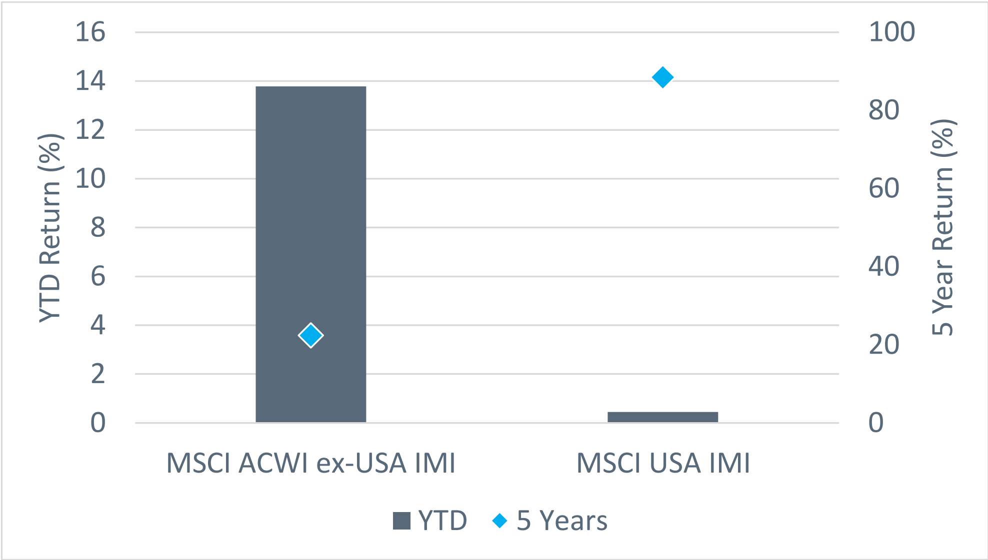
Drivers of Recent International Equity Performance

Over the past 5 years, US Equity has garnered attention for high absolute returns and the performance of a small group of exceptional, growth-oriented, mega-cap companies. Thus far in 2025, International Equity markets have outperformed the US Equity market, having benefited from certain tailwinds. These factors include a declining dollar, rising expectations for fiscal spending, higher military budgets, more accommodative monetary policy, and the potential for deregulation efforts in Europe. Meanwhile, the weaker returns from US Equities have been impacted by lower investor sentiment for the Magnificent 7 and potential impacts from tariff policy changes.

Figure 1: Cumulative Region Returns



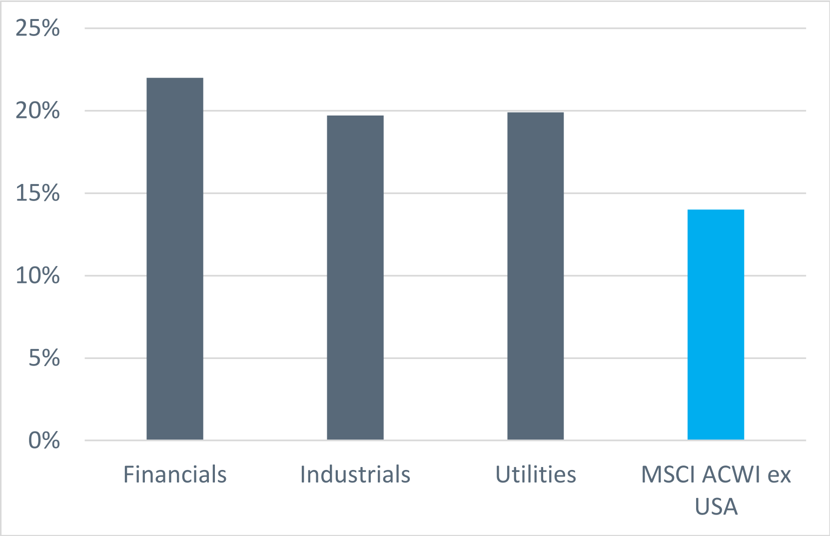
YTD returns are as of May 31, 2025. 5-Year returns are as of December 31, 2024, to highlight longer-term performance prior to the 2025 trend reversal.
Source: MSCI and eVestment.

Sector Differentiation

The International Equity space differs significantly from US Equity in terms of sector composition, and of course, the presence of multiple countries within the opportunity set. For instance, while the Technology sector accounts for approximately 30% of the MSCI USA IMI, it represents only 12% of the MSCI ACWI ex USA IMI. The International Equity market is more concentrated in the Financials (23%) and Industrials (16%) sectors.

