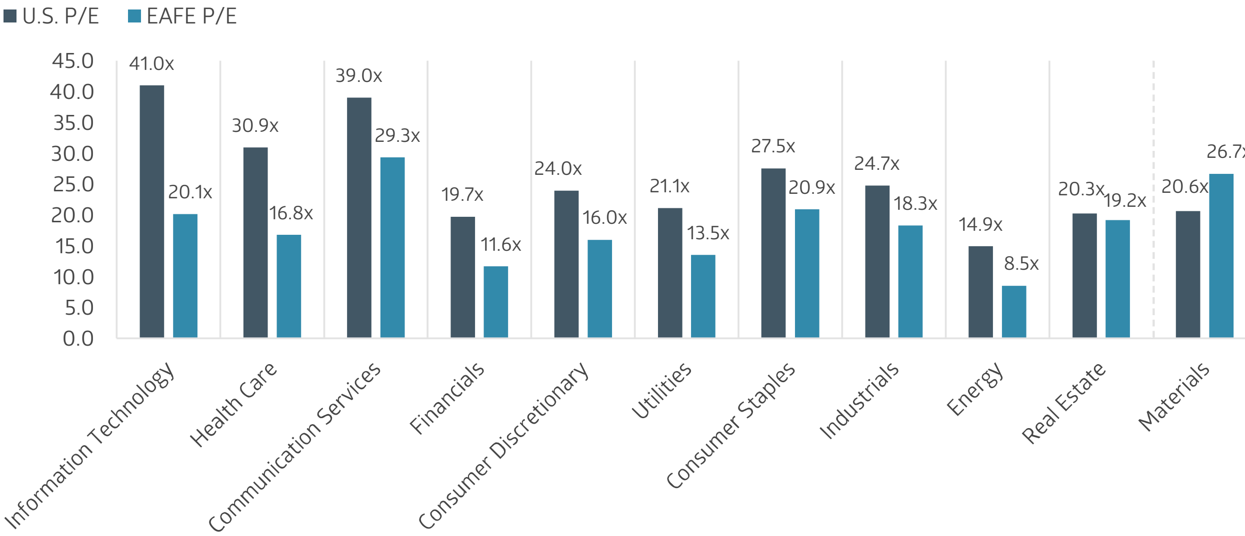
EAFE vs. U.S. P/E Ratios: 2010 vs. 2024



From 2010 to 2024, price-to-earnings multiples in the U.S. expanded, while non-U.S. valuations remained stable. In December 2024, EAFE investors have paid about the same multiple for each dollar of earnings vs. The same time in 2010. U.S. investors saw their multiple jump from 16.5x to 27.8x earnings. Source: MSCI. ***Past performance is no indication of future results.*** *All investments involve the risk of loss.*

2 *Federal Reserve Bank of St Louis. Data as of 3/31/2025.*
3 *MSCI. The U.S. is measured by the MSCI USA Index. The record was 1-month prior in November 2024 at a 47.2% discount.*

And It's Not a Sector Story—10 of the 11 EAFE Sectors Were Cheaper as of May 31, 2025



Though some sectors (e.g. Technology) trade at a premium to others, and the U.S. does have greater weight than EAFE in more expensive sectors, sector composition doesn't explain the valuation gap. 10 of 11 U.S. sectors trade at higher multiples than their EAFE counterparts. EAFE's 38% discount only falls to 31% when adjusted for sector composition. Source: MSCI. ***Past performance is no indication of future results.*** *All investments involve the risk of loss.*

over 14 years, EAFE investors have paid about the same multiple for each dollar of earnings. U.S. investors have seen their multiple jump from 16.5x to 27.8x earnings. This valuation gap is not just a sector story. It's reasonable to expect some sectors to trade at a premium to others (e.g. Technology vs. Financials), and the U.S. does have greater weight than EAFE in more expensive sectors. But 10 of the 11 U.S. sectors trade at higher multiples than their EAFE counterparts—sector weights explain only a fraction of the valuation difference.[4]

Dividend yields, too, tilt in favor of international equities. At a 3.0% yield, EAFE markets currently offer yields similar to dividend-*seeking* U.S. indices, and roughly twice the U.S. 1.3% figure. Enhancing investors' total return potential may come into increased focus in a lower-growth world.

To justify current valuation gaps, the U.S. would need to deliver outsized earnings growth for an extended period—on the order of 10% annually for a decade, concurrent with minimal earnings growth from international peers. U.S. earnings growth may lead in the short-term, but sustained U.S. leadership of the above scale seems increasingly unlikely. In short, there's strong data to suggest that U.S. equities may be overvalued. The time has come for non-U.S. equities.

