



## International equities: Why now?

International equities are re-emerging as a compelling source of return potential and diversification – YTD the MSCI EAFE Index outperformed the S&P 500 index by 10.3% as of 9/30/25. Three forces stand out. First, policy is diverging: major non-U.S. central banks, most visibly the European Central Bank, are further along in their easing cycles, helping to normalize credit conditions and support cyclical sectors. Second, valuation and portfolio construction favor a broader opportunity set outside the United States, where market leadership is less concentrated and dividend yields are more generous. Third, international equities diversify portfolios due to varying index exposures to different sectors, styles, and cycles. Additionally, for investors considering increasing their non-U.S. equity allocations, currency headwinds are abating suggesting the U.S. dollar looks more rangebound than dominant, and a measured currency hedging policy can help manage volatility while preserving potential upside. Together these

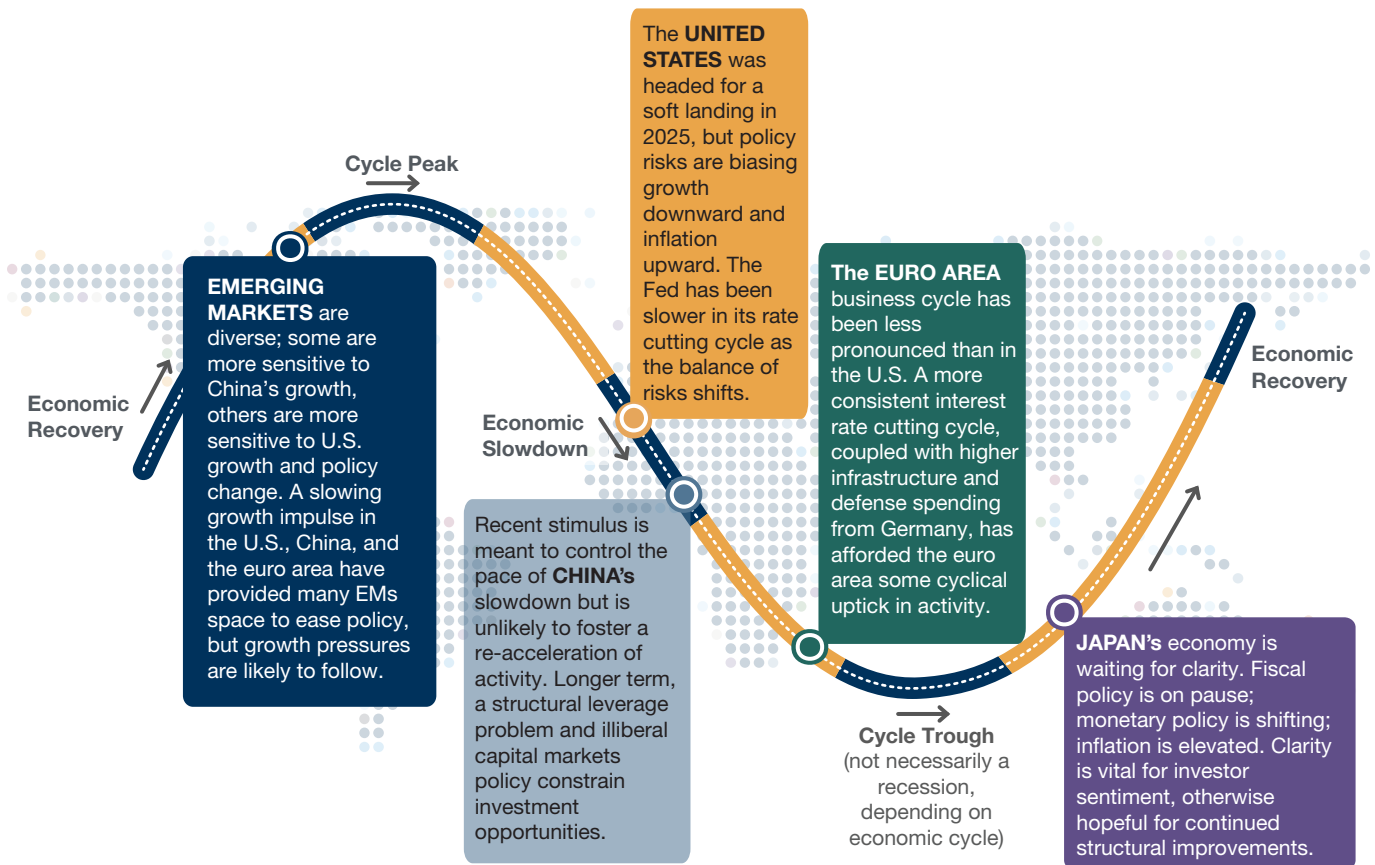
dynamics argue for maintaining strategic international exposure and, for many investors, adding a tactical tilt toward developed ex-U.S. markets with selective emerging market allocations.

