

# Equities in Focus

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## The International Comeback Continues

This year's strong outperformance of international versus US stocks has taken many investors by surprise. Several are now wondering if this is a head fake, or if upside remains for international equities. We still encourage investors to revisit regional allocations and consider selectively adding exposure beyond the US, if they have not already done so.

## Key Takeaways

### 1. US exceptionalism is intact, but not a secret.

This quarter's US stock snapback has led to a market pricing in minimal risk.

### 2. But US stocks have earned their premium.

American companies are profit outliers, but many non-US firms continue to implement paths to improvement.

### 3. What catalysts remain for international stocks?

Shareholder-focused businesses have varied ways to win, and additional US dollar downside is possible.

## US Equities Bounce Back

Similar to year-end 2024, the quarter-to-date uptick in US stocks has led to a backdrop where a low degree of risk is currently priced in when examining today's P/E ratios and credit spreads (*Display 1*). This setup leaves limited cushion for adverse developments such as even lower 2025 earnings revisions, higher bond yields or geopolitical shocks. None of this is to suggest one should abandon US stocks. Clearly, US equities command a premium valuation versus non-US stocks for several reasons, one being their higher profitability (*Display 2*).

## Dynamics Helping International Stocks

However, several international companies have taken consequential measures to become more shareholder friendly. For example, many European financial services firms, ranging from banks to securities exchange companies, have delivered enhanced dividend payouts and share buybacks. Plus, their improved operating environments have led to favorable earnings revisions for these firms, distinguishing themselves from the broad market akin to the Magnificent 7 stocks in the US (left side of *Display 3*). Another tailwind has been a weaker US dollar, and as the right-hand graph of *Display 3* highlights, more downside is not out of reach given where it resides versus its long-term average level.

## Our View

Despite international equities' strong start this year, we believe there is still gas in the tank. Several overseas governments are now spending more on defense capabilities, and Germany has announced its first national stimulus with a €500 billion infrastructure investment plan; both are big multipliers for economic growth. Japanese firms have reduced their ties with multigenerational cross-shareholdings with other large Japanese corporations that often shielded them from activist shareholders (in fact, such corporate cross-shareholdings have more than halved, from over 60% in 1990 to around 25% at the end of 2023<sup>1</sup>). Net, net, active and selective diversification has been an ally this year...and we think it will continue to be.

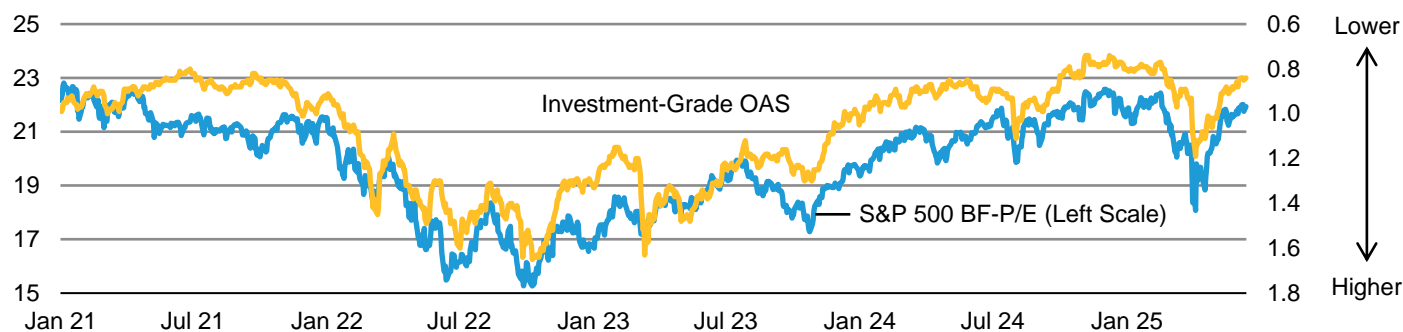
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<sup>1</sup> Japan Exchange Group

## Display 1: Elevated P/E Multiples and Tight Credit Spreads Call for Discerning Stock Selection

S&P 500 Forward P/E vs. Investment-Grade Bond Spreads



Historical analysis and current forecasts do not guarantee future results.

