LESA
SROUFE&CO INC.
VALUE ADVISORS

STOCKS HAVE A BIG, EXPENSIVE PROBLEM FEBRUARY 25, 2025

Wall Street Journal

The U.S. stock market has grown disproportionately large, now making up two-thirds of global market value despite accounting for only one-quarter of the world's economy. Analysts at DataTrek Research note that the correlation between the S&P 500 and MSCI EAFE (an index of non-U.S. stocks) has fallen to a multidecade low, indicating that U.S. stocks may face poor returns in the coming years. Several factors contribute to this divergence, including Donald Trump's policies, fluctuating tariff announcements, and growing interest in international value stocks, which offer significantly cheaper valuations compared to U.S. growth stocks. In fact, developed-market large growth stocks are trading at 98th-percentile valuations, meaning they have been more expensive only 2% of the time, with developed-market value stocks are the opposite at 2%, meaning they have only been cheaper 2% of the time. And so, Research Affiliates predicts U.S. large growth stocks will generate an annual return of just 1.8% over the next decade—negative after inflation—while non-U.S. developed-market value stocks are expected to return 10% annually. Emerging markets value stocks are forecasted to perform even better at 10.5%.

LS Comment: This could (finally) mark the beginning of a golden decade for international investment returns. Most investors won't participate because they are reluctant to break up with U.S. large cap growth stocks.