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BEYOND BORDERS: FOUR REASONS TO REMAIN INVESTED OUTSIDE OF THE U.S.

Executive Summary

- **International equities provide added diversification.** Exposure to non-U.S. markets offers broader exposure across economies, sectors, and demographics—with the potential to smooth volatility over time.
- **Valuations abroad remain attractive.** Despite recent gains, international stocks still trade at a significant discount to U.S. equities, offering compelling value opportunities.
- **Challenges to U.S. exceptionalism.** Rising protectionism, a strong dollar, and slowing immigration have prompted investors to reconsider the long-standing dominance of U.S. markets.
- **Opportunities created by shifting geopolitical landscapes.** The relative performance of U.S. vs. international stocks, at times, is cyclical. With shifting global dynamics and fiscal priorities, international markets may be poised for continued strength.

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On April 2, President Trump shocked the world with waves of tariffs on foreign goods. Everyone knows what happened next: Financial markets panicked, punishing U.S. stocks and bonds.

As painful as "Liberation Day" was for many investors, it was a reminder of why diversification is so important. Before 2025, global equities had lagged the U.S. market for years, even though compelling investment opportunities have long existed beyond American borders. This year's tariff turmoil highlighted the risks of overconcentration in a single market—specifically, the U.S.—and underscored the potential benefits of global diversification.

In this CIO Perspectives, we analyze four compelling reasons why international investments have a place in every long-term investor's portfolio.

Reason 1: Additional portfolio diversification

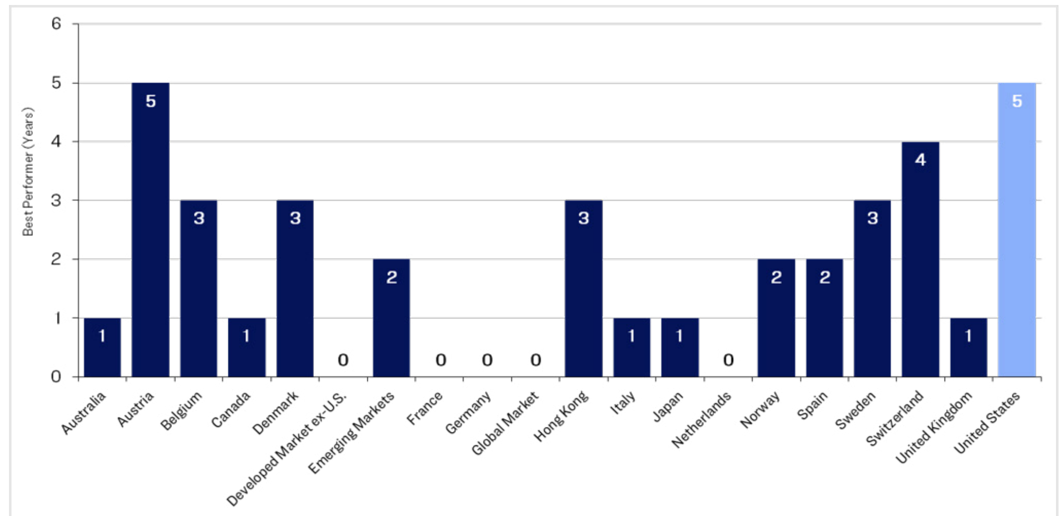
Global economies do not necessarily move in tandem, and U.S. equities are, naturally, most exposed to the U.S. economy. It's why owning both international and domestic stocks can help smooth out market volatility and mitigate portfolio risk over the long term. Even when U.S. and non-U.S. markets do move in the same direction, diversification still has its benefits. Historically, the U.S. equity market has performed well, but it's not usually the world's top performer. Figure 1 illustrates that compared to stock markets in other countries, the U.S. has been the top performer in only 5 of 37 years since 1988.

Broadly speaking, "international" stocks include developed international markets like Germany, England, Japan, and France with advanced economies, developed infrastructures, and higher standards of living. The other major group of non-U.S. stocks comes from emerging markets, like China, India, Taiwan, and Brazil. While U.S. stocks comprise roughly 63% of the MSCI ACWI Index's[1] market capitalization, there are important distinctions in other economies that make them attractive as diversification instruments and growth opportunities.

1 The MSCI ACWI Index captures large and mid-cap representation across 23 Developed Markets and 24 Emerging Markets. MSCI, data as of May 29, 2024.

FIGURE 1

Number of times each country's equity market has been the top performer.



Source: Morningstar Direct and TIAA Wealth Chief Investment Office. Country returns are represented by MSCI Country GR USD indexes; the global market, including both developed and emerging markets is represented by the MSCI All Country World GR USD Index. All data are from 1/1/1988 through 12/31/2024 (monthly returns) because 1988 is the common inception date for all indexes; U.S. dollars.