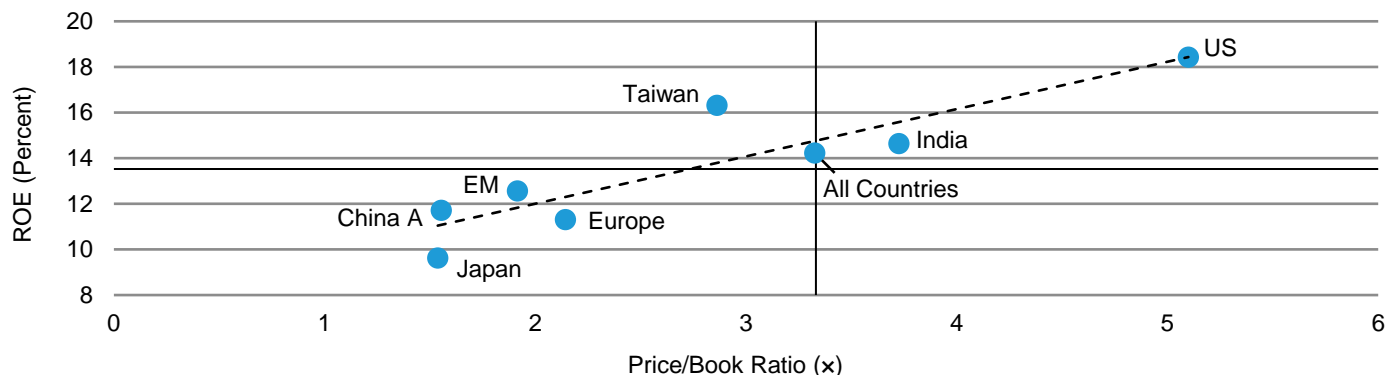
P/E: price to earnings; OAS: option-adjusted spread; BF-P/E: blended forward price to earnings

Through June 16, 2025

Source: Bloomberg and AB

## Display 2: A Price for Quality—the US Is Exceptional for a Reason, but Non-US Stocks Have Room to Improve Profitability

ROE vs. Price/Book Value of Global Markets



Past performance does not guarantee future results.

EM: emerging markets; ROE: return on equity

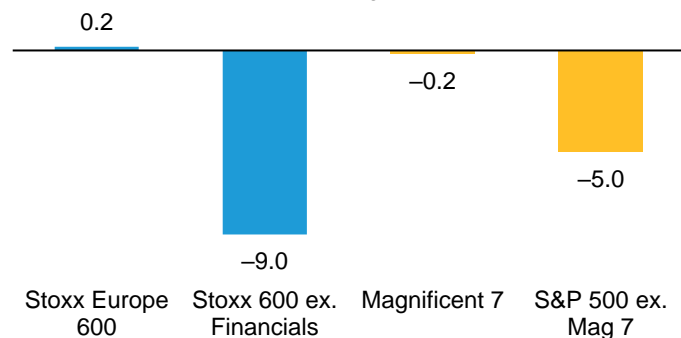
The all countries market is represented by the MSCI ACWI Index; China A is represented by the MSCI China A Index; Europe is represented by the MSCI Europe Index; emerging markets are represented by the MSCI Emerging Markets Index; India is represented by the MSCI India Index; Taiwan is represented by the MSCI Taiwan Index; Japan is represented by the MSCI Japan Index; and the US market is represented by the S&P 500.

As of June 16, 2025. Source: Bloomberg, MSCI, S&P and AB

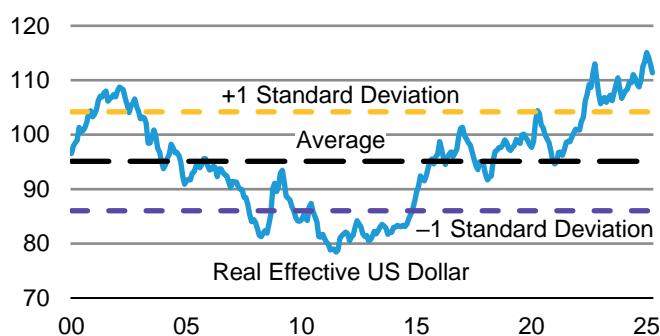
## Display 3: Stocks Having Earnings Strength Are Likely to Further Reward Investors

A Continued Weaker US Dollar Could Be an Added Tailwind for International Equities

Revisions Dispersions Highlighting Selectivity  
FY2025 EPS Change (Percent)



The US Dollar Is Relatively Overvalued vs. the Real Effective Trade-Weighted Dollar Indexed to 100



As of June 16, 2025

Source: Bloomberg, FTSE Russell, S&P and AB

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**The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.**

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