

# Looking Beyond US Equities

## A Five-Pillar Case for Reassessing Equity Allocations

For more than a decade, US equities have dominated global markets, driven by exceptional earnings growth, technological leadership, and a materially appreciating US dollar. Strong domestic economic expansion and supportive fiscal policy reinforced this advantage, while the dollar's strength created a persistent headwind for international investors. Unsurprisingly, global equity markets have become increasingly concentrated in US securities.

By the end of 2024, international equities were trading at their widest relative valuation discount to the US in decades. In 2025 however, leadership began to shift. Historically wide valuation disparities, policy uncertainty, and a weakening US dollar contributed to international markets outperforming the US, marking a notable change in direction.

While one year does not define a new regime as history and the chart below demonstrate, markets go in and out of favor. While it is impossible to tell when a market will lag, history will tell us that no single market outperforms in perpetuity. Extended periods of dominance often give rise to valuation extremes, heightened concentration risk, and positioning imbalances that materially reshape forward return expectations.

### Annualized 5-Year Returns (USD, Net)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
0.1%	6.5%	15.5%	22.8%	1.9%	3.9%	2.9%	-0.7%	1.1%	17.4%	14.8%	11.8%	13.8%	15.0%	7.7%	11.0%	15.1%	18.1%	8.7%	15.2%	14.0%	13.4%
-1.1%	4.6%	15.0%	21.6%	1.7%	3.5%	2.5%	-3.6%	-2.0%	13.4%	5.7%	3.9%	7.1%	9.0%	2.7%	7.0%	8.8%	10.1%	1.9%	9.1%	4.9%	10.3%
-3.6%	3.7%	14.9%	19.0%	1.5%	2.7%	1.8%	-4.7%	-3.7%	12.4%	5.3%	3.6%	6.5%	7.9%	0.5%	5.7%	7.4%	9.5%	1.5%	8.2%	4.7%	8.9%
-3.7%	0.0%	5.6%	12.4%	-2.7%	0.0%	1.6%	-5.2%	-4.3%	10.9%	5.3%	3.2%	6.3%	7.4%	-0.6%	5.1%	6.8%	8.5%	0.9%	6.5%	4.3%	6.3%

■ MSCI EAFE Index  
 ■ MSCI USA Index  
 ■ MSCI Europe Index  
 ■ MSCI Pacific Index

Source: FactSet, MSCI

Today, valuation differentials remain wide, currency misalignments are elevated, and structural reforms are gaining traction across several international markets. In this context, the case for international equities is increasingly compelling. We frame the opportunity around five pillars: attractive valuations, diversification amid US concentration, positioning imbalances, undervalued currencies, and emerging structural catalysts.

#### Mondrian Investment Partners Limited

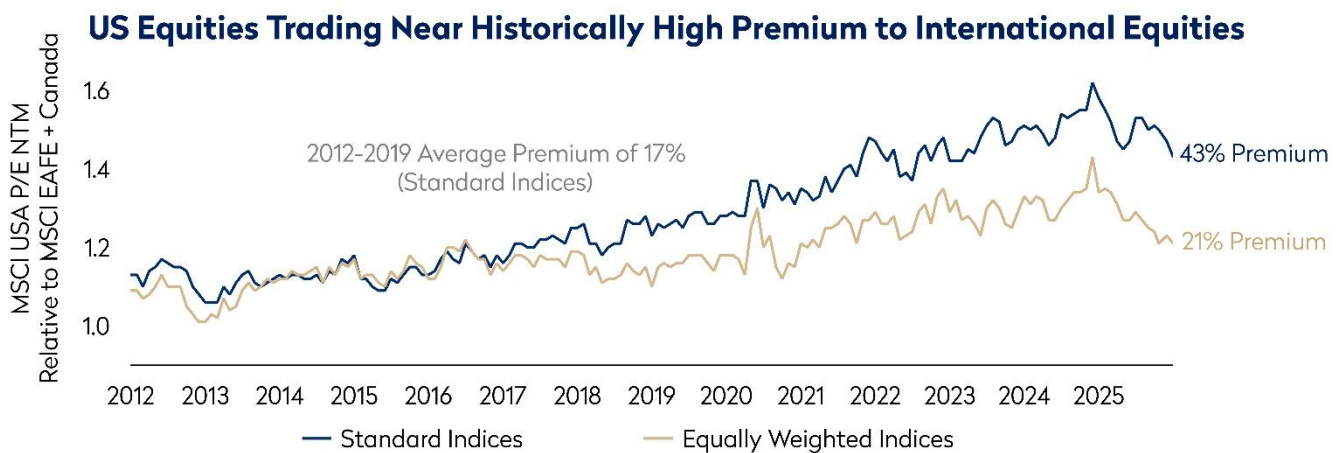
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## Pillar I: Valuations – A Historically Wide Dispersion

The case for international equities begins with attractive valuations. Even after strong performance in 2025, international markets continue to trade at a meaningful discount to US equities on a local currency basis. US equities, however, are priced at historically elevated premiums relative to non-US peers. That premium has been partly justified. Over the past decade, US companies have delivered stronger earnings growth and higher returns on capital, supported by meaningful exposure to innovative technology businesses. However, the magnitude of today's gap remains notable. Following the recent market surge, US equities trade at approximately a 43% premium to international markets. Even after adjusting for the outsized influence of the largest technology companies, the US market still commands a 21% premium: elevated relative to historical norms.