## Cycle breadth and policy divergence: A new tailwind

The global cycle is widening beyond a U.S.-centric narrative. While the United States exhibits late cycle characteristics, parts of Europe and Asia are earlier in their easing phases, and many emerging economies, having tightened earlier, now have scope to support growth. In Europe, policy rate cuts and a gradual improvement in bank lending standards are shifting conditions from tight toward neutral, historically a backdrop that favors domestically oriented cyclicals and financials. Wage pressures are cooling without a collapse in demand, and incremental spending on infrastructure and defense is providing additional support. Japan presents a complementary mix: policy normalization is on pause, but corporate reforms, wage gains, and supply chain repositioning, especially in semiconductors, are encouraging capital investment. These desynchronized policy paths set the stage for equity performance that is less correlated with the U.S. profit cycle and less dependent on a narrow group of mega cap leaders.

Risks to this view - most notably tariff and trade frictions or geopolitical shocks - could temper export momentum or risk appetite at times. We address these by emphasizing diversification across regions and sectors, tilting toward resilient balance sheets and domestically anchored revenue, and maintaining an explicit currency policy that helps cushion risk off episodes.

**Figure 1: Major countries and regions face disharmonious economic growth dynamics and policy approaches**



Sources: New York Life Investments Global Market Strategy, October 2025. For illustrative purposes only. "EM" is short for emerging markets. "The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle- A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

## Valuation: Cheaper entry points, broader income potential

U.S. equity valuations remain elevated relative to long term averages, while many developed ex-U.S. and select emerging markets trade at discounts on price to earnings and price to cash flow metrics. Case in point: international equities are trading at a 34% forward P/E discount relative to US equities. Dividend yields are generally higher outside the United States, offering investors a larger income component to total return and a potential cushion

during periods of multiples compression. In Japan, ongoing structural reforms and policy normalization have improved the equity backdrop, while in Europe, disinflation and policy easing are supporting cyclicals and valuations.

Valuation is not a timing tool, and cheap assets can remain cheap. The principal risk is buying into deteriorating fundamentals or policy environments. We address this by overlaying quality - balance sheet strength, consistent free cash flow, and pricing power - onto value, and by diversifying across regions and sectors rather than concentrating in any single market. Where growth slows or reforms stall, position sizing and sell disciplines are essential.

**Figure 2: International (MSCI EAFE Index) vs. U.S. (S&P 500 Index) valuation differential**

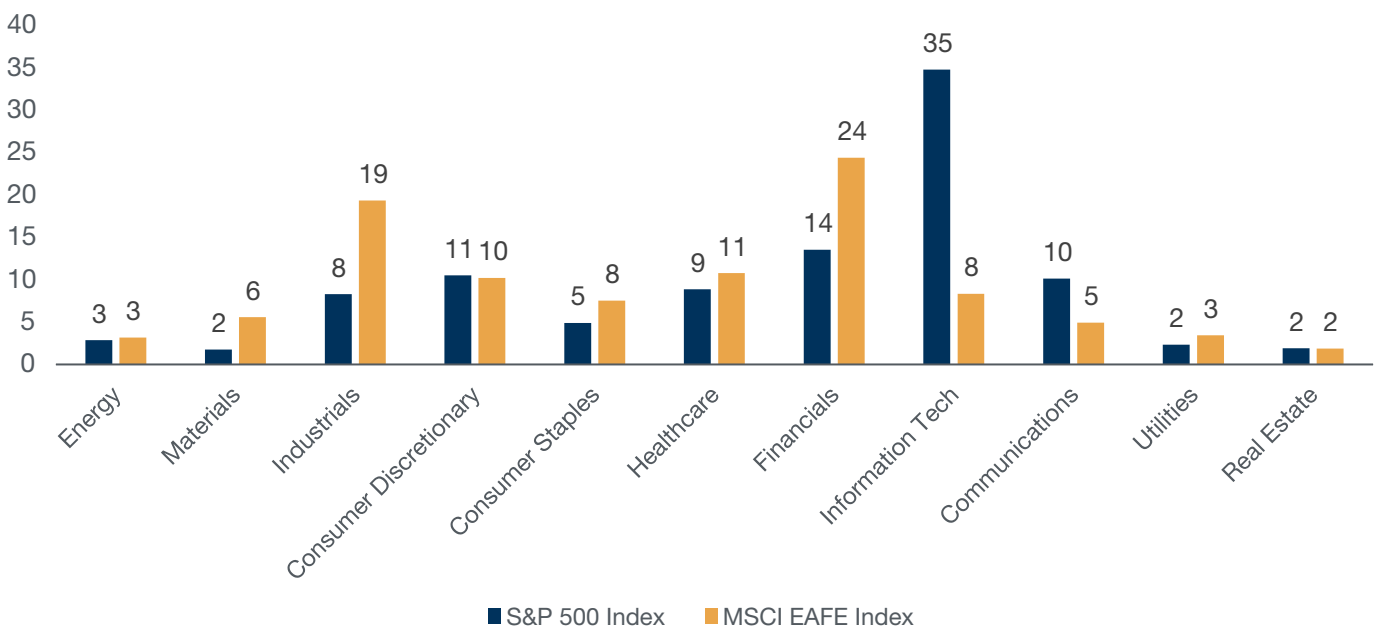


Source: Morningstar as of 08/31/25. For illustrative purposes only. Past performance is not indicative of future results. You cannot invest directly in an index.

