



Opportunities Beyond U.S. Markets: The Strategic Case for International Public Equities

Executive Summary

The global investment landscape appears to be in the early stages of a powerful shift after more than a decade of U.S. market dominance. International and global equities have begun to outperform notably, suggesting a potential realignment in performance leadership.

The possibility of a turning point is supported by a robust combination of factors:

- (1) Broadening leadership across international geographies and capitalizations
- (2) Renewed earnings momentum in international markets
- (3) Compelling relative valuations favoring international markets
- (4) Reduced cross-market correlations
- (5) Currency dynamics that increasingly favor international exposure
- (6) A more accommodative global policy environment

Additionally, (7) public markets are regaining ground as a credible alternative to private capital, offering transparency, liquidity, and access to global innovation leaders, advantages that private markets increasingly struggle to match.

For long-term investors, the case for rebalancing toward international and global public equities might be timely and appears strategically sound. Global public markets are poised to play an enhanced role in forward-looking portfolio construction, offering investors the opportunity to access a broader and increasingly independent set of return drivers. We believe Axiom's all-cap strategies are designed to take advantage of this more opportunity-rich environment.

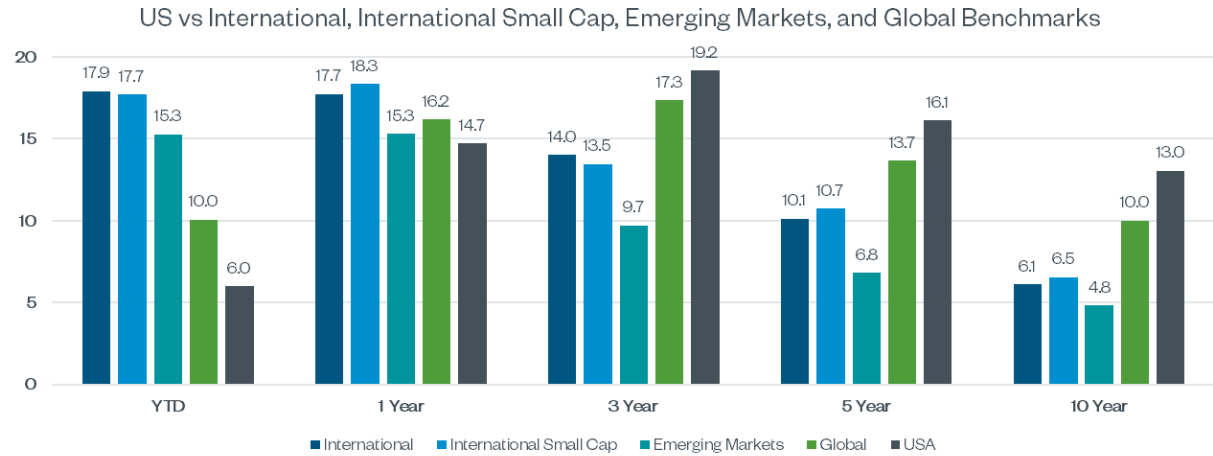
1. *Turning Point in Performance Leadership*

For the first time in over a decade, the MSCI ACWI ex USA Index has outpaced the S&P 500 on both a year-to-date and trailing 12-month basis through June 30, 2025. This performance reversal signals a possible inflection point in global equity leadership. As shown in **Exhibit 1**, international equities have delivered superior recent returns, with the MSCI ACWI ex USA Index outperforming across key periods, including year-to-date and over the past year. Importantly, performance gaps over three- and five-year horizons have narrowed, and emerging markets have begun to regain momentum after a protracted period of underperformance.



Notably, the MSCI ACWI ex US Small Cap Index, outperformed both the S&P 500 and the traditional MSCI ACWI ex USA Index over the past year. This underscores that global equity leadership is no longer narrowly concentrated but rather dispersed across both regions and market capitalizations.

Exhibit 1: Global Performance Comparison



Source: FactSet, as of 6/30/2025.
Note: International (MSCI AC World ex USA – Net), International Small Cap (MSCI ACWI ex USA Small Cap – Net), Emerging Markets (MSCI Emerging Markets – Net), Global (MSCI ACWI – Net), USA (SP500 – Net).

Further supporting the case for a structural shift in global leadership, **Exhibit 2** shows the MSCI World ex USA Index breaking decisively above its prior cyclical highs, levels last seen before the 2008 global financial crisis. After nearly 15 years of range-bound behavior, this breakout reflects improving fundamentals across international markets, including rising earnings power, greater multi-regional participation in innovation and capital formation, as well as favorable currency and policy dynamics.