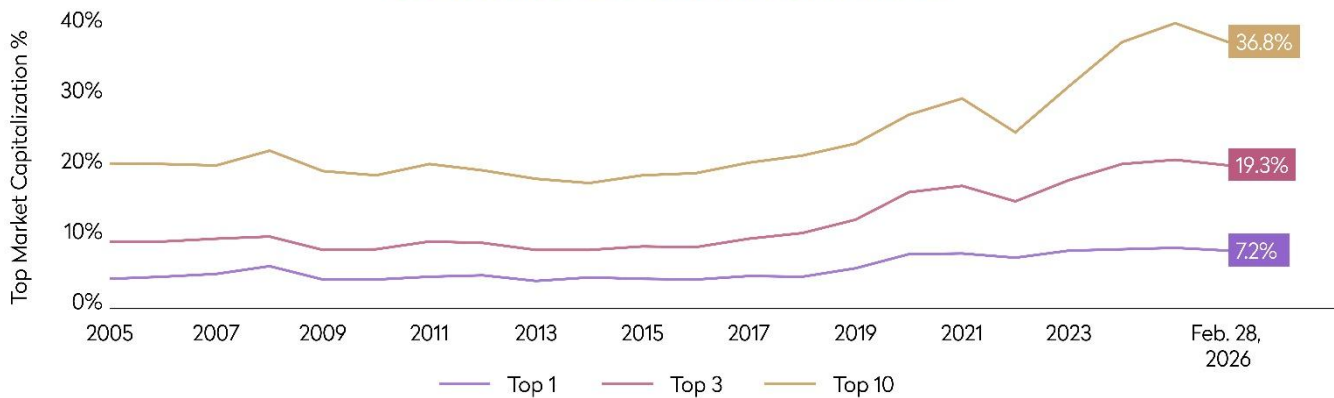
For long-term allocators, such dispersion creates an opportunity to access durable businesses with global revenue streams at more attractive entry points, improving the prospective risk-reward profile of international allocations.



## Pillar II: Diversification – Heightened Concentration Risk in the US market

Alongside valuation, portfolio construction considerations reinforce the case for international equities. The US market has become increasingly concentrated, with the largest constituents now representing approximately 37% of total index weight. This concentration increases the sensitivity of overall returns to a small number of stocks and to a narrow set of growth drivers, particularly those linked to the AI theme.

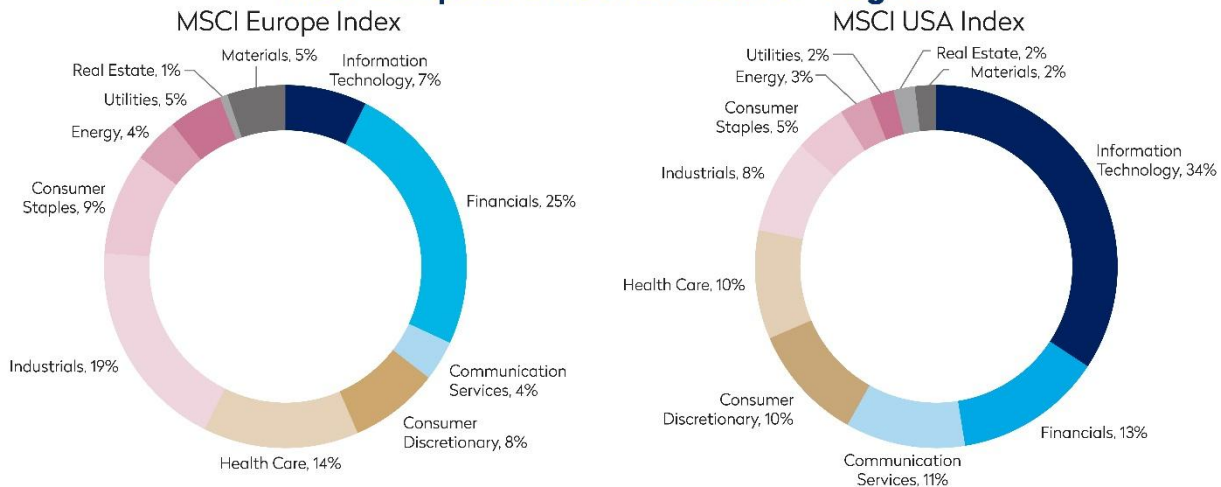
### Stock Market Concentration in the US



Source: FactSet, IMF and MSCI  
 Universe includes companies listed in MSCI USA Index

International markets, by contrast, are less concentrated and less correlated to a single structural theme. Sector representation is broader and more balanced, with greater exposure to industrials, financials,

### MSCI Europe and MSCI USA Sector Weights



healthcare, consumer sectors, and utilities. As a result, international equities provide differentiated return drivers, often at a meaningful valuation discount to US peers.

