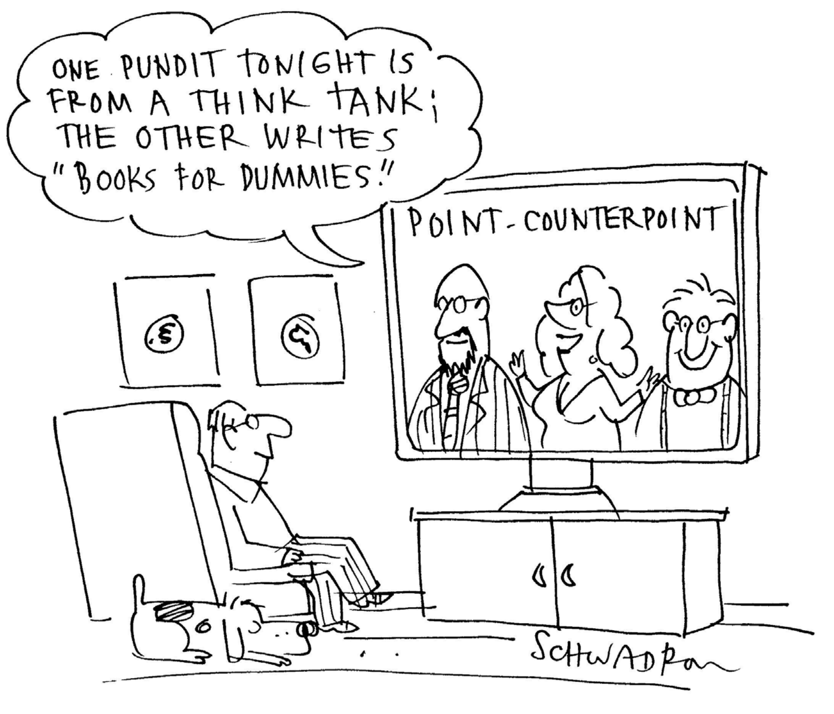
## International Investors – The Last Remaining Contrarians

*"The one who follows the crowd, will usually get no further than the crowd. The one who walks alone is likely to find himself in places no one has ever been before." – Albert Einstein*

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I spent a good part of my early investing career as a contrarian. Being a contrarian probably comes naturally to me, as a result of my nontraditional upbringing and lifelong streak of independence. At that time, I logically believed outperformance was unlikely for investors too afraid of going against the crowd.

In theory this statement sounds pretty good. In practice it doesn't always play out that way.

The statistical concept of mean-reversion is the intellectual foundation for many investors who choose to go against the grain. I regularly leaned on this type of analysis myself, as a driver in my decision making.

There is one major problem however with relying on mean-reversion as a signal for mispricing's. And that is ***time*.**

Unlimited time is something none of us possess. Predicting the *time,* it will take for market prices to mean-revert is statistically unstable at best. As the late John Maynard Keynes once said, *"Markets can remain irrational longer than you can remain solvent."*

International investing from a U.S. domestic investors perch is a good case in point. Peak inside many U.S. investors investment portfolios and one will likely find an overweighting towards domestic companies at the expense of international diversification.

On some level I am sympathetic to the argument that the United States constitutes only 27% of global nominal GDP, which could mean one's country allocation should reflect a similar weighting. In practice, I disagree. Not all countries and governments are the same. Some countries, such as the U.S. treat capital investment much more favorably than others. This is likely the main reason U.S. outperformance is not captured in simple data analysis. Stories do matter.

With the recent strong performance of international markets in 2025, I thought it made sense to pass along the below article from Barron's. International diversification will always be an important part of the risk/reward judgment investors need to consider. From my perspective, this consideration is one of degree.
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**U.S. Market Dominance Is On Pause. It Will Roar Back.**
By Alicia Levine, Head of Investment Strategy & Equities at BNY Wealth
Barron's May 29, 2025

Many on Wall Street have argued this year that investors would be advised to seek investment opportunities that don't involve the U.S. Financial pundits are sending a clear message: American exceptionalism is over.

This sentiment stems in part from the extraordinary dominance of U.S. markets since the 2008-09 financial crisis, which tipped nonrebalanced diversified portfolios into a lopsided reliance on U.S. assets. It also reflects a deep unease over the future of U.S. economic leadership. Fiscal concerns are building. U.S. debt has hit $37 trillion, and tariffs, even with pauses and reductions, threaten global capital flows into U.S. markets. The White House is seemingly turning its back on what has long made the U.S. economy great. Cracks are forming, and the once unflagging U.S. economy looks weary.