- **Population:** The U.S. makes up just 4% of global population, but the Asia/Pacific region and the European Union (EU) account for 56% and 6%, respectively.[2]
- **GDP size:** The U.S. accounts for roughly 25% of global GDP, but the Asia/Pacific region and the EU account for 35% and 18%, respectively.[3]
- **Number of stocks:** The U.S. has 5,704 stocks listed on its exchanges, but other developed markets (i.e., Japan, Canada, Australia, Europe, U.K.) have 15,981 stocks, and emerging markets (i.e., China, India, Korea) have 10,044 stocks on their respective exchanges.[4]
- **Dividends:** Stocks in non-U.S. indices offer a ~3% dividend yield on average, more than double that of U.S. stocks.

Regardless of the market environment, diversified investments across domestic and international markets can position portfolios to benefit from the region or regions that are performing well at a particular time and can help offset those areas that may be underperforming.

Reason 2: Valuations are still cheap abroad

There are plenty of reasons why international stocks have outperformed U.S. stocks year-to-date (YTD), including:

- Better manufacturing data globally has boosted value/cyclical stocks, which are better represented in non-U.S. equity indexes rather than U.S. indexes.
- Market volatility has been mostly spurred by U.S.-centric risks against the backdrop of positive developments internationally (including prospects for stronger fiscal spending in Europe and China).
- DeepSeek triggered a rotation out of U.S. artificial intelligence (AI) champions into Chinese tech stocks that were former laggards.

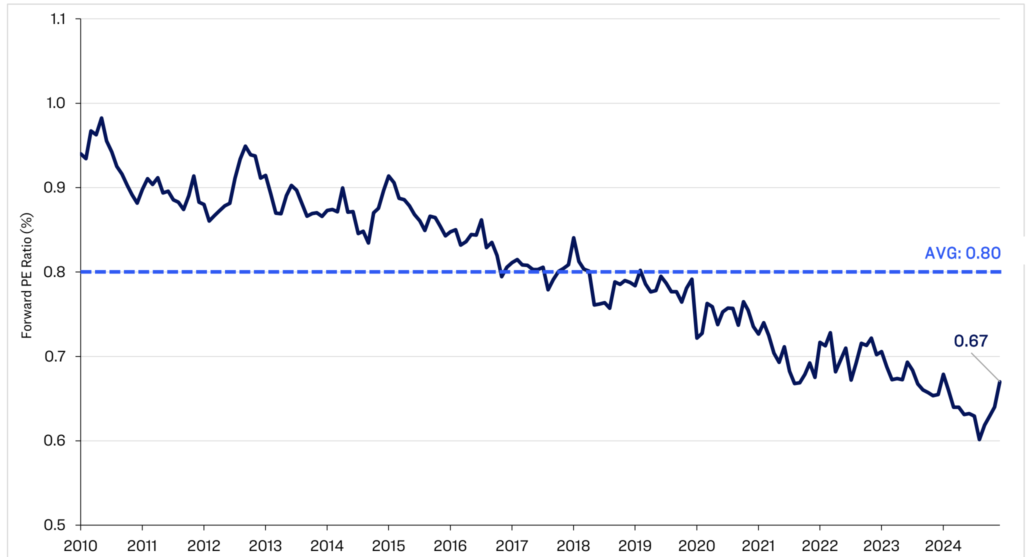
2 International Monetary Fund, 2024.
3 International Monetary Fund, 2024.
4 Source: Statista. Number of listed companies at largest stock exchange operators worldwide as of December 2023.

Yet even after the strong run for international stocks, they still remain underpriced relative to U.S. peers. Since 2010, the Standard & Poor's 500 stock index has, on average, traded at a 20% premium to the MSCI ACWI ex-USA Index (which tracks large-cap stocks outside the U.S.). Today that premium is even bigger, now standing at 33% (Figure 2).

And it's not just U.S. large caps that are expensive relative to the world. The Russell 1000 index, which includes mid cap stocks, is also historically expensive. As shown in Figure 3, the Russell 1000 has a price-to-earnings ratio (P/E) of 21.5 versus P/Es of 15.2, 12.4, and 12.3 for comparable foreign indices. Bottom line: There are plenty of opportunities to find value outside the U.S.

FIGURE 2

U.S. large cap stocks (S&P 500) are trading at a historically high premium vis-à-vis international large cap stocks (MSCI ACWI ex-U.S.).



Source: FactSet Financial Data and Analytics, TIAA Wealth Chief Investment Office. Data through 3/31/2025

FIGURE 3

In the first half of 2025, non-U.S. stocks have benefited from a larger value factor exposure, better fundamentals, and cheaper valuations.

