BostonPartners

September 2022

# International equities: The Opportunities and Benefits

## Transcript


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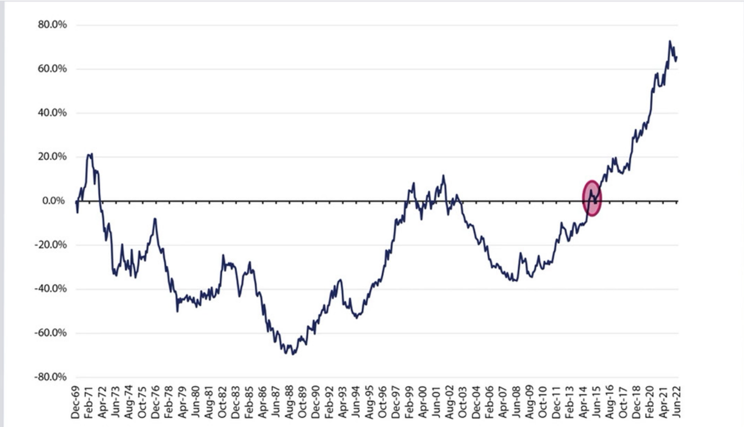
International equities have been overshadowed by U.S. equities over much of the past decade. At the same time, technology and internet related stocks have come to dominate developed markets as well as investor attention. Hi, my name is Mike McCune, portfolio analyst at Boston Partners. In this entry points, we're going to identify the opportunities and benefits in international equity investing.

First, let's take a look at the longer-term performance of the MSCI USA Index over the MSCI World Ex USA Index going back to 1969. Up until 2014, both of these indices were neck and neck with each other. Additionally, there are numerous periods of meaningful outperformance and underperformance of the indices relative to each other, hinting at the potential diversification benefits of allocating to both international and U.S. stocks over the long term. And at the same time, when you look at international equities, you see decade high free cash flow yields being offered in international markets versus U.S. markets.

**MSCI USA less MSCI World ex-USA Indices Cumulative Relative Performance**

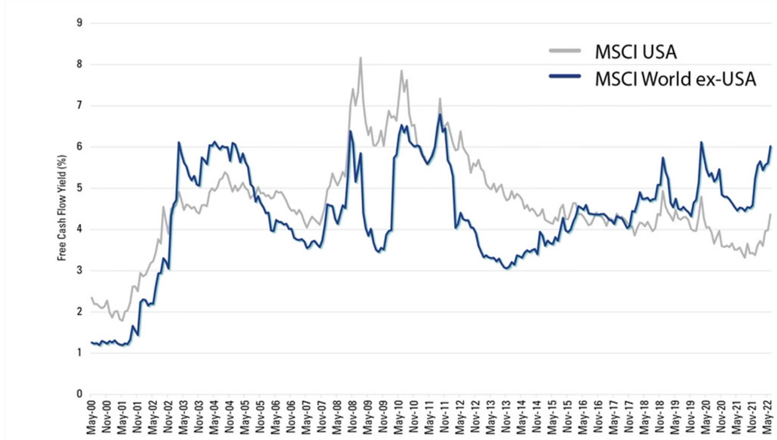
**December 1969 - June 2022**




Data as of June 30, 2022.
Source: Boston Partners; MSCI.
Past performance is not an indication of future results. Please refer to the appendix for other important disclosures.

## Free Cash Flow Yield

**May 2000 - June 2022**




Data as of June 30, 2022.
Source: Boston Partners Global Investors; MSCI.
* Trimmed Weighted Average at the 1st and 99th percentile. Free cash flow yield is a financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share.
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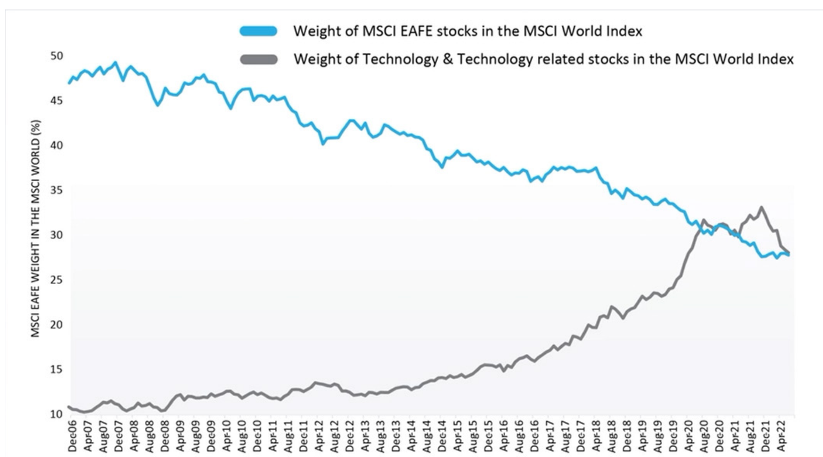
One of the main drivers of this strong performance that we've seen in the U.S. since 2014 has been the presence, or I should say the over presence of technology and Internet related names in the U.S., names like Microsoft and Apple in the technology space. And then we also include stocks that are related to it, but not necessarily in the technology sector. Names like Amazon, Netflix and Tesla. If you look back to 2006, these stocks only represented 10% of the MSCI World Index. We fast forward to today there are over 28%. However, if we strip out the technology and Internet stocks from these indices, we see that the operating returns of international and U.S. stocks has narrowed considerably in recent years.