Exhibit 2: MSCI World ex USA Index Price Performance (USD)



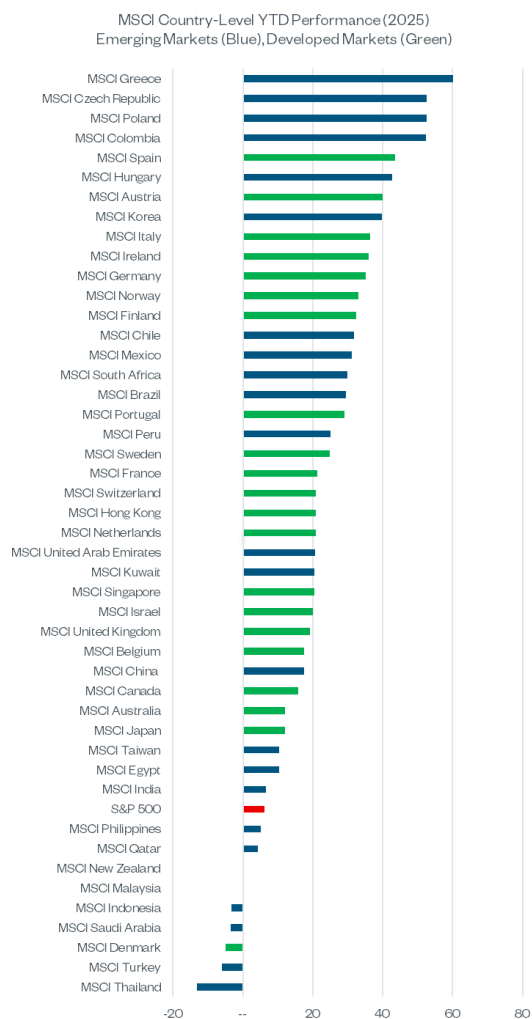
Source: FactSet, as of 6/30/2025.



Together, these market developments suggest a changing landscape, one in which long-underweighted international exposures may deserve renewed consideration in global portfolios.

As shown in **Exhibit 3**, several of the strongest-performing countries this year include both smaller developed markets such as Ireland, Austria, and Spain, as well as emerging markets like Greece, Poland, and Colombia. This breadth of leadership underscores the value of a global investment lens, one that evaluates opportunities across geographies, asset classes, and stages of economic development.

Exhibit 3: Country-Level YTD Performance (2025): U.S. versus International



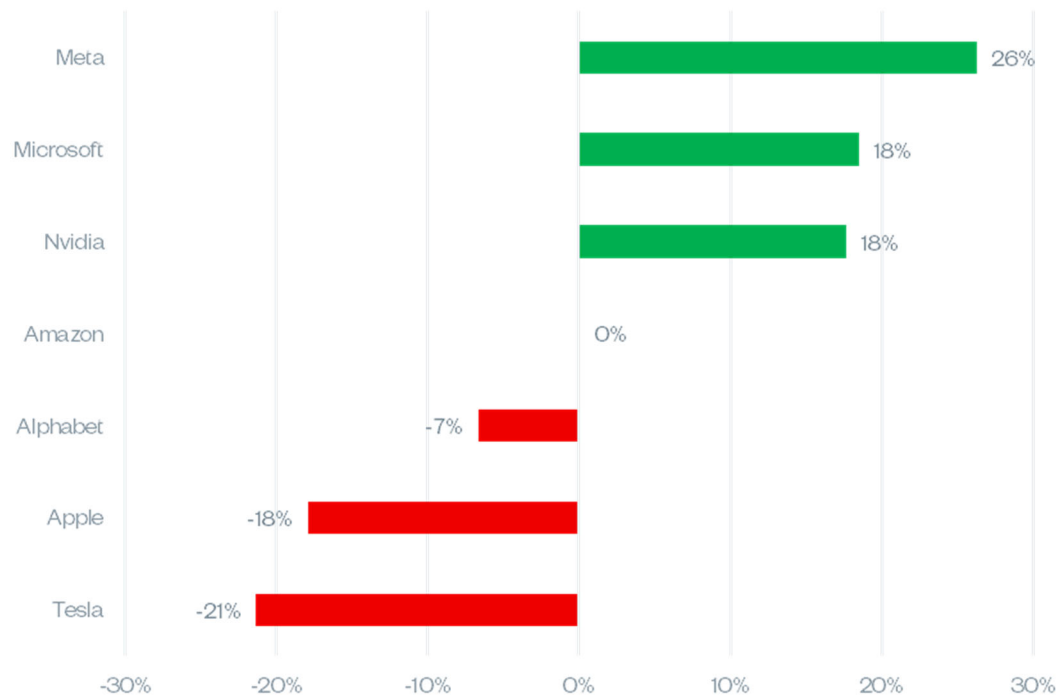
Source: FactSet, as of 6/30/2025.

