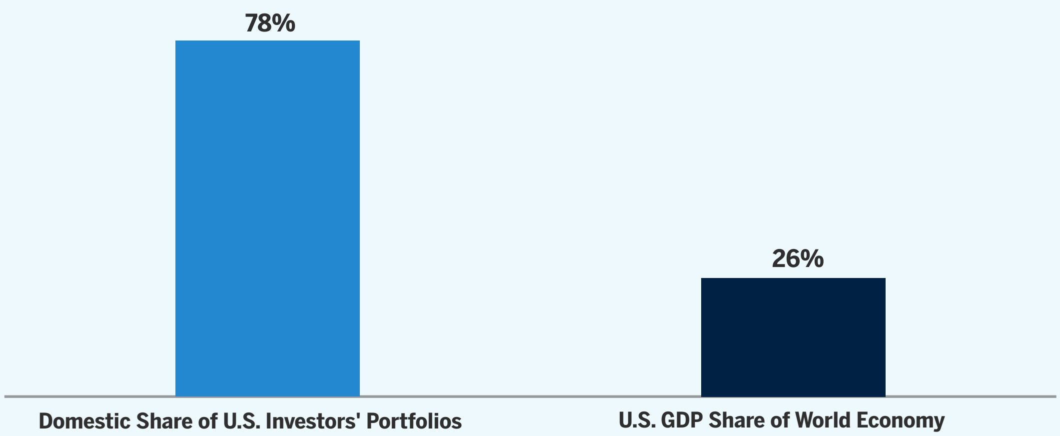
ALGER

Alger On the Money

Look Beyond the Home Team?

Behavioral finance has taught us that our cognitive biases create blind spots. One very common blind spot in investing is home country bias. People tend to gravitate to what they know and invest in their home country, but it may leave portfolios under diversified, historically raising portfolio volatility and lowering risk-adjusted returns. Could this be an easily correctable mistake?

Domestic Share of U.S. Investors' Equity Portfolio



Source: Domestic share of U.S. investors' portfolios calculated by comparing U.S. Equity and International Equity Morningstar categories as of 3/31/25. U.S. GDP and World GDP from The International Monetary Fund as of 3/31/25.

- While U.S. investors have over $4 trillion of holdings in international equity mutual funds and ETFs; that pales in comparison to the $15 trillion of U.S. equity mutual funds and ETFs that they own, according to Morningstar, and likely understates their domestic exposure when accounting for individual stock investments. This more than three-quarters allocation to U.S. equities stands in stark contrast to the modest global GDP that the U.S. economy actually comprises. The result is that most U.S. investors own a disproportionate amount of stock in their home country. For Americans, the biggest underweighting may be in Emerging Markets which comprise approximately 40% of global GDP and are projected to grow much faster than the U.S. by 2030, according to the International Monetary Fund.
- There may be an opportunity for U.S. investors to address their home country bias. After years of relative underperformance to U.S. markets, we believe international and emerging market stocks appear ready for a potential rebound, while providing increased diversification through relatively low correlation with U.S. stocks. For instance, recent pro-growth policy reforms, such as Germany's fiscal spending package and Japan's sweeping corporate governance reforms, have created strong growth tailwinds for companies to potentially improve capital efficiency and shareholder value.
- While we continue to see compelling opportunities within the U.S., there are many high-growth companies abroad that are trading at an attractive discount on a price-to-earnings basis. Fueled by encouraging policy reforms and stronger earnings prospects abroad, international equity markets have outperformed the U.S. year-to-date through May 31, 2025.[1] Moreover, the rolling six-month correlation between U.S. and international equities has fallen to its lowest level in over 20 years, meaning that added international exposure could improve portfolio diversification.[2]

[1]FactSet, Standard & Poor's, and MSCI as of 5/31/2025. International equity markets refer to the performance of the MSCI ACWI ex USA, while U.S. equity markets refer to the S&P 500 Index. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results.**

[2] FactSet, Standard & Poor's, and MSCI as of 5/31/2025. The correlation data is based on the daily returns of both the S&P 500 Index and the MSCI ACWI ex US Index from January 1, 2001, through May 31, 2025. Correlation is a statistical measure that shows how two variables are related to each other. If two variables are correlated, it means that they tend to move together in some way.

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The MSCI ACWI ex USA Index captures large and mid cap representation across Developed Markets (DM) countries (excluding the U.S.) and Emerging Markets (EM) countries. The index covers approximately 85% of the global equity opportunity set outside the US.

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