Thus far in 2025, these differences have mattered due to more muted returns of the Technology sector as investors digested competitive challenges and high valuations. In contrast, ongoing wars, escalating conflicts, and associated announcements of increased fiscal and military spending have boosted expectations for specific economic segments overseas. The impact can be seen in the strong returns for the Industrials sector and other defensive sectors like Utilities, which are viewed as necessary to support these increased spending efforts. Financials have benefited from potential deregulation efforts within Europe, and improved interest rate dynamics for banks in Japan and countries in Europe.

Figure 2: Key Sector Returns, YTD

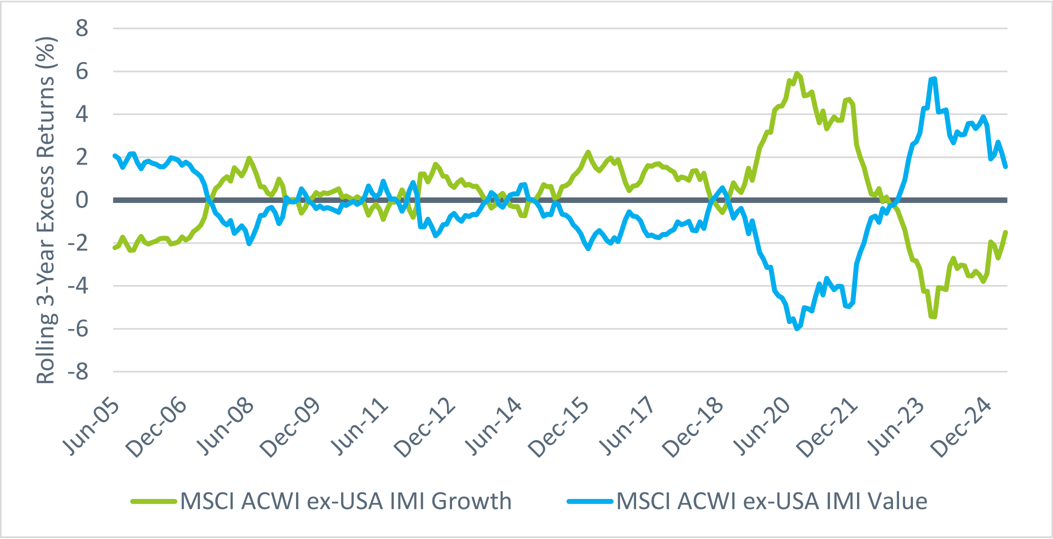


As of May 31, 2025.
Source: MSCI and eVestment.

Style Trends

In US Equity, the clear dominating trend has been the earnings and capital appreciation of the Magnificent 7. However, the style returns in International Equity have been strikingly different. Somewhat driven by the sector differences between these groups, the lack of a concentrated, high-growth set of companies outside of the US has led to more variation between growth and value stock returns in recent years.

Figure 3: Style Excess Returns, Rolling 3 Years



As of May 31, 2025.
Source: MSCI and eVestment.

Active Management

Much has been written about the outperformance of US equities relative to the rest of the world. However, portfolio implementation tends to differ among institutional investors within these regions. Active management is much more common and has historically been more successful in International Equity. While there are aspects of active US Equity portfolios that can be viewed positively, including higher quality and future growth expectations, these are largely due to underlying market conditions. Generally, conditions tend to be more favorable for active International Equity managers due to the increased complexity presented by multiple countries, language barriers, less uniform data and information availability, and the inclusion of developing economies.

Median Active Manager	Gross Excess Returns (15 Years, Annualized)	5-Year ROE	Earnings Growth (Next 5 Yrs)
ACWI ex-USA All Cap	2.0%	15.0%	10.3%
USA All Cap	-0.7%	22.2%	12.4%

As of May 31, 2025.
Source: MSCI and eVestment.

Additionally, using valuation and past growth as indicators, there is reason to believe that active International Equity portfolios currently have a strong starting point, despite the increased geopolitical risk outside of the US. The table below showcases that the valuation of active ACWI ex-USA All Cap strategies are, on average, more attractive compared to their US counterparts. Perhaps surprisingly, the realized earnings growth between these groups is similar, with higher levels for the ACWI ex-USA All Cap median.

Median Active Manager	Dividend Yield	Price/Earnings (12-Month Trailing)	Price/Earnings (12-Month Forward)	Price/Book Value	Earnings Growth (Past 5 Yrs)
ACWI ex-USA All Cap	2.5%	17.1	15.0	2.4	15.1%
USA All Cap	1.4%	23.5	19.4	4.1	14.6%

As of May 31, 2025.
Source: MSCI and eVestment.

Summary

Historically, returns between US Equity and International Equity have diverged and in multiple cases quite dramatically. The cycle can reverse for many different reasons, which aren’t always knowable. Remaining diversified across regions and tilting toward active management within International Equity can be potential paths for institutional investors to guard against single-country risks and improve long-term returns.

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