Even as international market leadership appears to be broadening, U.S. stock market leadership might be narrowing. The "Mag 7" stocks that dominated index-level returns in recent years appear to be decoupling. As shown in **Exhibit 4**, only a subset of these companies are outperforming



year-to-date in 2025, with others lagging meaningfully. The result is a possibly more fragile source of market leadership within the U.S.

Exhibit 4: Magnificent 7 Stock Performance (2025 YTD %)



Source: FactSet, as of 6/30/2025.

2. *Renewed International Earnings Momentum*

The earnings growth advantage that long favored U.S. companies has narrowed meaningfully. Forward-looking earnings expectations for international markets, including emerging markets, international small cap, and MSCI EAFE, are now comparable to, and in some cases stronger than, those for the U.S.

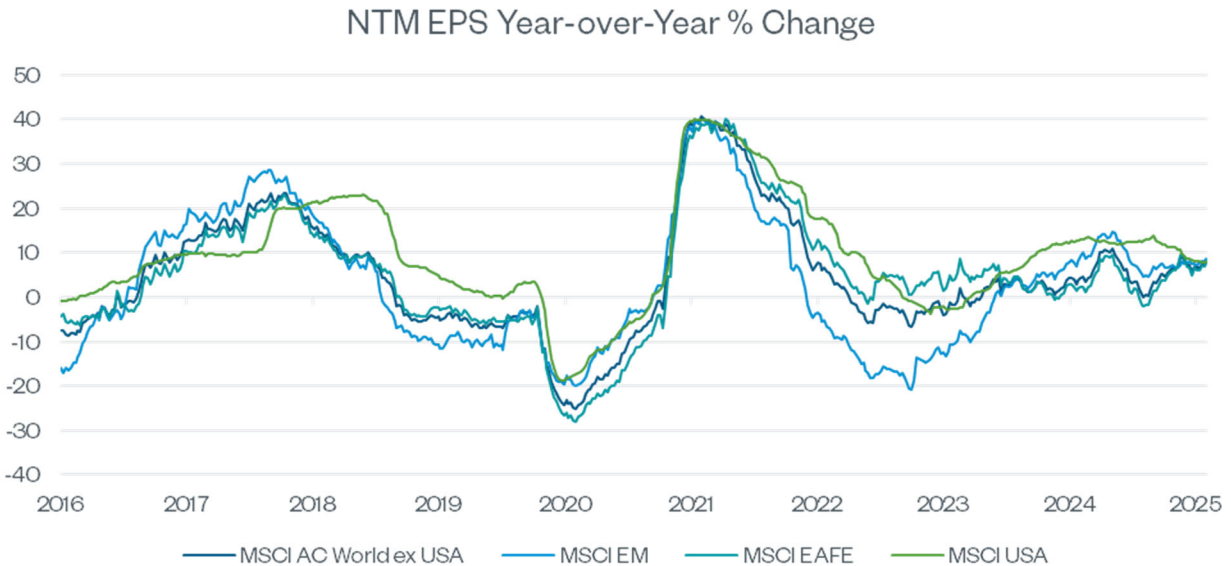
As shown in **Exhibit 5**, the next-twelve-month (NTM) EPS growth trajectories for the MSCI ACWI ex USA, MSCI ACWI ex US Small Cap, MSCI EAFE, and MSCI EM benchmarks have rebounded from post-pandemic lows and are now tracking closely with the MSCI USA Index. This convergence reflects improved macro stability, policy support including monetary easing, and rising operating efficiency, all leading to an upturn in earnings revisions across many international markets.

The return of earnings momentum outside the U.S. reinforces the case that recent outperformance is being driven by improving fundamentals, fueling a valuation re-rating in global markets which has started from historically depressed levels supporting the potential for further appreciation.



For investors seeking exposure to earnings growth at a discount, the international landscape may offer an increasingly compelling alternative to U.S. markets.

Exhibit 5: Forward Earnings Comparison of U.S. versus International Markets



Source: FactSet, as of 6/30/2025.

Note: International (MSCI AC World ex USA), International Small Cap (MSCI ACWI ex USA Small Cap), Emerging Markets (MSCI Emerging Markets), Developed Markets ex USA (MSCI EAFE), USA (MSCI USA).

Several country and regional initiatives are supporting improving growth and returns on capital including Japan's third-arrow initiatives, Korea's value-up programs, and renewed defense and infrastructure investment in Europe led by Germany where the 'debt-brake' has been removed. These initiatives are contributing to possible recovery in the relative profitability of international companies versus their U.S. competitors. As show below in **Exhibit 6**, operating margins in Europe and Japan appear to be stabilizing relative to U.S. averages and, while the trend in other markets like Korea is more cyclical, there appears to be an upward bias.