## The Weight of International and Technology Stocks in the MSCI World Index

**November 2006 - June 2022**



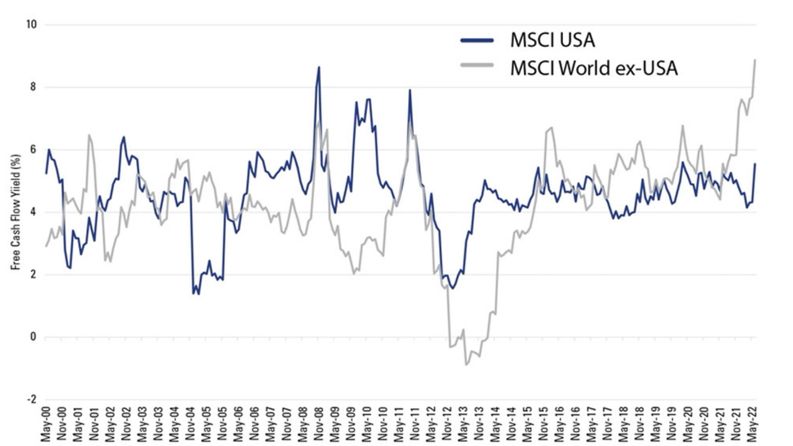

Data as of June 30, 2022.
Source: MSCI; FactSet; Boston Partners.
Technology stocks include constituents of the Information Technology sector, Internet Catalog & Retail industry, Interactive Media & Services industry, and Entertainment industry. Please refer to the appendix for other important disclosures.

Our point is that memories are short. International equities are a great way to diversify away from an over concentration in technology stocks in the U.S. And we seem to be at a point right now where technology stocks, some of the larger names have maybe kind of hit a peak. So, it's easy to go from growth of $1 to $2. It's much more difficult to go from $1 trillion to $2 trillion in market cap. That's not to say that these companies aren't good and that they don't deserve the growth that they've had. It just means that U.S. investors are probably overlooking a great, diverse opportunity set outside the U.S. And if we want an inflection point in the market, it will be well worth it to have that allocation to international equities, along with U.S. equities, to protect them from any kind of volatility that might be going forward.

When we look around the world, we see this supply demand imbalance that are affecting a lot of commodities out there. Obviously, it's very top of mind for individuals. It's very difficult for them to get materials. There's supply demand imbalance that obviously affects the U.S. and the global economy as well. But when we look outside of the United States, we see many more opportunities to invest. For example, international equities offer more metals and mining companies and machinery companies that manufacture mining equipment than what you would find here in the U.S.. The MSCI World Ex USA Index currently has 83 stocks listed in the metals and mining and machinery industries, compared to 22 stocks in the MSCI USA index. So, there's just more opportunities outside the U.S. from a metals and mining perspective to take advantage of that supply demand imbalance affecting commodities.  And there's also more attractive free cash flow yields in those underlying names in the metals and mining and the machinery stocks outside the United States. And that's partly been driven by the strengthening of the dollar versus euro, which is another reason to look at international equities. Recently, the U.S. dollar had reached one for one parity with the euro, a level that hadn't been hit since 2002. Currencies move for a number of different reasons, and one of the reasons why the U.S. dollar has strengthened so much is because the U.S. Federal Reserve has been increasing interest rates now with signs that U.S. inflation is peaking and the European Central Bank embarking on its own interest rate increases. We think that could prove beneficial for the euro and benefit U.S. dollar investors in international equities.

**Free Cash Flow Yields MSCI USA and MSCI World ex-USA Indices Metals & mining and Machinery Industries**

**May 2000 - June 2022**




Data as of June 30, 2022.
Source: Boston Partners Global Investors; MSCI.
* Trimmed Weighted Average at the 1st and 99th percentile. Free cash flow yield is a financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share.
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We believe that the best approach to international investing is to take an active all cap approach. It's important for allocators to identify good, active international managers that have the flexibility to go up and down the cap spectrum and identify those smaller and mid-cap stocks that are often overlooked or underrepresented. Our Boston Partners International Equity Strategy offers allocators a differentiated, active, all cap approach to investing outside the United States. Our portfolio managers seek to identify attractive companies regardless of market capitalization or index membership and build portfolios that are most likely to outperform. Ultimately, identifying what we believe are the best opportunities in international equities.

## Michael McCune

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Mr. McCune is a portfolio analyst for Boston Partners and has extensive experience with all of the firm's strategies. He began his career at Boston Partners in 2003 as a quantitative analyst, and later became a portfolio manager with the WPG Partners' Quantitative Equity Group. Additionally, Mr. McCune has spent time as the U.S.-based Client Portfolio Manager for Robeco's fundamental Emerging Markets and quantitative strategies. Prior to joining Boston Partners, Mr. McCune was a quantitative analyst at Deutsche Asset Management. Mr. McCune holds a BSc degree in finance from Villanova University and an M.B.A. from New York University. He holds the Chartered Financial Analyst designation. Mr. McCune has twenty-eight years of industry experience.




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