## Diversification: Different sectors, styles, and cycles

International equities diversify the dominant U.S. growth/tech factor with a different mix of sectors and cash flow profiles. Benchmarks outside the U.S. carry greater weights in financials, industrials, utilities, materials, and consumer staples - areas tied to capex, infrastructure, and domestic demand - versus the U.S. market's heavier tilt to mega cap technology and communications. This composition shortens equity duration, raises the income share of returns, and reduces reliance on a single cohort of companies.

**Figure 3: U.S. vs. International sector exposure**



Source: Morningstar as of 09/30/2025. For illustrative purposes only. Past performance is not indicative of future results. You cannot invest directly in an index.

# Allocation and implementation

A recurring theme across our internal research is that many investors are under allocated to international equities relative to long-run policy weights. Re-establishing that strategic balance is not a market timing exercise; it is a forward-looking way to broaden sources of return potential as the profit cycle desynchronizes and capital expenditure shifts toward infrastructure, defense, and energy transition projects across Europe and parts of Asia. Bottom up conditions, especially in Europe, also look favorable for active stock selection given wide dispersion in quality, balance sheet strength, and payout policies.

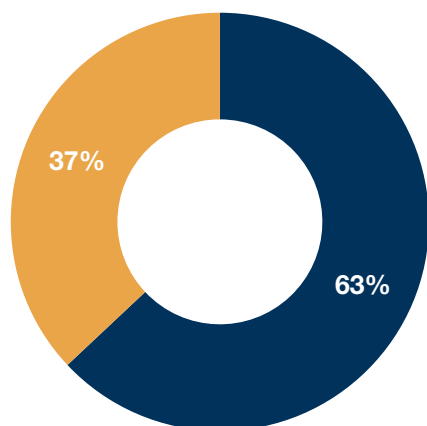
For many investors, a conventional policy mix allocates roughly one-third of equity risk to markets outside the United States, yet actual allocations often fall short. Re-establishing a strategic international weight can restore diversification that has eroded as U.S. leadership has compounded over time.

---

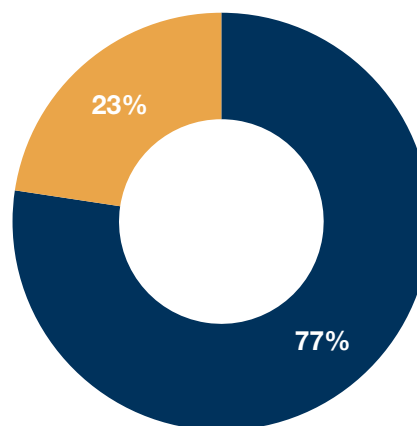
## Figure 4: U.S. investors under-allocated to international stocks

International equities represent roughly 37% of the world's market capitalization, yet the average U.S. fund investor only has approximately 23% allocated outside of the U.S.

Share of Global Stock Market Capitalization<sup>1</sup>



Average U.S. Mutual Fund & ETF Investor Stock Ownership<sup>2</sup>



■ U.S. Stocks    ■ Non-U.S. Stocks

1. Sources: MSCI as of 09/30/25.

2. Source: Morningstar as of 09/30/25. Includes U.S. and International funds excluding world and allocation funds.

## Conclusion

The opportunity in international equities is not simply that they are “cheap”. It is that the profit and policy cycle is broadening, currency headwinds are less binding, and the sector and style mix outside the United States provides diversification that today's concentrated U.S. market cannot. A thoughtfully constructed allocation anchored in developed ex-U.S. markets, complemented by selective emerging market exposure, and guided by an explicit currency policy, offers investors a timely way to seek returns while enhancing portfolio balance.

## DEFINITIONS

### Standard Deviation

Standard deviation measures how widely dispersed a fund's returns have been over a specified period of time. A high standard deviation indicates that the range is wide, implying greater potential for volatility.

### MSCI EAFE Index

The MSCI EAFE® Index consists of international stocks representing the developed world outside of North America.

### S&P 500 Index

The S&P 500® Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance.

## IMPORTANT DISCLOSURES AND RISK CONSIDERATIONS

Investing involves risk, including possible loss of principal. International investments are subject to special risks, including currency fluctuation, political and economic instability, less liquidity, and differing accounting and regulatory standards. These risks may be greater in emerging markets.

This material represents an assessment of the market environment as of a specific date and is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any investment product or any issuer or security in particular.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial advisor before making an investment decision.



INVESTMENTS

For more information

800-624-6782

[newyorklifeinvestments.com](http://newyorklifeinvestments.com)

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company. Securities distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302, Member FINRA/SIPC.