Big Tech: Dominance May Be Drifting Toward Diminishing Returns

Another major driver of U.S. outperformance has been the rise of a small group of mega-cap technology stocks—the so-called "Magnificent Seven." These firms have driven a disproportionate share of S&P 500 returns in recent

4 MSCI. Data as of 5/31/25. EAFE's 38% discount only falls to 31% when adjusted for sector composition.

years and have benefited from trends such as tech reliance during COVID-19, as well as investments in artificial intelligence.

Impressive though the Magnificent Seven's earnings growth may be, it's expected to slow considerably going forward. Further, the rapid growth of Big Tech may expose the U.S. market to new risks. The largest eight American stocks—all in technology or tech-adjacent industries such as e-commerce that rely heavily on technology—accounted for 32.6% of the index, increasing idiosyncratic and concentration risks.[5]

Meanwhile, EAFE's largest names spanned Technology, Staples, Health Care, and Financials—with the largest eight names totaling to just 10.9% of the overall index. EAFE's largest sector, Financials, made up 23.7% of the broad index; Technology a moderate 8.3%. In these more diversified markets, global peers—from enterprise software leaders in Europe to consumer tech innovators in Asia—are beginning to challenge U.S. dominance, including in the AI value chain.

As the next phase of AI unfolds, the balance of power may shift from infrastructure providers to application developers and data-rich incumbents—areas where non-U.S. companies may have more relative strength than the market currently prices in. At the very least, international markets offer a more balanced sector composition, which could help reduce volatility and concentration risk.

Positioning for the Next Global Wave

U.S. equities have enjoyed a sustained leadership cycle over the past 15 years. However, momentum is a powerful market force. As international equities begin to show signs of leadership again, investor sentiment and capital flows can accelerate these trends. Already in 2025, EAFE markets are outperforming U.S. equities year to date—to a degree rarely seen in history.

> *Investors need to recognize the assumptions that drove past outperformance are shifting. Today's environment offers a rare opportunity to reassess international exposure as a proactive decision to position portfolios for a more dynamic global economy.*

The U.S. remains home to some of the most innovative and resilient businesses in the world. It will continue to be an important market. But after a decade-plus of one-way leadership, it's worth asking: does the U.S. still deserve a structurally outsized role in equity allocations? The case for international equities is not simply gaining strength; it's strong —*now*—as both a diversification play and a compelling source of long-term return.

Investors need to recognize the assumptions that drove past outperformance are shifting. Today's environment offers a rare opportunity to reassess international exposure as a proactive decision to position portfolios for a more dynamic global economy.

5 *MSCI. Data as of 5/31/25. The U.S. is measured by the MSCI USA Index.*

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Dan serves as Senior Vice President of International Equities and a portfolio manager for Bailard's international equity strategies. He leads the team's quantitative research, driving model enhancements in country and security selection. Critically, he also works closely with the firm's analysts to bridge quantitative and fundamental insights which collectively determine strategy implementation. Dan joined Bailard in 2011 as a quantitative analyst, following a summer internship with the firm and receiving his Master's degree in financial mathematics from Stanford University. Prior to Stanford, he earned Bachelor's degrees in business administration from Wilfrid Laurier University and in mathematics from the University of Waterloo with high distinction. Dan received his Chartered Financial Analyst® designation in 2014 and is a member of the CFA Institute and the CFA Society of San Francisco.

ABOUT BAILARD, INC.

Founded in 1969, Bailard is an independent, values-driven firm serving institutions, families, and individuals. The firm delivers institutional investment strategies and comprehensive wealth management across public and private markets.

Its asset management capabilities span domestic and international equities, fixed income, sustainable and responsible investing, private real estate, and customized solutions designed to meet a diverse range of client needs. Bailard's wealth management offering includes personalized financial and wealth planning, investment portfolio management, and advanced strategies for special situations.

Headquartered in the San Francisco Bay Area, Bailard is a majority employee-owned, woman-led firm with $6.5 billion in assets under management as of March 31, 2025. A Certified B Corporation™ and a signatory to the UN Principles for Responsible Investing, Bailard is proudly independent—built to put clients first, with clear values, extensive experience, and a long-standing commitment to accountability.

Index definitions: The MSCI Europe, Australasia, Far East Index, "MSCI EAFE" index is a free float-adjusted market capitalization index that is designed to measure developed market (ex-US & Canada) equity performance. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 576 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. All MSCI indices are presented U.S. dollar terms on a total return basis, assuming the reinvestment of dividends after the deduction of withholding taxes. All indices are unmanaged, uninvestable, and do not reflect any transaction costs.

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