Exhibit 6: U.S. vs International Operating Margin Spread



3. *Attractive International Valuation Upside*

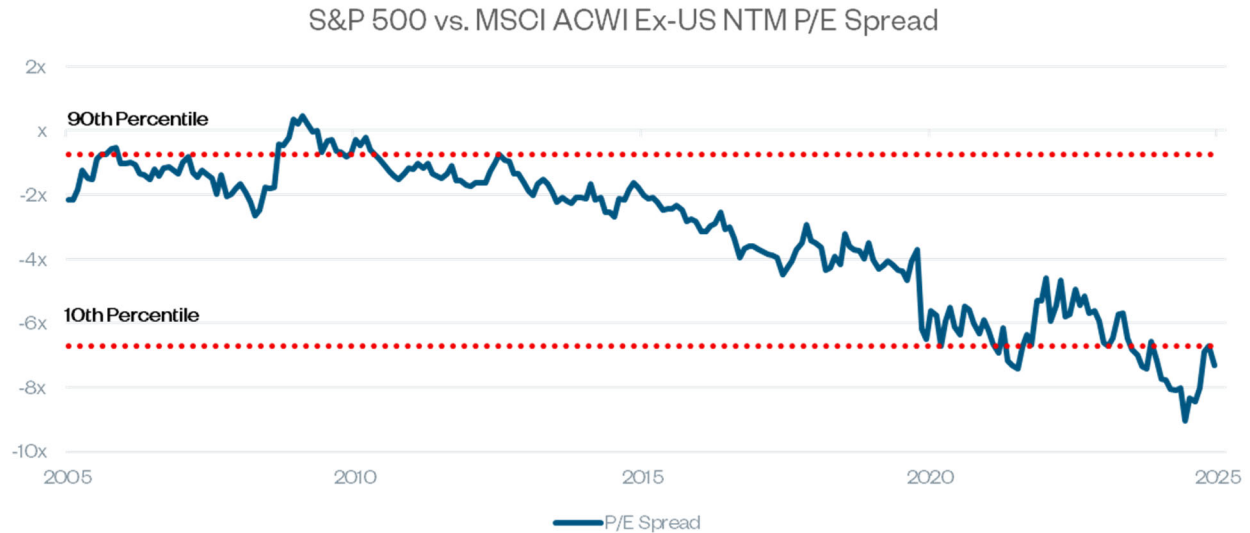
Notwithstanding the recent performance rebound, valuation disparities remain a compelling argument in favor of international markets. The MSCI ACWI ex USA Index trades at a forward P/E multiple more than 30% below that of the S&P 500, placing the current valuation spread in the most attractive decile of the past two decades.

As shown in **Exhibit 7**, the U.S. market's valuation premium has reached historically extreme levels. While some gap is justified by differences in sector composition and business mix, the current spread reflects a level of investor concentration and optimism regarding "U.S. exceptionalism" that may prove difficult to sustain.

The depth of this relative valuation gap suggests that even modest shifts in capital flows, sentiment, corporate performance, or macroeconomic assumptions could catalyze meaningful upside for international equities. Current international valuations also suggest a degree of downside protection that is increasingly scarce in many parts of the U.S. equity market.



Exhibit 7: Relative Valuation of U.S. versus International Markets



Source: FactSet, as of 6/30/2025.

