

# International Investing: Finding Opportunity Within Uncertainty

The unpredictability of macroeconomic events abroad may support maintaining a strategic allocation to international equities.

There often seems to be a headline event deterring investors from investing abroad. It's true that macroeconomic events can drive markets—and have a habit of being extremely difficult to predict in terms of timing, intensity, and duration. But what if macro events aren't a deterrent, but rather an argument in favor of maintaining a strategic allocation to international equities?

Performance during the last decade has favored domestic equities so drastically that many investors have found it hard to justify a continued allocation to international equities (FIGURE 1). It simply hasn't felt like the "right" time to invest abroad. But what if we rewind the clock and look at the performance of those same indices a decade earlier (FIGURE 2)?



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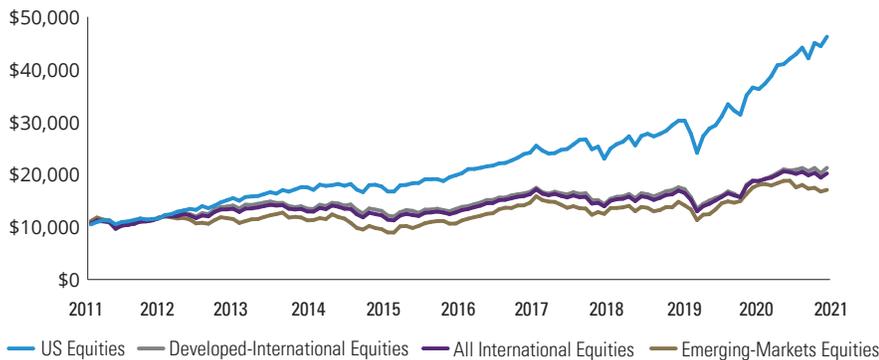
## Key Points

Volatility and underperformance have likely served as deterrents to fully investing internationally.

The different compositions of US and international equity indices favored US equities in the last decade, but could now favor international equities.

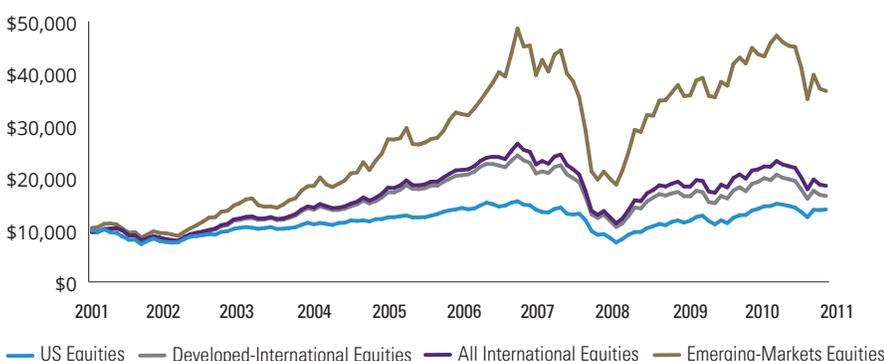
Rather than viewing volatility as a negative to avoid, maintaining a strategic allocation to international equities could help investors take advantage of unpredictable events.

**FIGURE 1**  
**US Equities Have Outperformed International Equities for the Last Decade**  
Growth of \$10,000 (2011-2021)



**Past performance does not guarantee future results.** As of 12/31/21. US Equities represented by the Russell 1000 Index. Developed-International Equities represented by the MSCI World ex USA Index. All International Equities represented by the MSCI ACWI ex USA Index (includes both developed-international and emerging-markets equities). Emerging-Markets Equities represented by the MSCI Emerging Market Index. See page 3 for index definitions. For illustrative purposes only. Source: Morningstar, 5/22.

**FIGURE 2**  
**International Equities Significantly Outperformed US Equities in the Prior Decade**  
Growth of \$10,000 (2001-2011)



**Past performance does not guarantee future results.** As of 12/31/21. For illustrative purposes only. Source: Morningstar, 5/22.

Which macro events were headwinds for US equities from 2001-2011? At the beginning of the period, the tech bubble was deflating in the US, in addition to rampant fraud at firms such as Worldcom, Enron, and Arthur Andersen. Not only that, but this period also includes the Global Financial Crisis (GFC). International equities generated more than double the return of US equities and outperformed in seven calendar years during the decade ended 12/31/11.

Timing the market is always impossible and there will always be negative events. So rather than trying to time entry and exit points tactically, maintaining an allocation to non-US equities could help investors take advantage of inflection points the moment they happen.

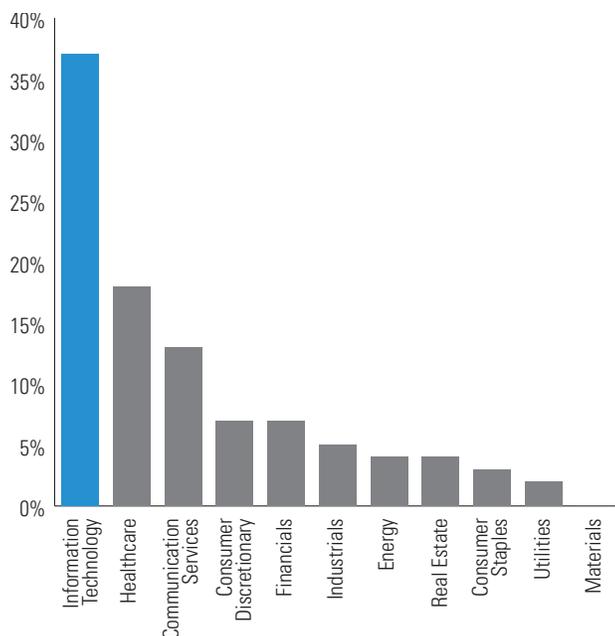
Big differences in the composition of global equity markets also play a role in their performance gap.

