Vanguard

Why the time is now for international

4 reasons to invest internationally

1. Positive international outlook
2. Volatility reduction
3. Exposure to some of the top companies in the world
4. Higher dividend yield

Is investing internationally worth it? You likely may be locked into a home bias, not realizing how much this lack of diversification is costing you over the long term. While international equities have lagged their U.S. counterparts lately, there are still some excellent reasons to consider an allocation to investments outside of the U.S.

Financial markets around the world change rapidly in response to news and events and by avoiding international stocks you are excluding a large portion of the global opportunity set. In fact, **international stocks represent almost 44% of the global market[1]**—a figure too large to ignore.

1 Positive international outlook

U.S stocks have had a great run, but will that continue? While we believe the price/earnings ratios for stocks are some of the best indicators of future returns, we also recognize that you must take into account valuations from a fair value standpoint, factoring in global economic and market changes.

Based on these valuations, the expected return outlook for non-U.S. stocks over the next 10 years is higher than that of U.S. stocks.

	Next 10 years
Global non-U.S. equity annualized returns (in U.S. dollars)	8.5% – 10.5%
U.S. equity annualized returns	5.5% – 7.5%

IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model® regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Simulations are as of March 31, 2020. Results from the model may vary with each use and over time. For more information, please see the last page.

Source: Vanguard Investment Strategy Group.

1 Sources: Vanguard, FactSet, and MSCI as of December 31, 2019.

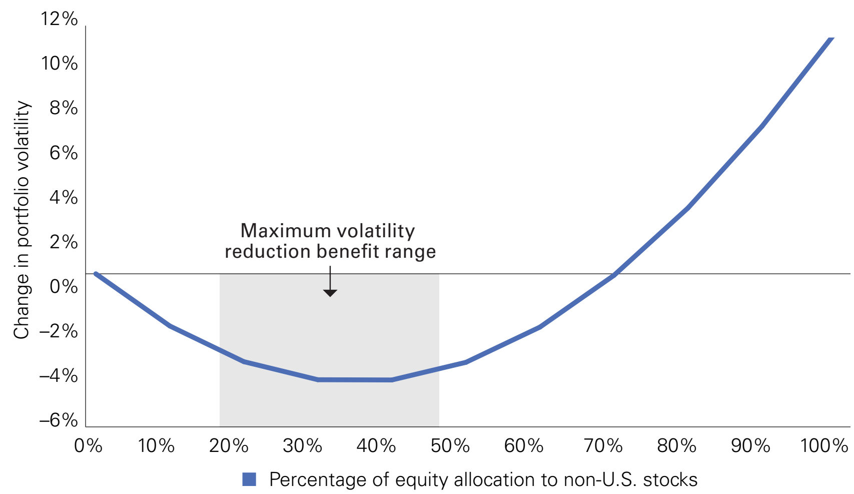
2 Volatility reduction

Having a mix of international and U.S. stocks has historically tamped down the volatility in portfolios. Of course it's natural to be concerned about geopolitical risk, but having a mix of U.S. and international can actually reduce portfolio risk.

Adding international stocks to a portfolio can carry diversification benefits because of the less-than-perfect correlations due to differences in economic cycles, fiscal and monetary policies, currencies, and sector weighting.

As you can see in the chart, the maximum volatility reduction benefit of adding an allocation to international equities occurs between the 20%–50% range.

Change in portfolio volatility when including non-U.S. stocks in a U.S. portfolio, 1970–2020



Notes: Non-U.S. equities represented by MSCI World Index ex USA and U.S. stocks are represented by the MSCI USA Index from March 31, 1970, through March 31, 2020. **Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.**

Sources: Derived from data provided by Vanguard and MSCI as of March 31, 2020.

3 Exposure to some of the top companies in the world

Not all great stocks are found in the domestic markets as companies based outside the U.S. make up nearly half of the value of stocks worldwide.

By only investing in U.S. stocks, you miss out on leading companies found in the emerging and developed markets. In fact, Alibaba, Tencent, and Nestle are names found among the top ten largest companies.

International companies among the top 50 largest stocks in the world

- Alibaba
- AstraZeneca
- HSBC
- Nestle
- Novartis
- Roche
- Taiwan Semiconductor
- Tencent
- Toyota

Source: FTSE Global All Cap Index as of March 31, 2020.

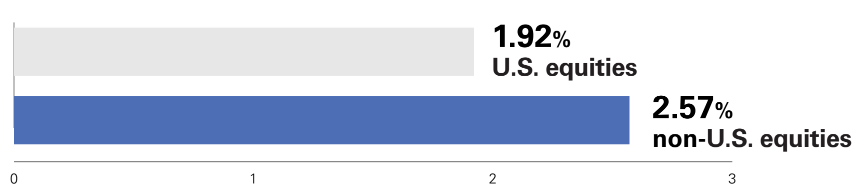
4 Higher dividend yield

Another reason to look beyond U.S. borders is the higher-yield-generating opportunities available outside of the U.S. While domestic dividend-oriented strategies have fared well, international stocks can offer favorable dividend values.

An international portfolio has historically experienced a higher dividend yield than that of a U.S.-only portfolio.

Global dividend yields

Average annual yields, March 2010–March 2020



Sources: Vanguard and FactSet as of March 31, 2020.

For more information about international investing, speak with your financial advisor.

Investors cannot invest directly in an index. All investing is subject to risk, including the possible loss of principal. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Investments in stocks issued by non-U.S. companies are subject to risks including country/regional risk and currency risk. These risks are especially high in emerging markets. Diversification does not ensure a profit or protect against a loss.

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The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

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