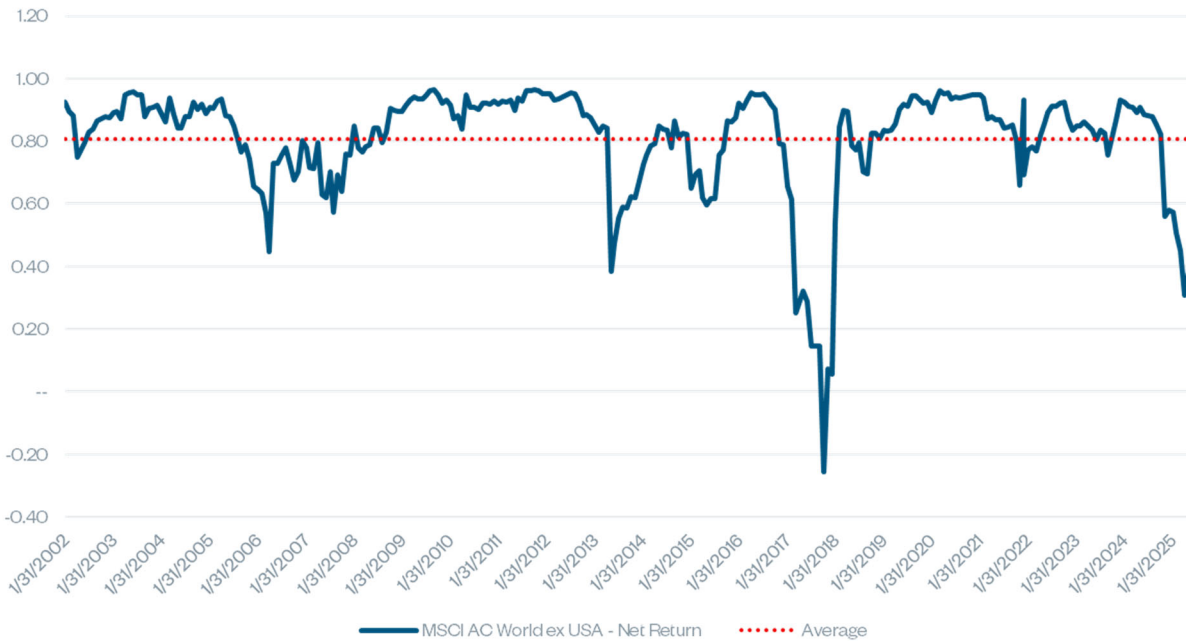
4. Enhanced Portfolio Diversification

A significant decline in cross-market correlation further strengthens the case for global diversification. The current 12-month rolling correlation between the S&P 500 and the MSCI ACWI ex USA Index has fallen to 0.64, well below the 25-year average of 0.83.

As shown in **Exhibit 8**, correlations between U.S. and international equity returns are currently well below the average levels of recent decades. Lower correlation expands the potential diversification benefits of international allocations, offering investors more effective risk mitigation at the total portfolio level. Therefore, added global exposure may contribute meaningfully to overall portfolio risk management and diversification.



Exhibit 8: Rolling 1-Year Correlation Between S&P 500 and MSCI ACWI ex USA



Source: FactSet, as of 6/30/2025.

5. Currency Tailwinds Favor International Markets

The U.S. dollar has begun to retreat from historically elevated levels, a development that has typically coincided with periods of relative outperformance by international equities. As shown in **Exhibit 9**, the dollar recently declined from levels more than one standard deviation above its 20-year average, suggesting the potential for additional dollar declines and further tailwinds to non-U.S. performance.

Exhibit 9: U.S. Dollar Price Performance (DXY Index)

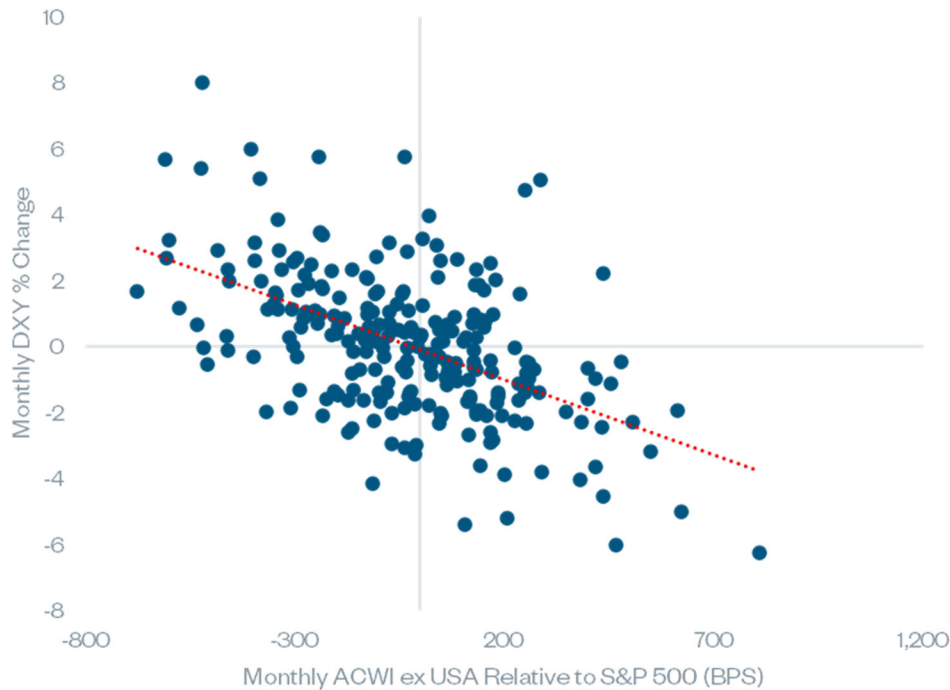


Source: FactSet, as of 6/30/2025.



As one would expect, there is a notable, persistent relationship between dollar weakness and outperformance by international markets. As shown in **Exhibit 10**, the U.S. dollar's monthly changes have maintained a consistent inverse relationship with the relative performance of international equities versus the S&P 500, with a correlation of -0.52 and an R-squared of 0.27.

Exhibit 10: Relationship between U.S. Dollar and International Market Relative Performance



Source: FactSet, as of 6/30/2025.

