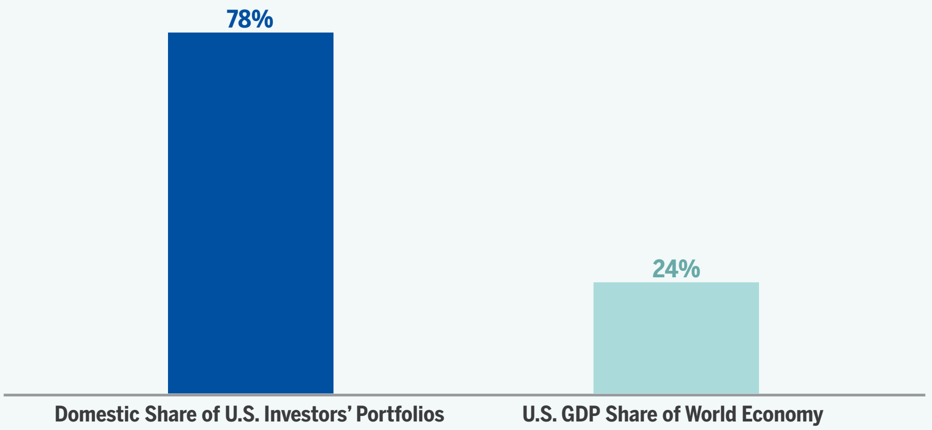
Look Beyond the Home Team?

Behavioral economics 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. It feels comfortable, but we believe it may harm your portfolio's performance in the years ahead. Could this be an easily correctable mistake?

Too Much Home Country Bias?



Source: Domestic share of U.S. investors' portfolios calculated by comparing U.S. Equity and International Equity Monringstar categories as of 10/31/22. U.S. GDP from Bureau of Economic Analysis and World GDP from World Bank as of 2021.

- While U.S. investors have over $3 trillion of holdings in international equity mutual funds and ETFs; that pales in comparison to the nearly $11 trillion of U.S. equity mutual funds and ETFs that they own, according to Morningstar. 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 investors own a disproportionate amount of stock in their home countries. For Americans, the biggest underweighting may be in Emerging Markets which comprise approximately 40% of global GDP and are expected to grow more than three times as fast as developed markets next year, according to the International Monetary Fund.
- There may be an opportunity for investors to address their home country biases, as Emerging Market stocks have come down considerably this year and appear to be trading outside their historical discount to U.S. stocks on a price-to-earnings basis.

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