## What's Under the Surface Matters

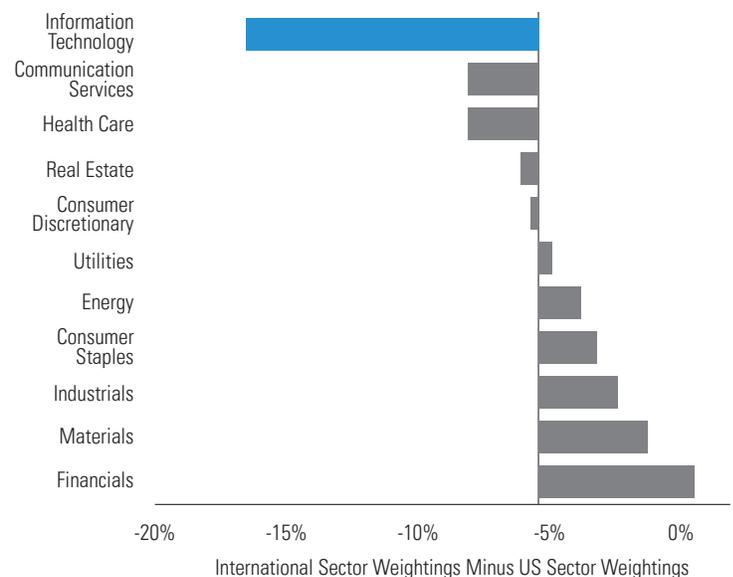
Beyond the fact that unpredictability makes tactical moves extremely difficult, there are also big differences in the composition of global equity markets. The last decade was all about big tech: it accounted for more than a third of US equities' outperformance between 2011 and 2021 (FIGURE 3); international equities had low tech exposure (FIGURE 4).

Especially today, as we face the highest inflation in many investors' lifetimes, international indices tend to hold much more exposure to cyclical sectors (MSCI ACWI ex USA exposure: 59% vs. Russell 1000 Index: 40% as of 12/31/21)<sup>1</sup> that may be better suited to outpace inflation. The current inflationary environment could also potentially benefit areas such as materials and energy, sectors to which international equities are more exposed. And as central banks raise interest rates to rein in inflation, rising rates could also benefit financials—another sector to which international equities are more heavily exposed (FIGURE 4).

**FIGURE 3**  
**Tech Drove Domestic Outperformance for the Last Decade**  
Share of Russell 1000 Index Outperformance (2011-2021)



**FIGURE 4**  
**International Equities May Be Better Positioned for Rising Rates and Inflation**  
Difference in Sector Weights (2011-2021)



US equities represented by the Russell 1000 Index, international equities represented by the MSCI ACWI ex USA Index. For illustrative purposes only. Source: Morningstar

<sup>1</sup> Sources: Refinitiv Datastream and Schroders, 2/22.

Today, economic weakness and tightening regulation in China, as well as the Russia-Ukraine war, are two of the most frequently cited concerns about investing internationally. However, both macro events are also likely to cause dislocations that professional, active managers can identify and seek to capitalize on—but this can only benefit those who are invested when they happen.

With that backdrop, a prudent investor may want to consider maintaining strategic allocations across asset classes, including international equities, rather than trying to time the right tactical entry and exit points in their international equity allocation. By keeping strategic exposures, investors can avoid missing out on potential benefits that can come from unforeseen inflection points. And especially today, as the US Federal Reserve and other global central banks seek to cool off inflation by raising interest rates, maintaining international exposure can also help investors diversify into multiple inflationary and interest-rate environments.

In other words, maintaining a strategic allocation to international equities can help investors make the most of macro events, multiple inflationary environments, and a variety of interest-rate regimes. It's one way investors can turn lemons into lemonade.

With a strategic allocation, rather than a tactical allocation, investors can avoid missing out on potential benefits that can come from unforeseen inflection points abroad.

## Talk to your financial professional about the amount of international investing that's right for you.

**MSCI ACWI ex USA** is a broad-based, unmanaged, market-capitalization weighted, total-return index that measures the performance of both developed and emerging stock markets, excluding the US.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance in the global emerging markets.

**MSCI World ex USA Index** is a free float-adjusted market capitalization index that captures large- and mid-cap representation across developed markets countries excluding the United States.

**Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

**Important Risks:** Investing involves risk, including the possible loss of principal. • Foreign investments may be more volatile and less liquid than US investments and are subject to the risk of currency fluctuations and adverse political, economic, and regulatory developments. These risks may be greater, and include additional risks, for investments in emerging markets or if a fund focuses in a particular geographic region or country.

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