Over the longer term, structural forces might also be at play. The U.S. dollar's share of global foreign exchange reserves has declined from 72% to 58% over the past 25 years, as shown in **Exhibit 11**, reflecting a gradual but persistent diversification away from dollar dominance by foreign central banks.

Exhibit 11: USD as a Percentage of Global FX Reserves

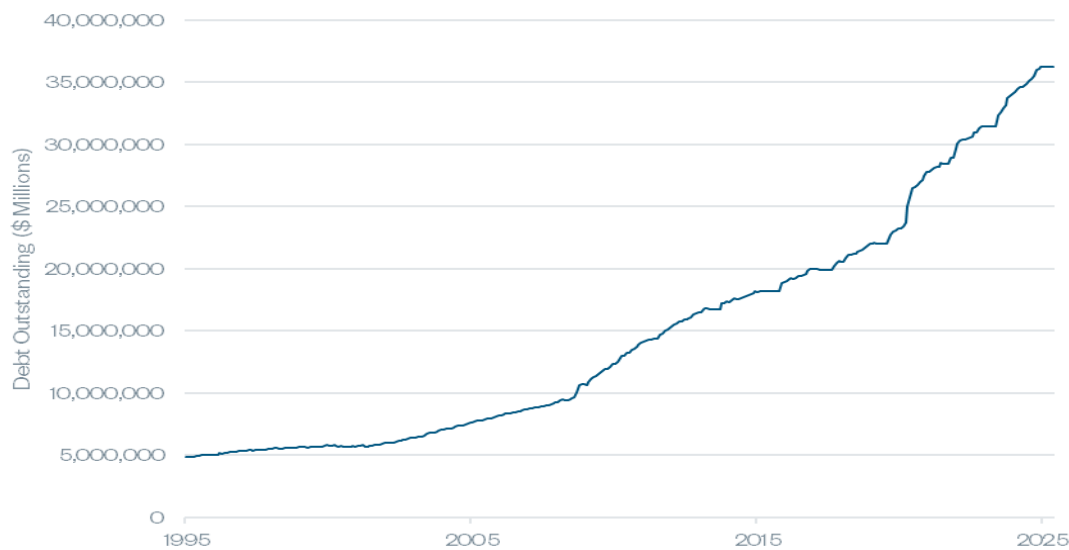


Source: IMF, as of 12/31/24.



This ongoing shift in FX reserves may accelerate given growing imbalances in the U.S. fiscal position. As illustrated in **Exhibit 12**, total U.S. public debt has reached unprecedented levels, fueled by aggressive fiscal stimulus. The recent passage of President Trump’s “Big Beautiful Bill” underscores the continuation of expansionary fiscal policy, potentially further straining the U.S. national balance sheet and possibly reducing long-term confidence in the dollar. Indeed, many commentators are now raising concerns over the U.S. “twin deficit”, the combination of the current account and fiscal budget deficits, which has widened to roughly 12 percent of GDP, about double its pre-Covid average, and a level that could increasingly weigh on global perceptions of U.S. financial sustainability.

Exhibit 12: U.S. Total Public Debt Outstanding (1995–2025)