Source: FactSet, MSCI  
 Data as of December 31, 2025

Moreover, in an increasingly interconnected global economy, revenue exposure is not confined by a company’s listing domicile. Many international companies generate substantial global revenues, offering access to similar end markets as US peers, but within less concentrated indices and at more attractive valuations. International allocation therefore enhances diversification without sacrificing participation in global growth.

### Pillar III: Market concentration vs Economic Reality

The concentration of the US market is mirrored in investor allocations. After more than a decade of sustained outperformance, global equity markets have become heavily weighted towards US securities. The United States represents approximately 26% of global GDP, yet accounts for roughly 74% of the MSCI World Index.

## Percentage Share of Global GDP and of the MSCI World Benchmark – The US versus the Rest of the World

	US	Rest of the World
Share of Global Nominal GDP	26.1%	73.9%
Share of Global GDP (PPP) terms	14.7%	85.3%
Weighting in the MSCI World Index	71.9%	28.1%

Source: FactSet, IMF and MSCI  
 Universe includes companies listed in MSCI USA Index  
 Data as of December 31, 2025

The stark divergence between the US's share of global GDP and its weight in global equity indices serves as a useful sense check on market concentration and overall valuation levels. While not a direct measure of valuation, such a disparity may signal elevated expectations embedded in US equities relative to the rest of the world. It underscores the extent to which market capitalisation has outpaced underlying economic share, warranting closer scrutiny of assumptions around growth, profitability, and sustainability.

. For long-term allocators, this divergence strengthens the strategic case for reassessing international exposure as a source of differentiated return.

### Pillar IV: Currency – A Potential Tailwind

Currency has also been a material driver of relative performance over the past decade. A significant portion of US outperformance versus international markets has coincided with sustained dollar strength, which has amplified domestic returns while suppressing returns for US-based investors in non-US equities.

Using Purchasing Power Parity as a valuation anchor, the dollar remains near historically elevated levels, while international currencies remain undervalued in aggregate despite their recent rebound. Currency cycles have historically moved in multi-year periods, and valuation extremes have tended to mean revert over time.

### USD vs DXY\* - Standard Deviations away from Fair Value



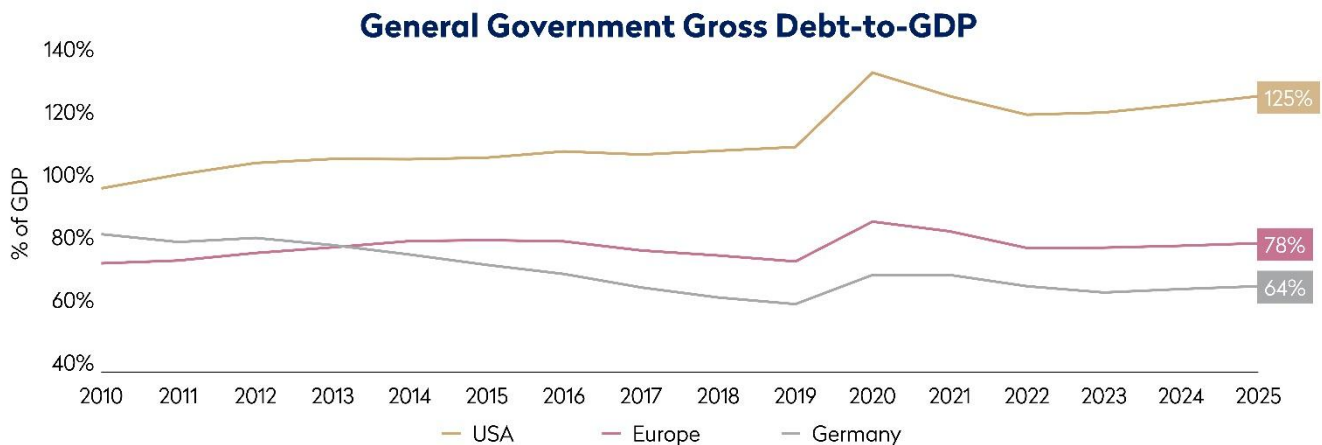
Source: Mondrian  
 \*DXY/US Dollar Index representing a basket of foreign currencies  
 Data as of December 31, 2025

Several forces suggest the potential for dollar depreciation, including narrowing interest rate differentials, evolving trade and capital flows, and shifting geopolitical dynamics that are encouraging greater diversification of currency exposure. For US investors, a weaker dollar would act as a meaningful tailwind to international equity returns. When combined with discounted local equity valuations, currency provides an additional and often underappreciated source of return potential, reinforcing the case for international equities.