Russell 1000		MSCI EAFE		MSCI EAFE Small Cap		MSCI Emerging Markets	
Top 5 Sectors	**% Total Index**	**Top 5 Sectors**	**% Total Index**	**Top 5 Sectors**	**% Total Index**	**Top 5 Sectors**	**% Total Index**
Info Tech	29%	Financials	24%	Industrials	22%	Financials	24%
Financials	15%	Industrials	16%	Cons Discretionary	14%	Info Tech	22%
Healthcare	11%	Healthcare	12%	Financials	13%	Communications	13%
Communications	10%	Cons Discretionary	9%	Materials	11%	Cons Discretionary	13%
Cons Discretionary	10%	Cons Staples	9%	Real Estate	11%	Materials	7%
Revenue Exposure	**% Total Index**	**Revenue Exposure**	**% Total Index**	**Revenue Exposure**	**% Total Index**	**Revenue Exposure**	**% Total Index**
U.S.	61%	U.S.	21%	Japan	28%	China	31%
China	7%	Japan	12%	U.S.	10%	India	14%
UK	2%	China	7%	UK	9%	U.S.	13%
Japan	2%	UK	6%	Australia	7%	Taiwan	4%
Germany	2%	Germany	5%	China	5%	South Korea	4%
Factor Share	**% Total Index**	**Factor Share**	**% Total Index**	**Factor Share**	**% Total Index**	**Factor Share**	**% Total Index**
Growth	55%	Growth	48%	Growth	48%	Growth	52%
Value	45%	Value	52%	Value	52%	Value	48%
YTD Performance		**YTD Performance**		**YTD Performance**		**YTD Performance**	
NTM P/E* (Latest)	21.5 (85th Percentile)	NTM P/E (Latest)	15.2 (87th Percentile)	NTM P/E (Latest)	12.4 (20th Percentile)	NTM P/E (Latest)	12.3 (75th Percentile)
NTM P/E (YE '24)	21.9 (93rd Percentile)	NTM P/E (YE '24)	14.1 (55th Percentile)	NTM P/E (YE '24)	13 (22nd Percentile)	NTM P/E (YE '24)	11.9 (60th Percentile)
Total Return YTD	1.2%	Total Return YTD	17.4%	Total Return YTD	15.6%	Total Return YTD	9.5%

Source: Bloomberg, TIAA Wealth Chief Investment Office. Data as of 5/27/2025.
*NTM P/E = Next Twelve Months, Price-to-Earnings Ratio.

So long as market uncertainty remains more about U.S. policymaking than economic fundamentals, international opportunities should persist. Should U.S. fundamentals weaken, however, our view is that international stocks could become less insulated from market volatility caused by trade tensions.

Reason 3: Challenges to the idea of U.S. exceptionalism

The "anything but U.S." trade refers to a strategy of avoiding investments in U.S. assets and instead favoring international markets. While the U.S. historically has been viewed as the premier geographic destination for investors—a byproduct of strong earnings, leadership in technology and innovation, and deep capital markets—recent developments have begun to challenge that notion. Consider what's fueling the "anything but U.S." trade:

- **Relative performance.** For a considerable period (especially over the last 15 years), U.S. equities, particularly growth stocks, significantly outperformed international markets. This has led investors to think that the U.S. is the only game in town and that "there is no alternative" (referred to as the "TINA" effect in current parlance). With this mindset, investors felt compelled to invest in the U.S. But with U.S. stocks now lagging badly (see Figure 3), investor sentiments have started to shift.
- **U.S. exceptionalism questioned.** Some analysts are questioning continued U.S. market dominance, citing the strong U.S. dollar (which makes U.S. goods expensive),; heightened U.S. protectionism (which could reduce foreign participation in U.S. equity and bond markets), ; the risk of U.S. stagflation (slow economic growth and high inflation precipitated by trade tariffs) and stronger fiscal stimulus in Europe and China.
- **Global growth opportunities.** Conversely, some investors and analysts see attractive growth opportunities in other regions, like Europe and emerging markets, potentially offering better returns.
- **International stock markets have outperformed so far this year.** Recent developments (more U.S. protectionism, smaller U.S. net immigration flows, less U.S. fiscal spending vs. more international fiscal spending, the rise of a more competitive and less U.S.-centric AI ecosystem, etc.) have supported a rotation into international stocks relative to U.S. stocks YTD.

Motivated by these factors, more investors are looking beyond U.S. borders.