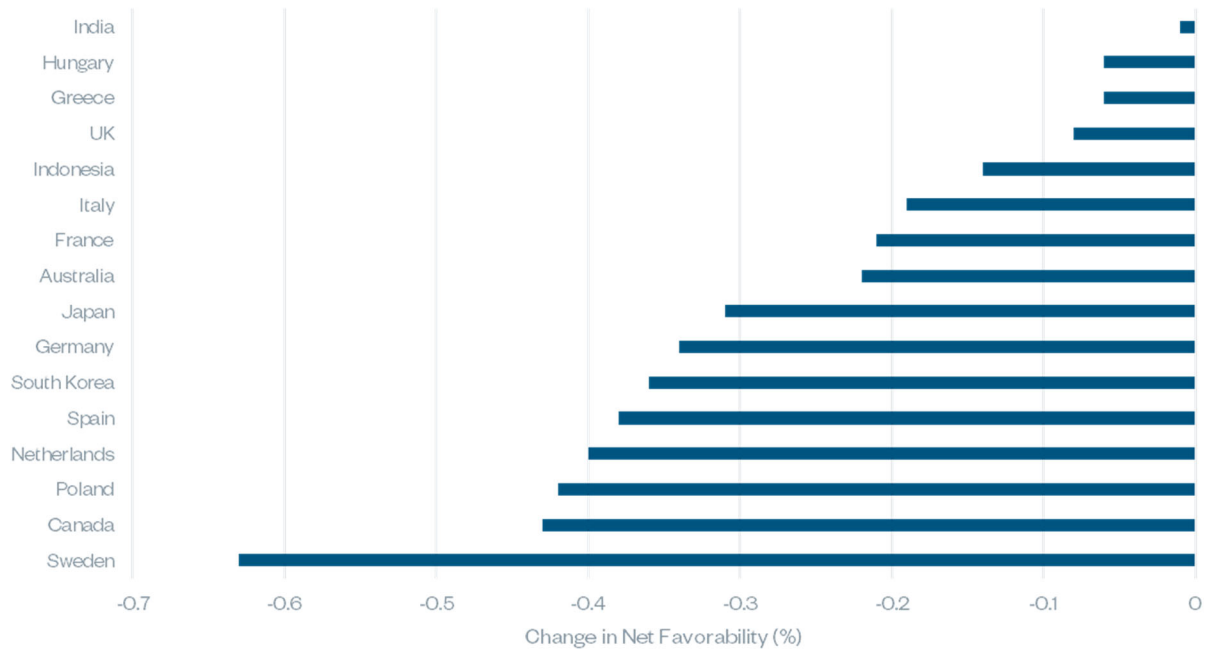


Source: U.S. Treasury, Axiom Investors.

Finally, overall global sentiment toward the U.S. has deteriorated in the past year, according to international surveys. **Exhibit 13** shows a broad decline in U.S. favorability across both developed and emerging countries. While sentiment data can be volatile, it may signal longer-term geopolitical headwinds and a diminished appetite for unhedged dollar exposure.



Exhibit 13: Net Favorable Perception of the U.S. (PEW/Ipsos)



Source: Pew Research, Axiom Investors.

According to data from the Federal Reserve, demand for U.S. equities has been a key driver of demand for the U.S. dollar, perhaps even exceeding foreign reserve flows. As per **Exhibit 14**, U.S. equities as a percentage of global market capitalizations may have peaked in February 2025, suggesting that portfolio flows could also become a headwind to the dollar. Note that investors who benchmark based on market capitalizations will have a historically elevated U.S. market exposure, reinforcing the merit of reexamining international and global equity allocations.

Exhibit 14: U.S. Share of Global Equity Market Capitalizations



Source: Bloomberg, Axiom Investors.



In sum, these structural and cyclical factors suggest that currency dynamics could increasingly favor outperformance by international and global markets.

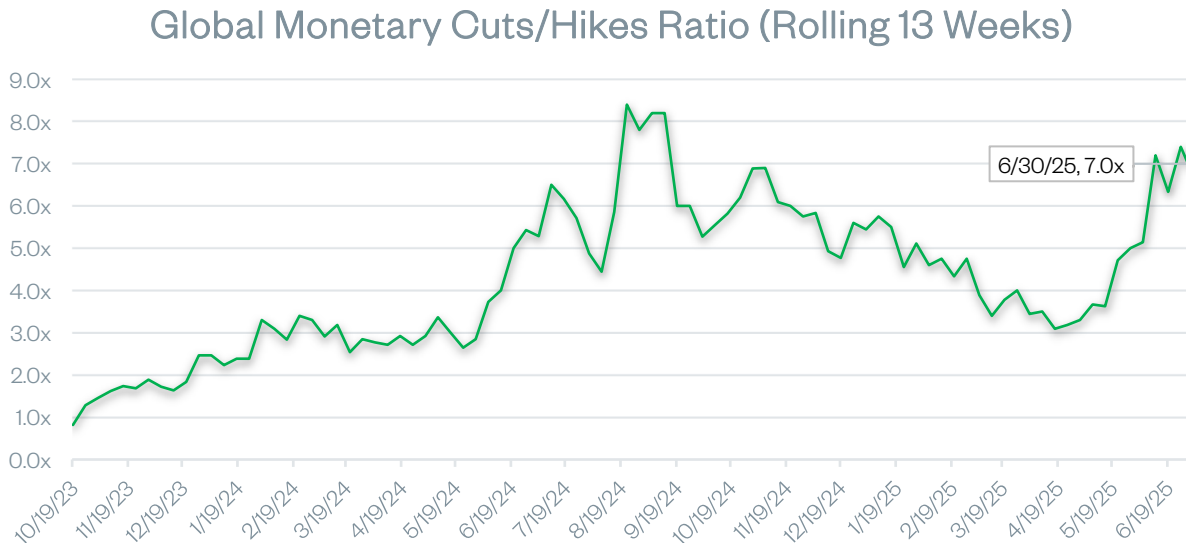
6. *Constructive Macro Backdrop for Global Equities*

Global monetary policy has become notably more accommodative. As shown in **Exhibit 15**, the global cut-to-hike ratio has accelerated from 5:1 year-to-date to 7:1 over the trailing 13 weeks ending June 30, 2025.