## Pillar V: Structural Opportunities Outside the US

In addition to positioning considerations, international markets are benefiting from structural developments that were either absent or underappreciated in prior years.

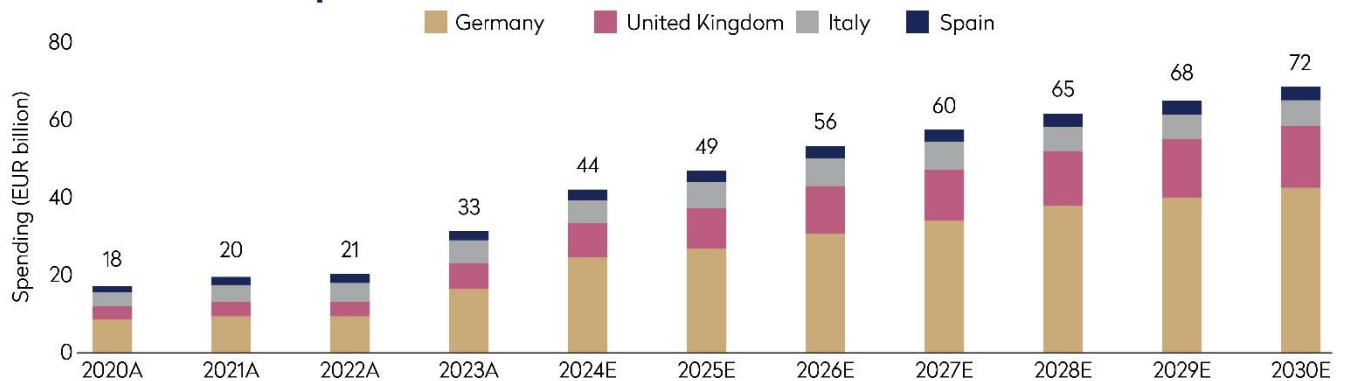
In Japan, corporate governance reform continues to drive improved capital efficiency, rising shareholder returns, and a cultural shift toward balance sheet optimization. In Europe, meaningful fiscal stimulus, particularly in Germany, is reshaping the growth outlook through increased investment in infrastructure, defense, and industrial capacity. With comparatively lower debt levels than the US, Germany has balance sheet capacity to support expansion, and the broader region is showing greater coordination in addressing competitiveness and innovation gaps.



Source: FactSet, IMF and MSCI  
Data as of December 31, 2025

Across multiple regions, investment linked to the energy transition, supply chain diversification, and domestic industrial policy is supporting sectors such as industrials, utilities, and materials- areas where international markets have greater representation. At the same time, several Asian economies continue to benefit from demographic tailwinds, rising domestic consumption, and evolving manufacturing dynamics.

## Expenditure on Transmission and Distribution Networks



Source: MSCI, Regulatory reports, TSO DSO annual reports, Bernstein, IEA and BNEF

Taken together, these factors reflect a broadening and strengthening of the international opportunity set. Improving earnings trajectories, enhanced capital discipline, and supportive policy frameworks suggest that international equities are positioned to generate competitive long-term returns.

## Conclusion

The US remains home to many of the world's most innovative and dynamic companies, and advances in AI may continue to support strong earnings growth among select US companies. Much of that strength, however, is already reflected in elevated valuations and concentrated index weights. By contrast, many non-US markets combine structural growth drivers, improving governance standards, undervalued currencies, and attractive valuations.

For long-term investors, the question is not whether the US will continue to produce world-class companies, but whether current relative pricing and portfolio concentration appropriately reflect the breadth of global opportunity. In an interconnected world, investors can often access similar end markets or geographical exposures irrespective of where companies are listed. When valuation dispersion is wide, expanding international exposure can enhance diversification and improve prospective risk-adjusted returns.

At Mondrian, our investment philosophy is grounded in intrinsic value, rigorous bottom-up research, and disciplined currency analysis. In today's environment of elevated dispersion and valuation levels, we believe the strategic case for increasing international equity exposure is compelling.

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	MSCI USA Index	MSCI Europe Index	MSCI EAFE Index	MSCI Pacific Index
2021	26.5%	16.3%	11.3%	2.6%
2022	-19.8%	-15.1%	-14.5%	-13.0%
2023	26.5%	19.9%	18.2%	15.3%
2024	24.6%	1.8%	3.8%	7.0%
2025	17.3%	35.4%	31.2%	23.3%

Source: MSCI