Beyond the S&P 500:

Strategic Diversification

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For over a decade, the conversation around international investing was often one of "why bother?" As the S&P 500—fueled by a handful of tech titans—consistently outperformed the rest of the world, home-country bias became a winning strategy. But as we move through 2026, the data suggests that the "US exceptionalism" trade is maturing, and the risks of ignoring the other **75% of the global economy** have never been higher. For financial advisors, the argument for international diversification is no longer just about theory; it's about navigating a significant structural shift in the markets.

The Great Valuation Divide

The most compelling argument for international exposure today is the price of admission. While US mega-cap technology stocks have been trading at multiples of **25x to 30x forward earnings**, international developed and emerging markets are often found at a steep discount, frequently between **12x and 15x**.

In the US, investors are currently paying a "premium for perfection," leaving little room for error. Conversely, international markets offer:

- **Higher Dividend Yields:** International high-dividend funds currently offer yields nearly triple that of the S&P 500. (Source: MSCI Index Research, Yield Comparisons 2025/2026).
- **A Margin of Safety:** Lower entry multiples provide a crucial downside cushion should the global growth cycle soften.

Diversification Beyond the "Mag 7"

The US market has become historically concentrated. By contrast, international indices offer a "stock picker's market" with broader sector participation. While the US is the undisputed leader in AI infrastructure, international markets are the primary ground for **AI diffusion**.

Feature	US Market Focus	International Focus
Primary Drivers	Technology, Growth, Software	Industrials, Financials, Materials
Market Concentration	High (Top 10 stocks dominate)	Low (Broader sector breadth)
Theme	AI Infrastructure (Builders)	AI Adoption & Luxury (Users)

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Investing abroad allows clients to capture growth in areas where the US is underweight, such as European luxury, Japanese corporate reform beneficiaries, and Latin American critical minerals.

Currency Diversification

Many investors have a large portion of their assets denominated in US dollars. For example, their homes, US stocks and bonds, annuities, salary and bonuses, are all denominated in US dollars. By definition, international stocks are denominated in other currencies. Owning assets denominated in foreign currencies provides meaningful diversification from only owning US dollar denominated assets.

Regional Resurgence

We are seeing unique, localized catalysts that the S&P 500 cannot capture:

Europe: Massive fiscal stimulus in Germany and rearmament spending across the continent are driving an industrial revival.
Japan: Ongoing governance reforms and the return of healthy inflation are unlocking shareholder value in ways not seen in decades.
Emerging Markets: After years of underperformance, EM earnings growth is forecasted to outpace developed markets in 2026. (Source: Bloomberg Estimates, Comparison of the most recent year-over-year earnings growth estimates for the S&P 1500 Index (US) 13.51% versus the MSCI Emerging Markets Index (emerging markets) 28.81%).

Conclusion

Diversification is often called the "only free lunch in investing," but it only works if you have it in place *before* the trend becomes obvious. Following the "Great Rotation" of 2025, international equities are no longer a defensive hedge; they are a necessary driver of forward-looking alpha. By broadening your clients' horizons, you can increase the diversification of their investment portfolios. As long as the returns between the US and international stock markets remain divergent, total portfolio volatility can be reduced.

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