

Six good reasons to consider global equities and four advantages of an active approach

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Global equities offer multiple benefits, and actively managed strategies can be an effective option to pursue them.

Owning global equity strategies, which include both local market and international stocks, are not always investors' initial inclination, often for a combination of reasons. First, since the end of the Global Financial Crisis, one equity market—the US—has delivered such exceptional returns, relative to international markets overall, that the value of a global approach has been less apparent. Second, some investors prefer to decide for themselves what their allocations to domestic versus international stocks will be.

For long-term investors, though, neither of these considerations diminish the multiple potential benefits that can be gained from owning global equity portfolios.

Six potential benefits of global equity strategies ...

1. Gain access to more opportunities

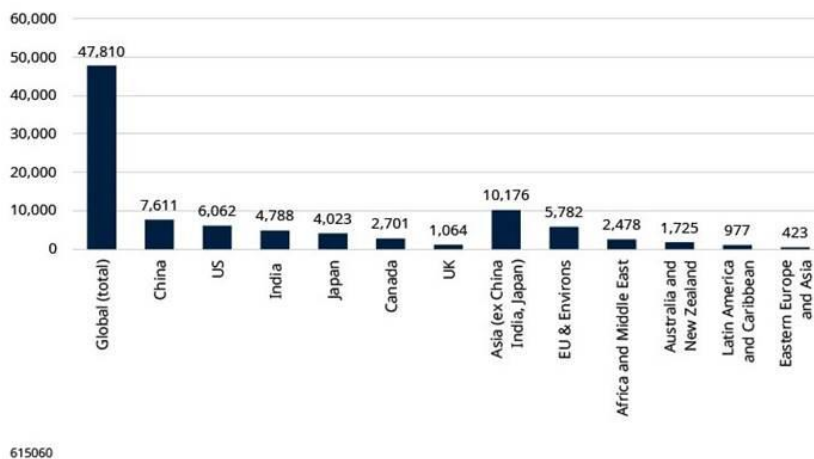
A focus on any one market, or even a narrow set of nearby regional ones, greatly reduces the investment opportunity set. There are 44,000 publicly listed companies worldwide. As Figure 1 illustrates, even the world's largest individual markets cannot come close to reaching that scale. Investors who focus on their own or nearby regional markets miss that world of opportunity.

2. Go where some of the greatest opportunities may lie

A number of key global trends – like changing demographics, scientific breakthroughs in fields like biotechnology, and technological innovation in areas like artificial intelligence (AI) – are creating outsized growth opportunities for the companies that operate in the sectors affected by these major changes.

Figure 1: The entire global universe offers a fuller menu of opportunities

The total number of companies globally far surpasses even some of the biggest individual and regional markets



Source: "All the World's Publicly Traded firms in 2025," Visual Capitalist, as at 26 February 2025.

No one country has a monopoly on the companies that are leading the charge in these fast-growing sectors. The two companies that developed the GLP-1 medications used to manage diabetes and weight issues, for example, come from the United States and Denmark. With multiple drug launches on the horizon, many more companies will enter the GLP-1 market, including firms from the UK and Switzerland. While companies in Silicon Valley in the US are leading providers of the chips and other hardware that are driving the AI revolution, others from China, England, Germany, the Netherlands, South Korea, Switzerland and Taiwan are also playing critical roles. China has also dramatically demonstrated that that US technology companies are not the only ones capable of delivering applications with the conversational prompts that make AI so accessible.

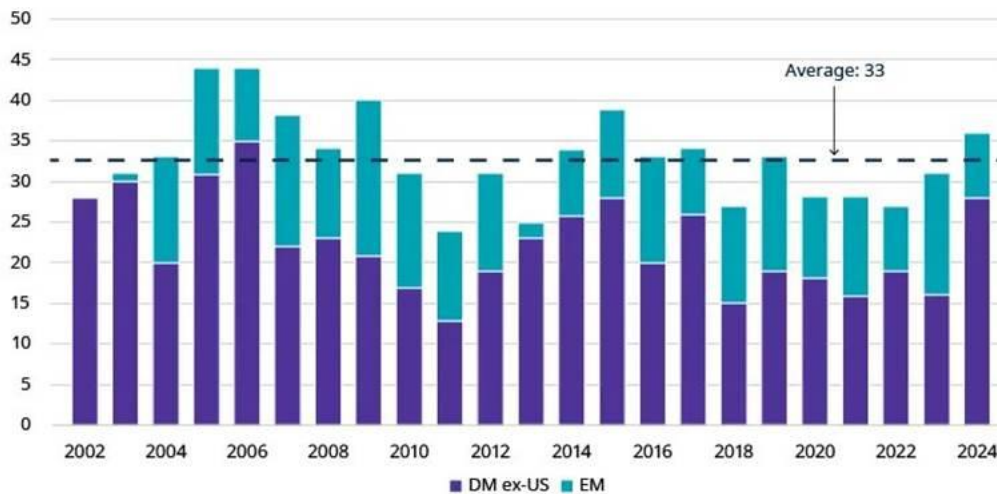
Investors who consider global strategies that invest in both developed and developing markets also have another route to pursue higher growth. Emerging markets often expand at a higher rate than their developed market counterparts because they are in an earlier stage of economic growth.

