

ABOVE THE FRAY

Global Diversification Still Requires International Securities

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Investors often ask if globally diversified stock portfolios are necessary when the US stock market has many multinational companies or those earning revenues from non-US countries. The data suggest these companies are no more successful at global diversification than a faux mane is at turning a golden retriever into a lion.

We can test the global diversification benefit of companies with non-US revenues by looking at their average returns in months when US stock returns and international returns diverge. Stocks offering sufficient non-US exposure should presumably move more in line with the international market. However, companies with non-US revenues appear to merely track the broader US market on average. In particular, when the US market is down—and investors would hope for global diversification to kick in—companies with non-US revenues are similarly down. These results echo academic evidence showing that stock prices tend to move based on where they trade more than where the business resides.¹

Developed ex US and emerging markets stocks combine for about 39% of the global stock market.² That's a meaningful chunk of the equity investment opportunity set, and based on these results, they have potential to be a pivotal complement to the US market.

Exhibit 1
One of These Things Is Not Like the Other

Average monthly returns when US and developed ex USA stock returns have opposite signs, January 1979–December 2022



Past performance is not a guarantee of future results.

Source: Dimensional, using CRSP and Compustat data. The eligible universe includes ordinary common US stocks of all capitalizations traded on NYSE, NASDAQ, and NYSE MKT. We identify a company with and without foreign sales exposure using Compustat’s annual geographic segment data. Value-weighted portfolios are formed on eligible stocks with and without foreign sales. Portfolios are rebalanced annually in January based on the annual geographic segment data. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2024, all rights reserved.

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1. Kenneth A. Froot and Emil Dabora, "[How Are Stock Prices Affected by the Location of Trade?](#)" (working paper, National Bureau of Economic Research, May 1998).
 2. As of December 31, 2023

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