

International stocks still appear to be good value

Fueled by the outperformance of growth technology stocks, U.S. equities reached all-time highs earlier this year, pushing their premium versus international (i.e., non-U.S.) stocks to 20-year wide levels. International stocks remain favorably valued but are fundamentally more attractive in the post-COVID environment, as demonstrated by improved earnings growth in recent years. This is because, in contrast to the U.S. market's heavy exposure to growth stocks, the international

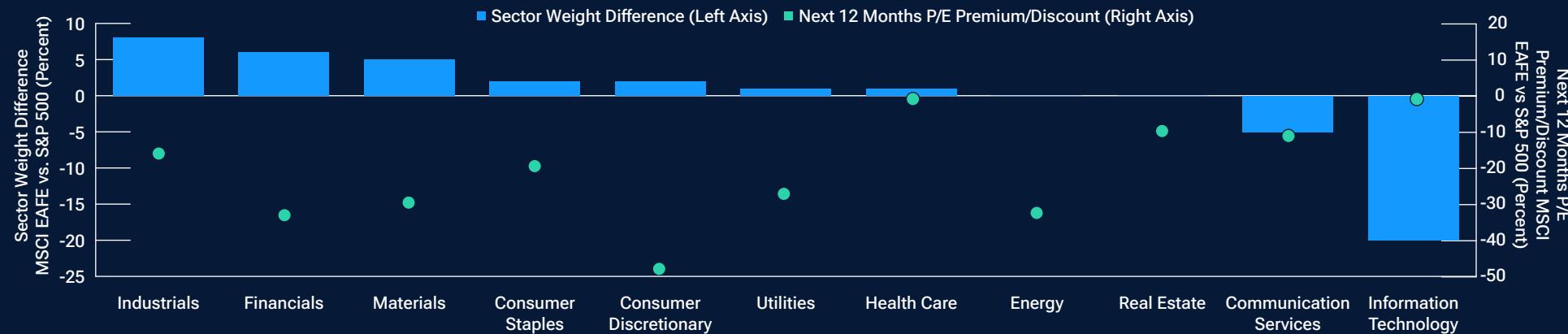
market is more exposed to value-oriented sectors such as financials, materials, industrials, and energy, where we see secular support in the years ahead. The S&P 500 Index, for example, has a very different sector composition from the MSCI EAFE Index.

Supply chain diversification, infrastructure rebuild, defense spending, and the likelihood of higher energy prices should favor traditional value sectors as

capital spending accelerates. As these sectors are currently cheaper and, in some cases, have a lower earnings bar than their U.S. counterparts, investors seeking diversification from large-cap tech growth stocks may seek to increase their exposure to select international markets.

The MSCI EAFE Index is not an ex-U.S. S&P 500 Index

(Fig. 6) Sector weightings and valuations contrast sharply between the two indices



As of April 30, 2024.

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P/E= price-to-earnings.

