MARKET MINUTE
WITH McGAREL

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U.S. stocks have dominated the rest of the world's stocks over the last 10 years. The MSCI USA Index outperformed the MSCI ACWI ex USA Index by 770 basis points annually over that period. The cumulative return over those 10 years was 208% for the MSCI USA Index and 51% for the MSCI ACWI ex USA Index. According to MSCI Global, as of January 31, 2014, the U.S. weight in the MSCI ACWI Index was 48.90%, as of January 31, 2024 it was 63.16%.

In January, the last sentence of the Market Minute read, "...stay in the market and own a broad array of equities as, in our opinion, there is a wider group of companies that will reward investors in 2024 than in 2023." We were referring to the U.S. stock market and our belief that both earnings growth and better valuations across a broader set of companies and sectors than just the Magnificent 7 stocks would be successful this year.

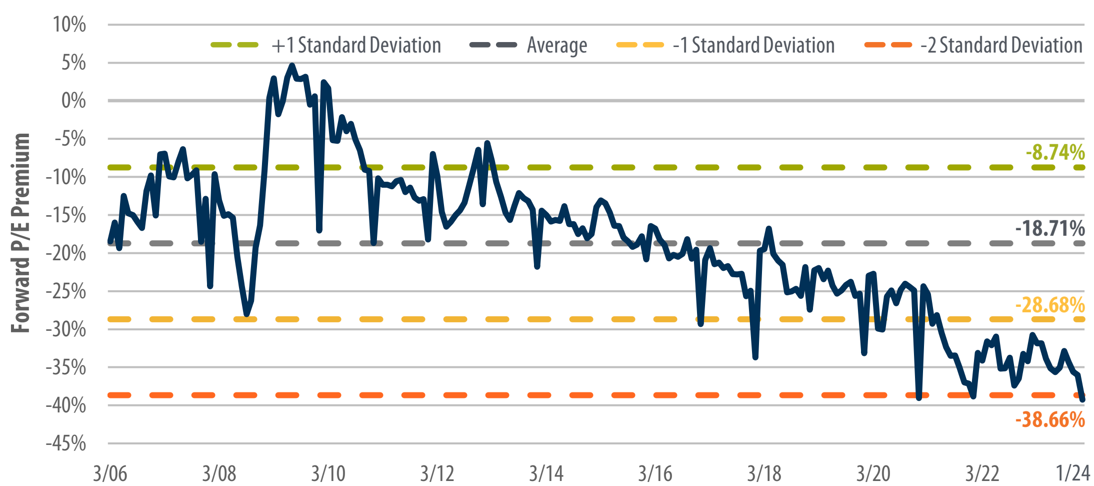
If the equity focus in the U.S. stock market does change to a more fundamental set of criteria this year, there is a high likelihood that international stocks may be rewarded as well. The valuation gap between the U.S. and most of the rest of the world is significantly wider than it has been historically (see chart below). The massive 10-year outperformance of the U.S. versus the rest of the world was a product of not only better earnings growth over that time but also a significant widening of the historical valuation of the two regions. The U.S. stock market has the largest contingent of technology and technology plus companies in the world and perhaps justifies a larger discount than in the past. But when we look at fundamentals such as valuation and earnings growth expectations, the difference between the regions appears too wide, in our opinion.

According to data from FactSet, as of January 31, 2024, earnings growth estimates for the MSCI USA Index are 10.8% for 2024 and 13.4% for 2025. Earnings growth estimates for the MSCI ACWI ex USA Index are 8.8% for 2024 and 10.9% for 2025. While the U.S. is still expected to grow faster, the valuation gap, in our opinion, is not justified by the earnings difference.

On January 31, 2024, the forward multiple for the MSCI USA Index was 23.1x while the forward multiple for the MSCI ACWI ex USA Index was 14.1x 2024 estimated earnings. That is a 39% discount. Historically, the discount has been approximately 19% (see chart below). As we move past the ultra low-rate environment, we believe fundamentals (essentially profits and valuation) will result in a narrowing of the valuation gap between the U.S. and the rest of the world. Another catalyst may be rate cuts, albeit in both regions, but only the international contingent of the MSCI ACWI Index deserves a price-to-earnings multiple rerating, in our opinion. At a minimum, we believe any further widening of the discount is unwarranted if earnings estimates stay as currently forecast.

International Price-to-Earnings Discount vs. U.S.

MSCI ACWI ex USA Index vs. MSCI USA Index



Source: Bloomberg. Data from 3/31/06 – 1/31/24.

Past performance is no guarantee of future results.

There can be no assurance past trends will continue or projections realized.

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The **MSCI USA Index** is free-float weighted index designed to measure the performance of the large and mid cap segments of the U.S. market. **MSCI ACWI ex USA Index** captures large and mid and cap representation across 22 of 23 Developed Markets countries, excluding the United States, and 24 Emerging Markets countries. **MSCI ACWI Index** is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings.

Investors cannot invest directly in an index.