



Insigneo Weekly Dispatch

Our Thoughts on Global Equity Markets for 2026: Part Two - International Equities: “Skate to Where the Puck is Going to Be, Not Where it Has Been” – Wayne Gretzky



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A potentially weaker U.S. dollar—likely after a long period of strength—historically supports international equity outperformance, as markets anticipate future earnings growth abroad, rather than current U.S. strength.

Despite strong gains in 2025, international equities still trade at a historically wide valuation discount to U.S. markets, while expected earnings growth outside the U.S. is higher—driving capital flows toward non-U.S. regions.

With U.S. equities now comprising about 64% of global benchmarks, investors may benefit from reducing overweight positions in this country and reallocating to regions like Europe, Japan, and Emerging Markets, where diversification, valuation support, and earnings potential appear relatively more attractive.

In the first part of this two-part series, where we delve into our outlook for global equity markets for the year ahead, we focused solely on U.S. equity markets. You can find the link to that report [here](#). In the second part of the series, we will explore what could be in store for international equities in 2026, excluding U.S. markets.

There is an old saying in Wall Street that international equities never outperform their U.S. counterparts when the U.S. Dollar is strong. Although this is not an indelible truth, it is an accurate representation of what has happened - most of the time. Different factors, such as varying macroeconomic policies, country fundamentals, and secular trends can sometimes disrupt the inverse relationship between the US Dollar and international equities. However, such instances are uncommon. Most of the time, a strong Dollar portends weak international equity performance. Mind you, this does not mean that a strong Dollar automatically means negative returns for international equities. It just means that in that type of environment, international equities will likely underperform, as a whole, relative to their U.S. brethren. If we think about it, this dynamic makes sense. As the world’s reserve currency, a strong Dollar means that USD-denominated goods and services trading around the globe are more expensive to trade. This is especially true for many Emerging Market economies, which depend heavily

on the export of dollar-denominated commodities. A stronger USD makes these products more expensive in international markets, potentially dampening demand. Conversely a weaker Dollar makes these products cheaper to trade, potentially leading to increased demand and trade flows. We believe that this latter dynamic will be prevalent in 2026.

Interestingly, the US Dollar does not need to plummet to create a favorable environment for international equities. Consider last year, when the USD retreated approximately 8.5%. That same year, the All-Cap World Index (ACWI), which is an index that includes every major global market, *including* the U.S., rose about 20%. However, that very same year, the All-Cap World Index-ex U.S. (ACWX), an index that includes every major global market, but *excludes* the U.S., rose close to 29%. All this in a year where the U.S. likely experienced relatively stronger earnings growth than global markets as a whole. This seems counter-intuitive. Why was the performance of global markets stronger when the U.S. was excluded from the mix, considering that this country likely saw better earnings growth than the totality of global markets? Like many times in life, the answers to seemingly perplexing questions lie just beneath the surface. The answer to this question: Equity markets are discounting mechanisms, trying to predict what will happen six to twelve months down the road, not narrating present conditions.

In other words, equity markets had already factored in strong U.S. earnings growth but were anticipating future earnings growth in international markets. In the words of the famous ice hockey player, Wayne Gretzky: “I skate to where the puck is going to be, not where it has been”. Equity markets behave the same way, capital tends to flow to where it anticipates future returns will be, not where they have been. As a result, funds flowed into international markets in 2025, where markets expected future earnings growth. A weaker U.S. Dollar, coupled

with other regional factors, was in large part responsible for this shift in momentum, a dynamic that we believe will continue in the year ahead.

A recent report by J.P. Morgan showed that there have been four major periods of sustained U.S. Dollar weakness since 1975. These lasted, on average, between three to four years, with some periods having been as short as one year, while others lasted as long as six years. As expected, international equities outperformed U.S. equities in each of these four periods, albeit to varying degrees. Considering that we are coming off the single longest period of sustained U.S. Dollar strength since 1975, approximately 15 years, coupled with directionally lower U.S. interest rates and a decreasing use of this currency as a safe-haven asset, we would not be surprised if the USD remains relatively weaker in the foreseeable future. This outlook bodes well for international equities, a dynamic that began to be reflected in 2025.

Despite the strong performance of this equity cohort over the past twelve months, its valuation still trails that of U.S. equity markets. Historical data shows that the long-term average valuation discount between U.S. markets, measured by the S&P 500, and international equities, captured by the All-Cap World Index-ex U.S., is approximately 20%, on a forward P/E basis. However, the discount between both indices is currently closer to 30%, even after factoring in last year’s strong performance by international equities. This brings up an interesting question. Knowing that in 2025, the price, or the “P” in the P/E ratio formula, rose more for international equities than its U.S. counterparts, why is the P/E still lower for international equities? The answer is twofold. First the discount between international and U.S. equities over the past few years has been wider than average, given the latter group’s strong performance over the past three years, driven by the AI boom. As a result, the abnormally wide valuation gap between

both equity groups still has room to narrow further. Second, and in our opinion, more importantly, international equity earnings or the “E” in the P/E ratio formula, are expected to grow faster in the year ahead. Investors continue to anticipate stronger earnings growth abroad than in the U.S. and capital continues to flow in that direction.