3. Invest in more of the world's best-performing companies

It is true that the US has had the world's best-performing stock market for an extended period, but that is at the collective level for the whole market. Looking at the individual company level and beyond the attention-getting Magnificent 7 stocks offers a different view. With that perspective, investors may be surprised to discover that since 2002, the US has had half or more of the world's 50-best-performing stocks in only two years (2011 and 2013). On average, over that period, two-thirds – 66% – of the 50 best-performing companies were outside the US. (See Figure 2.)

Figure 2: Non-US companies often constitute the majority of the best-performing stocks globally

Number of companies outside the US that rank each year among the best-performing stocks in the MSCI All Country World Index



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Source: JP Morgan, as 31 December 2024. **Past performance offers no guarantee of future results and may not be repeated.**

4. Stay properly positioned in a dramatically different climate for equities.

While US stocks have delivered an extended run of outperformance relative to their international peers, the global macroeconomic conditions and geopolitical climate that were present during much of that reign of market leadership for US stocks were decidedly different from what prevails today. As Figure 3 illustrates, a wide range of conditions have dramatically changed – everything from heightened geopolitical tensions and trade wars creating increased market volatility to much higher interest rates that make bond returns more competitive with stocks. Time will tell how all these changed conditions affect stock markets, but one fact that seems inevitable is that different markets will be affected in a variety of ways. Global equity portfolios, because they are not confined to any single market, can span the globe to find the countries, sectors and companies with the potential to excel in this new environment, while also seeking to minimize exposure to the countries, sectors and companies that are negatively impacted by it.

Figure 3: A shift in economic regimes has created a different set of challenges for equity markets around the world

The post Global Financial Crisis and pre-Covid-19 climate

Low bond yields with near-zero interest rates

The new economic and geopolitical regime

High yields that make bond returns competitive with stocks

Open markets that supported globalization	Protectionism with tariffs, trade wars and border restrictions
Low inflation or even deflation (declining prices)	High inflation, down from post-Covid-19 peaks but still relatively high
Central banks easing money supply	Central banks tightening to rein in inflation
Regional conflicts but relative harmony globally	Heightened geopolitical tensions around the world, bringing an array of economic effects

5. Achieve the risk-mitigation benefits that come with broader diversification.

Most investors recognize the benefits of spreading risk. Owning global equity strategies, rather than single market or limited regional portfolios, can enable investors to achieve a higher degree of diversification that may mitigate the impact of a prolonged downturn in a single or regional market.

Even in today's global economy, the macroeconomic and political conditions within each country can be decidedly different. Active managers will still look for companies that could thrive even in a difficult economic climate for their home countries. They might invest in health care companies catering to an aging population, for example, given that these companies' business fortunes may not be adversely affected by a downturn in their home country's economic 'cycle'. They could also invest in companies whose prospects are not tied to their domestic market because they have a global customer base.

While recognising these exceptional cases, active managers of global equity portfolios still have the flexibility to minimise exposure to countries that might suffer extended adverse circumstances in a particular economic climate. Meanwhile, they can increase exposure to companies in countries whose current economic conditions are helping to propel stronger growth. Investing in one stock market or a narrow set of them does not provide that flexibility.

6. Allow investment experts to make the decisions that influence regional allocations

Active managers who do in-depth company research are not top-down investors who will decide where they want to invest in the world on the basis of their reading of various macroeconomic conditions. Instead, they are bottom-up investors who begin by examining the business prospects, financial strength and competitive positioning of individual companies. Their regional allocations often emerge from their decisions about what they believe the best companies to own globally are. As noted above, though, active managers can still be responsive to those broader economic conditions when they think prolonged adverse circumstances in a particular market might affect the long-term performance of companies domiciled there. For investors, that means professional

teams, with portfolio managers and research analysts on the ground in countries around the world, are making decisions about where to invest. Their expertise and presence across the globe can enable them to make more informed decisions than investors without that degree of experience and resources could on their own.

... and four reasons why active strategies can be an effective way to capture the opportunities

7. Active managers can adjust their regional allocations in response to market conditions.

Passive portfolios have to match their relevant index and all its weightings in specific countries and regions. They cannot adjust their allocations proactively. In stark contrast, active managers have the flexibility to increase their allocations in regions that look ready to prosper from a change in conditions. Just as importantly, they can reduce their portfolios' weightings to a country when they believe adverse economic conditions might hinder the performance of that country's equities. In that circumstance, passive portfolios would see the country weighting reduced only after the fact, when a market downturn lowered that country's index weighting. Passive investors would then have to stick with and ride the full roller-coaster dip of that downturn.