Improving corporate governance is driving Japanese stock performance

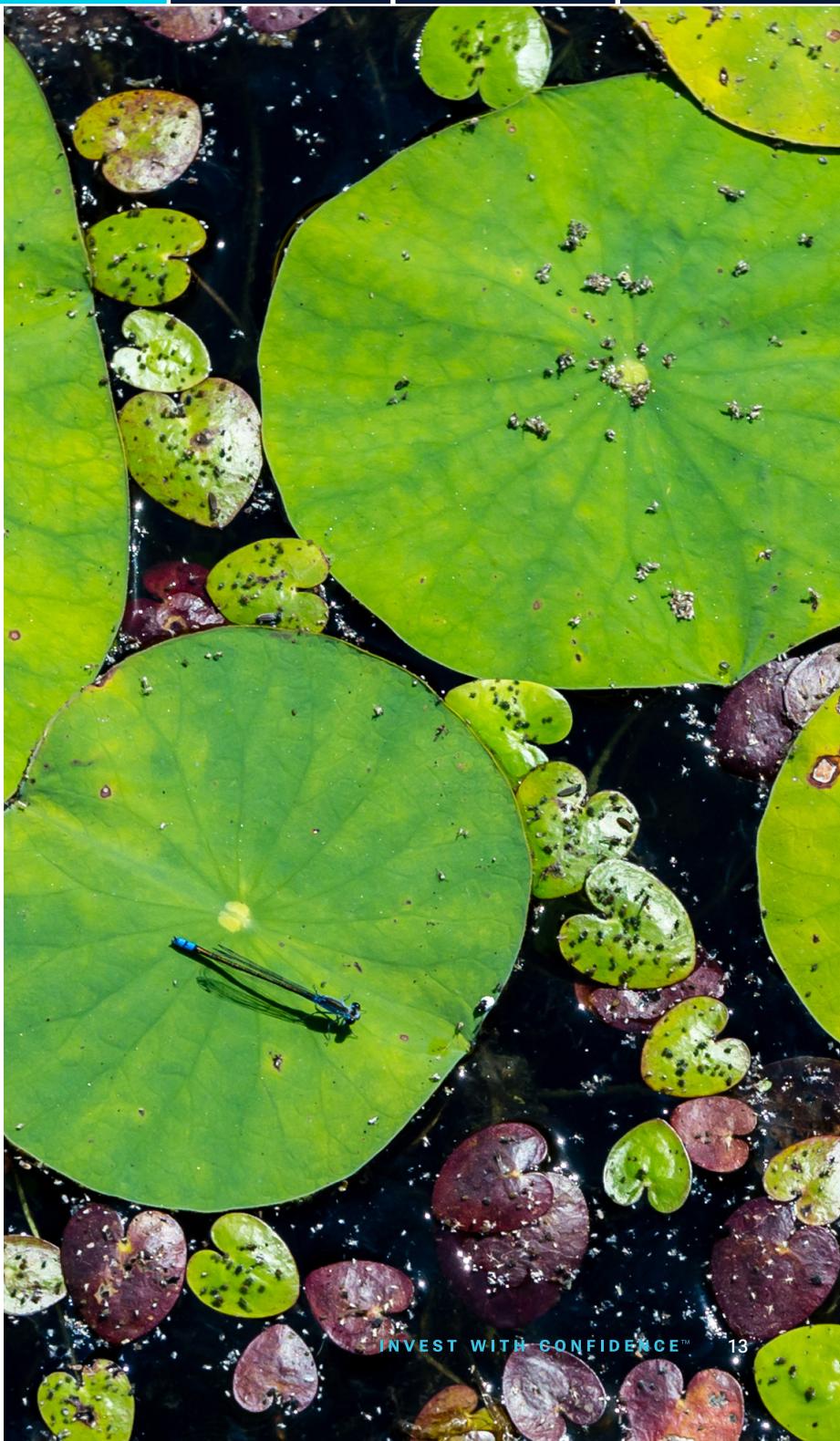
Of the international markets, we continue to favor Japan. Improved corporate governance standards continue to have a tangible—and considerable—impact on company performance. Shareholders are now a much higher priority in Japan than they were in the past. While the BoJ recently ended its negative interest rate policy, it is not expected to embark on a hiking cycle that brings Japanese rates in line with those of other developed markets. This should keep the yen relatively weak and Japanese exports competitive. Valuations are reasonably attractive, too—although the Nikkei 225 has climbed to within reach of its record high, Japanese stocks continue to trade at a low price-to-book value. However, investors outside of Japan will need to consider how yen weakness relative to other currencies will impact the value of their returns.

South Korea and Vietnam the pick of emerging economies

South Korea has sought to emulate Japan's success in boosting stock valuations with a corporate governance drive. Tax incentives have been offered to businesses that prioritize shareholder returns, while the new "Korea Value-up Index" will list firms that have improved capital efficiency. Vietnamese stocks also appear cheap despite a cyclical recovery, an expanding consumer economy, and a looming upgrade to emerging market status. With corporations seeking to diversify their supply chains beyond China, Vietnam appears well placed to attract manufacturing capacity.

Key takeaway

Of the international equity markets, we continue to favor Japan, South Korea, and Vietnam.



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