What does this all mean in terms of investment opportunities? In part-one of our global equity markets outlook series, we stressed the point that, in our opinion, balance will be key when investing in U.S. equities. Taking a step back to get a better perspective of the bigger picture, we believe that the same balance will be key when investing in a globally diversified portfolio, including both U.S. and international equities. In part-one we made the case that investors should not eliminate large cap or technology sector equities from their portfolios, simply reduce overweight positions in these areas, to diversify into other sectors and market cap ranges. A similar premise applies for a globally diversified portfolio. **We are not encouraging investors to eliminate U.S. equities from their portfolios, as we continue to like this group over the long-term and believe that it will continue to be a key component of a well-diversified portfolio. However, investors could consider reducing overweight positions in U.S. equities to increase exposure to other regions around the globe.**

Providing some context as to what could be considered an “overweight” position may be useful. Let us consider the most widely used benchmark for a globally diversified portfolio, the All-Cap World Index (ACWI), the one which includes U.S. equities. As of December of last year, approximately 64% of this index was comprised of U.S. equities, with Europe a very distant second at 14%, Japan at 5%, 3% in Canada, 3% in China, and the remaining balance spread across various emerging markets including Taiwan, South Korea, India, and Brazil. Two-thirds of a

“globally diversified” index concentrated in one country does not exactly seem, well, diversified. In fact, the United States’ 64% allocation in this index is the highest weighting of any single country or region in this benchmark since 1987. The index’s second highest historical weight was also held by the U.S., which was closer to 55%, near the peak of the dot.com bubble. Granted, the number of U.S. companies around the globe has grown tremendously since 1987, and many of these companies themselves have grown to reach enormous sizes. However, in our opinion, one country comprising two-thirds of a portfolio could be considered an “overweight” position. A reduction in a large position in U.S. equities such as this one does not imply its elimination. In fact, it is highly likely that it would still remain the portfolio’s single largest exposure after such reduction, and rightly so. However, reallocating a portion of the gains experienced by U.S. equities over the past few years, into other regions of the world could prove to be a prudent strategy at this juncture.

With this in mind, what other regions should a globally diversified investor consider? For starters, Europe could be a region to take into consideration. Despite having seen a meaningful rise in 2025, European equities still trade at a relative historical discount to U.S. equities. At the same time, in contrast to the heavy exposure of traditional U.S. indices to the growth-oriented Technology and Communications sectors, European equity indices are mostly comprised of value-oriented Financial, Healthcare, and Industrial stocks. Including some exposure to a value-oriented group of equities could provide structural diversification in an otherwise concentrated portfolio. At the same time, spending trends in the region could be improving, as evidenced by recent data showing rising industrial and consumer spending, a dynamic that could lead to increased earnings growth for the year ahead. Within developed Asia, Japan is also an intriguing opportunity. The country’s equity markets trade at some of the lowest valuation levels in the

last twenty years. At the same time, the country's recently elected Prime Minister, Sanae Takaichi appears to be willing to implement market-friendly policies that could push equities higher. However, it is important to note that recently increased political volatility in Japan does bring an added level of risk to this country.

Emerging Markets could also present an attractive opportunity for the year ahead. Historically, Emerging Markets have been the biggest beneficiaries of an environment involving a weaker U.S. Dollar. As we touched on earlier, many of these countries' economies are highly dependent on commodity exports, and a weaker USD makes their exports more attractive. At the same time, many emerging market economies are also some of the industrial and technology powerhouses in the world, or are in the process of becoming so. Looking at emerging Asia, we can specifically point to Taiwan and South Korea, for example. Both countries provide some of the most sophisticated industrial and technological products to global markets, either in the form of intermediate goods such as semiconductors, or finished products such as ships and electronics. On the other hand, China is attempting to carve its place in the Artificial Intelligence boom through the creation of its own versions of large language models. Chinese equity markets still trade at valuations which are well below their historical averages, making them potentially attractive investments. However, a high level of geopolitical risk adds an additional level of volatility to investments in this country. China's neighbor, India, may also present another investment idea that could be potentially considered by investors, as literacy rates within its population continue to rise, while the country continues to establish itself as an important global technology hub.

One of our favorite regions within the Emerging Markets complex is Latin America. Driven in large part by increasing earnings growth potential, Latam equities experienced some of the strongest moves in 2025. However, we believe that there is further growth potential ahead for the region, as many of its commodity export-driven economies will continue to benefit from a weaker U.S. Dollar, while growth in specific industries such as fintech, could propel earnings growth higher. At the same time, as evidenced by the recent elections in Argentina and Chile, the region appears to be experiencing a political shift to the right. This may mean that incoming governments could implement business-friendly policies that may increase regional investment and consumption, possibly driving earnings higher. This year's upcoming elections in Brazil, Colombia, and Peru will be pivotal in the continuation of this trend and ones that we will be watching closely.

Given the many potential options, Investors could consider gaining exposure to many of the countries that we discussed above through country-specific funds or ETFs. However, in light of the various idiosyncratic risks associated with investing in individual countries, investors might be better served by achieving a higher degree of diversification by considering region-specific investment products. **Regardless, the important point to keep in mind is to consider exploring areas with further potential earnings growth for the year ahead. Much like Wayne Gretzky, we have to "skate to where the puck is going to be, not where it has been".** ■



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