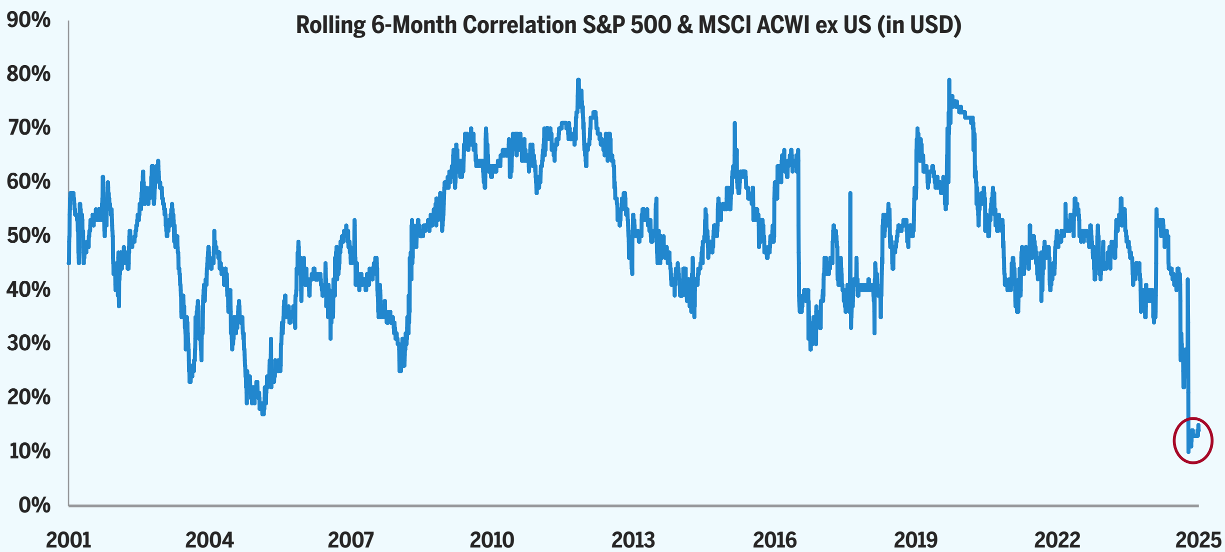
ALGER

Alger On the Money

Why Geographic Diversification Matters

At the start of 2025, many investors were confident that U.S. stocks would continue to outperform international markets, fueled by political and economic optimism. However, international stocks have outperformed U.S. stocks year-to-date, both before and after the April 2nd tariff announcement.[1] With U.S. tariffs remaining in flux, should investors consider whether their portfolios are adequately diversified to capture opportunities outside the U.S.?

The Correlation Between U.S. and International Stocks at Historical Lows



Source: FactSet, Standard & Poor's, and MSCI as of 6/30/2025. 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 June 30, 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.

- Recent U.S. equity market volatility has underscored the risks associated with a geographically concentrated investment approach. Uncertainty surrounding U.S. trade tariffs has led to pronounced market swings since the beginning of 2025, while international markets, driven by expectations of fiscal stimulus and improving geopolitics, have strongly rebounded after years of relative underperformance. In U.S. dollar terms, international equities outperformed U.S. markets by over 1,200 basis points in the first half of 2025—a gap widened by a weaker dollar following significant policy shifts in Washington.[2]
- As shown in the chart above, the rolling six-month correlation between U.S. and non-U.S. stocks has dropped to its lowest level in 20 years. During periods of low global equity correlations, a geographically diversified portfolio may help investors mitigate volatility and enhance potential risk-adjusted returns.
- While we continue to maintain strong conviction in the compelling long-term potential of U.S. growth equities, we believe investors should also look beyond U.S. borders for potential opportunities. In our view, pro-growth fiscal spending packages, capital market reforms, and structural growth themes such as grid upgrades and rising aerospace & defense investments create potentially favorable conditions for non-U.S. equities, which currently trade at a 35% price-to-earnings discount to their U.S. counterparts (see The Capital Friendly Case for International & Emerging Market Equities).[3]

Unlock Your Growth Potential.℠

[1, 2] First half 2025 performance compares the total return of the MSCI ACWI ex US Index and the S&P 500 Index from 12/31/24 through 6/30/25. **The performance data quoted represents past performance, which is not an indication or a guarantee of future results**.

[3] As of June 30, 2025, the P/E of the MSCI ACWI ex US Index was 14x, while the S&P 500 Index was 22x.

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