These easing dynamics create a supportive environment for risk assets broadly. While monetary accommodation does not directly determine the relative performance of U.S. versus international equities, a combination of synchronized easing and a weakening dollar has historically served as a tailwind for global equity markets.

Against a backdrop of slowing inflation, peaking policy rates, and rising global liquidity, the macro environment appears increasingly supportive for global equity allocations and international diversification.

Exhibit 15: Ratio of Monetary Cuts to Hikes Globally



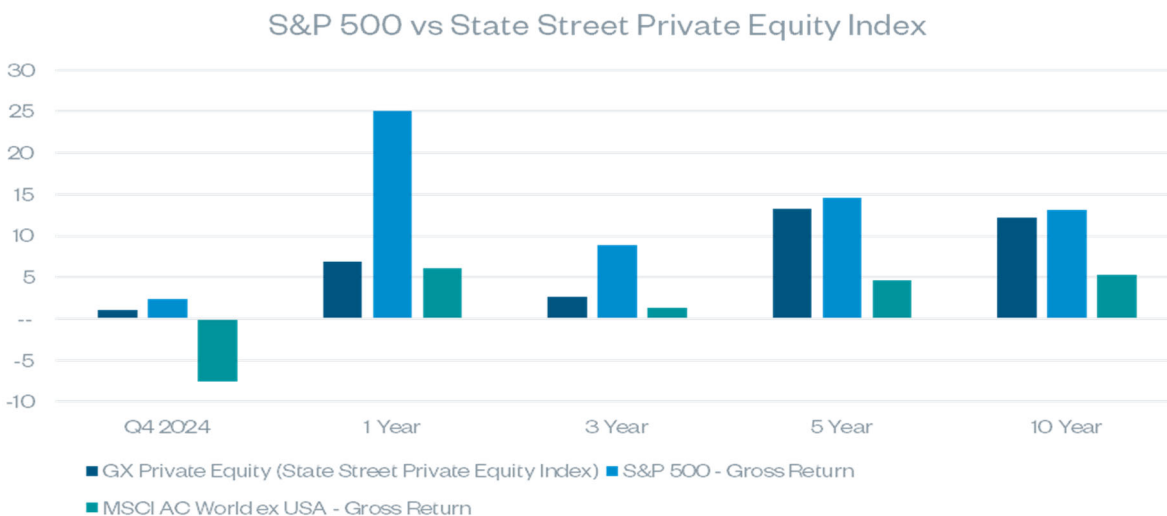
Source: Bloomberg, Axiom Investors.

7. *Global Public Markets are an Increasingly Attractive Alternative to Private Markets*

Despite the popular narrative around private market superiority, recent performance data reveals increasingly poor returns and a loss of the historic illiquidity premium. As shown in **Exhibit 16**, private equity as measured by the State Street Private Equity Index, has underperformed the S&P 500 across 1-, 3-, 5-, and 10-year horizons.



Exhibit 16: Public vs. Private Equity Performance (QTD, 1-, 3-, 5-, and 10-Year)



Source: FactSet, as of 12/31/2024.

This underperformance by private equity comes as many institutional allocators, particularly endowments and foundations, grapple with illiquidity, lack of exits, stale valuations, exacerbating overallocation to private assets. Secondary market activity has increased as investors seek to rebalance exposures. In response, sponsors have expanded fundraising efforts to target the mass-affluent and potentially even 401ks, suggesting general partners are stretching to find less sophisticated pools of capital. As a result, underwriting standards may erode, further pressuring private market returns going forward.

In contrast, public markets continue to offer meaningful advantages: liquidity, transparency, daily price discovery, and the flexibility to adapt to shifting macroeconomic and geopolitical conditions. For investors seeking exposure to innovation and growth on a global scale, dynamic public equity strategies are an increasingly compelling alternative to private markets.

Conclusion: A Timely Opportunity to Reexamine Global Equity Allocations

A confluence of notable developments, recovering international equity performance, historically attractive valuations, renewed earnings momentum, declining correlations, a supportive macro backdrop, and currency tailwinds, constitute a sound basis for potentially increasing international and global equity exposure.

In a world shaped by accelerating technological innovation, fiscal headwinds, and geopolitical realignment, dynamic growth investors should look beyond U.S. borders to access the full spectrum of opportunity. Global public markets offer liquidity, valuation transparency, and immediate access to world leading innovation, advantages that private markets increasingly struggle to replicate.



For investors seeking to efficiently compound capital and manage risk, the rationale for rebalancing toward international and global public equities appears strong. As stewards of client capital, we remain committed to a disciplined, fact-based process for identifying companies benefiting from wide and expanding moats, positioned for durable and accelerating growth, and fueling strong outcomes in an increasingly opportunity-rich, global landscape.

Disclosures:

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