People's United Advisors

INVESTING

It's a Big World Out There

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Most investors fall prey to home bias, where their investment portfolios hold a higher share of stocks from their own country than objective measures would recommend. International stocks thus face a bit of a permanent disadvantage, in terms of simple appeal to U.S. investors.

To make matters worse, international stocks have generally lagged U.S. stocks of late, posting a bigger pullback in 2018 and a smaller rally so far this year. Some are surely wondering whether they should invest internationally at all.

We encourage investors to take a step back and take a look at the larger case for holding a global mix. (In the investing world, "global" typically means all countries including the U.S., while "international" indicates ex-U.S.)

For one thing, U.S. stocks are looking comparatively expensive. International stocks have a lower average price-to-book-value, both in relation to historical periods and to U.S. stocks today. And while U.S. stocks have performed better, there's a strong case to be made that their current value doesn't reflect significant risks. Market interest rates in the U.S. are signaling that slower growth could be ahead, and economists broadly agree that the tax-cut boost to company earnings is set to fade, among other pressures.

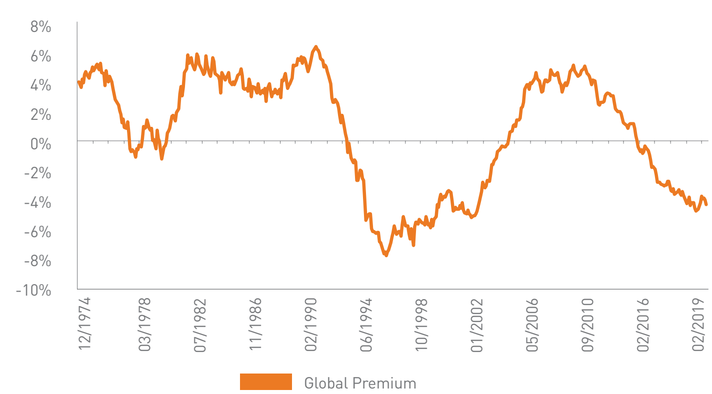
Then there are the long-term arguments. Non-U.S. stocks offer a growth opportunity. Globalization is a tide that is raising many ships, driving economic and investment growth around the world. International markets span the gamut from developed to emerging, and represent just as much growth potential as U.S. companies do, and in some cases more.

They also offer diversification benefits for investors who already hold U.S. stocks. While there can be some correlation in the performance of U.S. and non-U.S. markets, they can also follow opposing cycles, thereby offsetting each other's ups and downs at times. When we look at that from an analytical viewpoint, it means that a portfolio holding both U.S. and international stocks has historically delivered more return-per-unit-of-risk, also known as the Sharpe Ratio, than a portfolio which only holds one or the other.

The U.S. only makes up 5% of the global population, but U.S. stocks account for about 50% of total global stock market capitalization. The companies beyond our shores represent growth opportunities, and the long-term performance of international stocks reflects that. The appeal of diversification should be even more compelling to a U.S. saver—adding international to a U.S.-only portfolio has, over long periods, actually lowered overall risk while maintaining or even boosting performance. Short-term trends do little to disrupt that appeal.

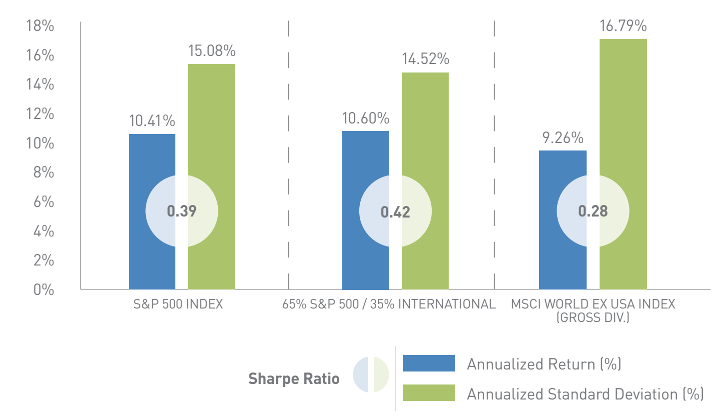
A GLOBAL PREMIUM

THE DIFFERENCE FOR HOLDING A GLOBAL PORTFOLIO VS. U.S.-ONLY PORTFOLIO



GLOBAL OUTPERFORMS U.S., INTERNATIONAL ON A RISK-ADJUSTED BASIS

1970 — PRESENT, ANNUALIZED



*Represents the difference in annualized returns over a 5-year holding period between a portfolio that holds a 65%/35% mix of U.S./International and a 100% U.S. stock portfolio.

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