8. Active managers can be forward-looking.

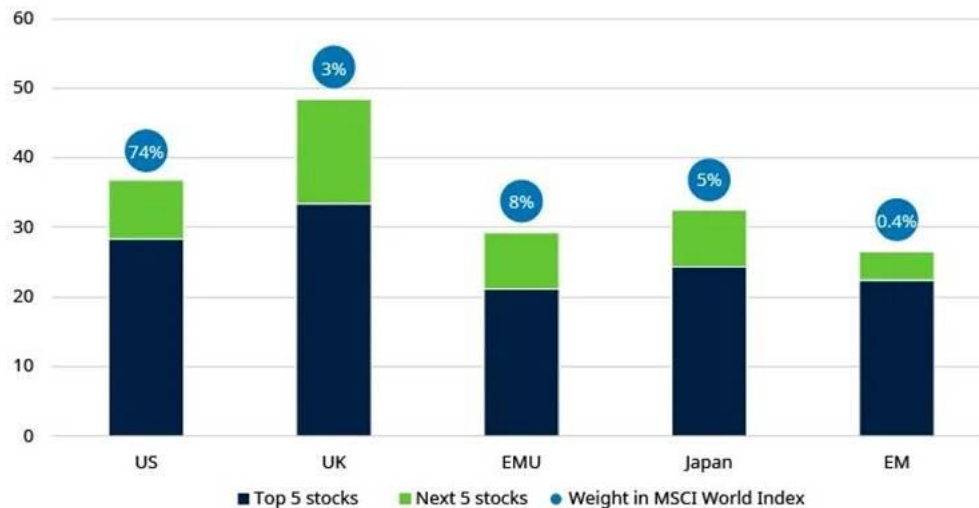
Passive portfolios' allocations to companies and countries are based entirely on past performance. Strong past performance increases the weighting in specific companies and countries. But every company and country can experience a quick change of fortunes. Active investors spend their time analysing the prospects of companies to determine which ones are likely to fare best in the months and years ahead. Active portfolios are therefore fully forward-looking, while passive portfolios are guided only by the rearview mirror.

9. Market indices – and the passive strategies that mirror them – have become extremely concentrated in a small group of stocks

The US market's extreme concentration in a select group of stocks – notably the most technology sector mega-cap stocks known as the Magnificent 7 – has become a well-documented issue and cause for concern. But it is less well recognised that other markets have a similar problem. As Figure 4 illustrates, there is extreme concentration in the top 10 stocks (based on market capitalisation) not only for the US, but also for other individual countries, like the UK, and regional markets like the European Monetary Union and emerging markets.

Figure 4: Weight of top 10 stocks in regional markets reveals extreme concentration

Percentage weight of the top 10 stocks in each country or region, based on MSCI index



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Source: LSEG Datastream, MSCI and Schroders. Data to January 2025. Index: MSCI All-Country World Index and MSCI World Index. Data is monthly with each data point reflecting the percentage weight of the largest 10 stocks in the MSCI index at each respective date. MSCI, as of January 2025. **Past performance is no guarantee of future results.**

One of the primary reasons for owning passive strategies is the belief that you can mitigate risk by not investing in a select group of stocks and instead owning the “broad market.” But there is nothing “broad” about today’s market indices. Passive strategies are effectively taking active bets because they are so heavily concentrated in a small group of stock. That leaves investors in passive strategies exposed to considerable risk if the fortunes of these select groups of stocks suddenly take a negative turn.

10. Active strategies don’t have to follow the consensus and can exercise discretion and take contrarian views.

Often considerable returns can be realized in equity markets when investors recognize a trend ahead of the consensus or even dare to take a view that is completely at odds with the prevailing wisdom. With passive strategies, there is not a team of professional investors who can exercise any judgement about market conditions and individual stock opportunities. Passive strategies also cannot ever take a contrarian view. Because their weightings in individual stocks and countries are based on current prices, which the consensus determines, passive strategies always have to follow the herd. The herd followers, however, do not have a good track record of anticipating or properly assessing future trends. That is why they were misguided about the prospects of the early internet companies and often were late to the party anticipating the potential of artificial intelligence. Active managers can react to their assessments about the future without waiting for the crowd to come around.

Preparing for tomorrow, not yesterday

With stocks, there is always a temptation to chase past performance. While US equities have had an extended run of outperformance that could still have some room to run, there are still a number of compelling reasons to recognise the benefits of maintaining broad exposure to the worldwide variety of stock opportunities available, while also limiting the risk of having too much exposure to a small group of stocks.