These worries are amplified by the fact that competing economies, such as Germany, have started to reform their growth-squashing policies. In comparison, the U.S. is underperforming year to date.
But U.S. exceptionalism isn't just about stock performance, and it isn't accidental. The U.S. economy's dominance reflects a durable, persistent structural advantage in how it generates growth and productivity gains, scales innovation, attracts capital, and converts that into corporate profits.

Here is why that isn't likely to change soon.

Let's start with gross domestic product, the bedrock of earnings estimates. We often like to say that equity markets aren't the real economy. This is true, in that the S&P sector weights don't align with their relative importance to the U.S. economy. But that is only true for discrete periods of time—a year or even two. Over the long term, markets reflect nominal GDP, year after year. This is evidenced by the outperformance of U.S. equity markets. While the U.S. has grown 43% since 2010, growth in Europe has been roughly half that rate and a third in Japan.

Strong labor and relaxed regulations are a clear advantage of the U.S., just as overregulation of labor and business formation in other countries has been their detriment in long-term growth. For example, the U.S. unemployment rate is 4.2%, compared with 6.2% in the euro zone. Notably, youth unemployment is 5% higher in the euro zone, and 7% higher in China. And new business applications in the U.S. have nearly doubled in the past 10 years, whereas business formation rose only 26% in the euro zone in that period. Simply put, capital and good ideas are treated and rewarded better in the U.S.

Furthermore, the productivity rate since 2010 of U.S. workers is double that of the euro zone, Canada, and the United Kingdom. This productivity gap has accelerated since 2019, as productivity levels grow in the U.S. and shrink elsewhere. U.S.-led artificial-intelligence innovation, which is being adopted throughout the country's corporate sector, will widen the productivity chasm even more.

The amount of seed and venture capital to fund such innovations simply isn't available elsewhere. More than 60% of U.S. households hold equities through brokerage accounts, IRAs, and 401(k)s, an investment level unmatched in other markets.

That makes U.S. markets the only ones big enough to absorb global capital flows. Other countries would need to build liquid, scalable equity and debt markets that attract global capital at U.S.-like levels. That's too tall a task: The U.S. accounts for 64% of the global equity market capitalization and 41% of global investment grade fixed income. Some 58% of foreign exchange reserves are in dollars.

As for the corporate sector, capital has a far higher return in the U.S. than it does elsewhere. The S&P 500 return on equity, for example, is 21%, compared with 13% for the European market. A similar gap exists against Canada and emerging markets.

Finally, there is growing unease over the dominance of the top 10 stocks in the S&P 500, which carry a 36% weight in the index. If these firms falter, the fear goes, so does the entire index. But other markets have the same problem, only larger. The top 10 stocks in China, Brazil, France, Germany, and South Korea weigh in at 50% or more. The euro zone and Japan don't lag behind by much, at about 28% for their leading names. Because there is concentration risk in all global equity markets, regional diversification won't rid portfolios of the Magnificent Seven issue.

Still, it is understandable that the underperformance of U.S. markets and the uncertainty of U.S. trade leadership this year has prompted a rethink of the country's long-term economic and market dominance. As its earnings estimates converge with the rest of the world, the U.S. market may remain weaker throughout 2025, since markets always trade on the rate of change at the margin.

But that would simply be a pause in U.S. outperformance, not an enduring about-face in global financial dynamics. We shouldn't confuse tactical shifts with structural change, nor should we confuse sentiment with fundamentals. This year has reminded investors of the power of diversification—but it shouldn't be a harbinger of a prolonged period of U.S. underperformance. A clear-eyed view of long-term trends shows the U.S. will continue to host the best global investment opportunities.
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I do not have much to add regarding market strategy this period. I am pleased investors I am a steward to, stayed the course, despite the uncomfortable emotional and political factors driving financial markets over the past few months.

Equity portfolio weightings remain on the defensive side and will likely lean in this direction for most of 2025.

| ASSET CLASS & SECTOR OPINIONS | | |
|---|---|---|
| **OVERWEIGHT** | **NEUTRAL** | **UNDERWEIGHT** |
| Cash & Money Markets | Mortgage-Backed Securities | Leverage Loans (Floating Rate Debt) |
| U.S. Treasury Notes & Bonds | Investment Grade Corporate Bonds | Treasury Inflation Protection Securities |
| Large Capitalization Technology | Consumer Discretionary Sector | High Yield Corporate Bonds |
| U.S. Real Estate & Related Equities | Communication Services Sector | Local Currency EMG Bonds |
| Utilities | Leisure & Hospitality | Small Capitalization Stocks |
| Financial Services Sector | Materials Sector | International Developed Market Equities |
| Consumer Staples | Healthcare | Emerging Markets Equities |
| Precious Metals | Energy Related Equities | |
| | Aerospace & Defense | |

Sincerely,
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