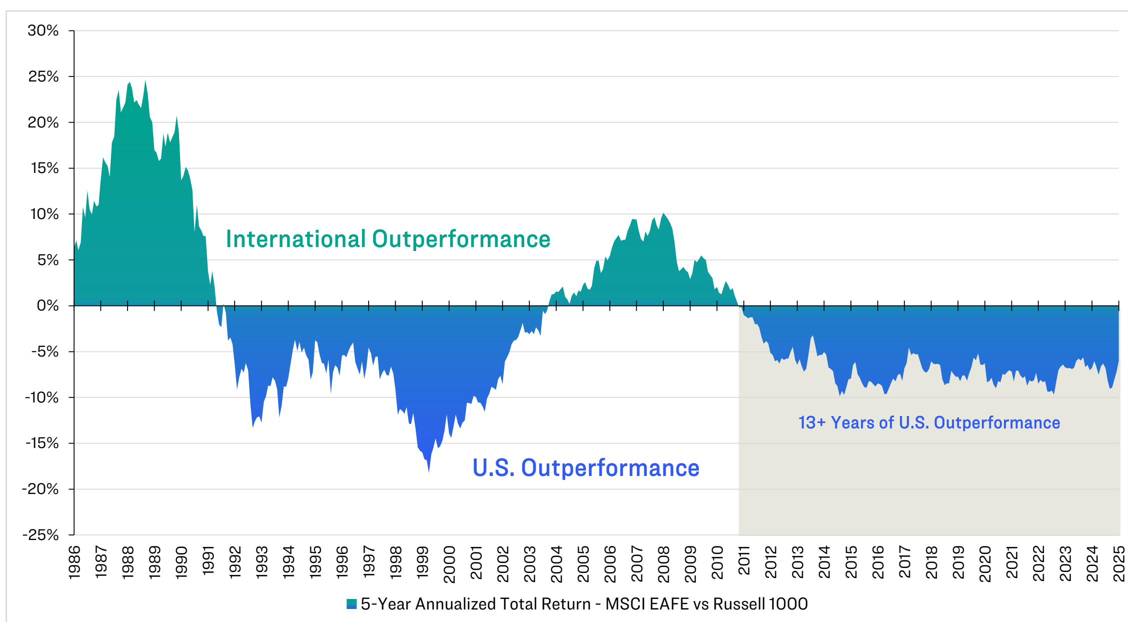
Reason 4: A shifting global landscape

Over the last 40 years, the relative performance of international vs. U.S. stocks has been cyclical, often tied to the rise of new industries. For example, the periods of U.S. outperformance over this time period have coincided with the rise of the internet (culminating in the dot-com bubble), the rise of the technology megacaps and, more recently, the push towards further adoption of AI (Figure 4).

The shifting political landscape—particularly with the U.S. potentially decoupling further from the EU in terms of spending and aid—presents both opportunities and challenges for investors. The opportunities stem from the possibility of greater EU investment in its own defense, infrastructure, and energy production. The challenges are primarily tied to interest rates: New government spending requires new government borrowing, and bond markets might react poorly.

FIGURE 4

Geographical equity diversification allows investors to gain exposure to cyclical swings in U.S. vs. international equity relative performance.



Source: Bloomberg, TIAA Wealth Chief Investment Office. Country returns are represented by MSCI EAFE and Russell 1000 Indexes. Data through 3/31/2025.

Does this mean investors should increase exposure to non-U.S. stocks?

While there were reasons to consider the "anything but U.S." trade, our view is that this is a more complex and evolving situation, rather than a definitively settled or reversed trend. The two key drivers of long-term economic growth—productivity growth and working-age population growth—do remain favorable for the U.S. In our view, it is too early to tell how the ongoing policy shift in the U.S. might affect long-term growth prospects. Greater protectionism, less fiscal spending, and much smaller immigration flows are negatives for the U.S., whereas deregulation and the potential for AI to improve productivity are positives.

While the current environment may favor international stocks, there are headwinds. They include:

1. Non-U.S. valuations have risen YTD, potentially leaving some room for disappointment compared the first half of the year.
2. While a larger value exposure can be beneficial in a global manufacturing upswing, manufacturing is especially sensitive to deteriorating fundamentals.
3. Large cap stocks within the MSCI EAFE Index—which represents markets in Europe, Australasia, and the Far East—has a considerable revenue exposure to the U.S.
4. The initial boost related to the large fiscal package announced in Europe could run out of steam. The execution phase could prove to be more challenging than expected, given very different competing interests within the European Commission and a smaller parliamentary majority in Germany.

We continue to monitor international equities as the medium- and long-term fundamental picture has brightened. Our view is that we could see some volatility in the near-term, especially given the constant risk of tariffs which can cloud the outlook. That said, uncertainty over whether U.S. or non-U.S. stocks will have the upper hand going forward underscores the importance of diversification.

Conclusions

In the current environment, the most important thing for investors is to remain anchored to their financial plans and to keep a long-term perspective to ensure wealth is appropriately diversified across U.S. and international equities, bonds and cash, per their risk profile. Investors should resist the urge to time these markets—and risk getting whipsawed by the news flows and narratives—as remaining appropriately invested in equities is important for capital growth during retirement years.

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