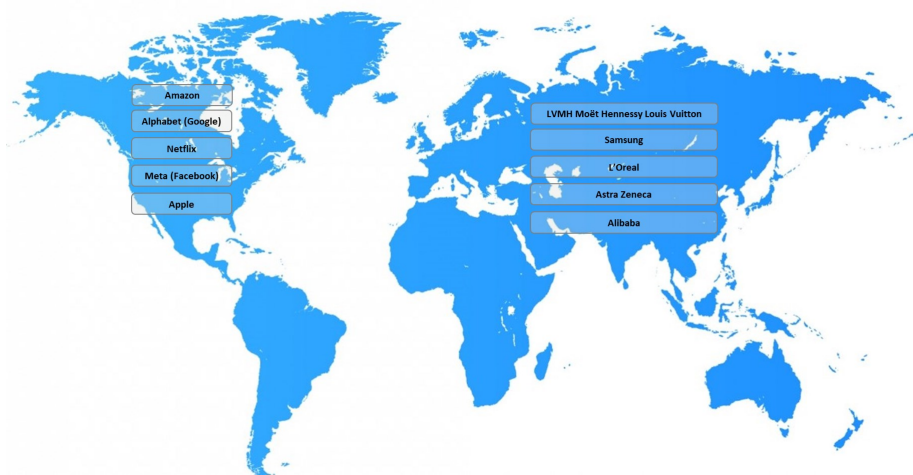




## Myths of International Investing

Amazon, Netflix, Alphabet (Google), Meta (Facebook), and Apple are some of the largest companies in the world. For many of us, these U.S. companies are household names, providing products and services that we use daily. Companies such as LVMH



Moët Hennessy Louis Vuitton, Samsung, L’Oreal, AstraZeneca, and Alibaba are also on the list of top 30 companies in the world. However, for many of us, these international names are not as familiar.

When it comes to investing, we default to our comfort level, which often is investing in what we know best -- U.S. companies. And by default, many of us shy away from investing in international markets. Below we identify a few common misconceptions that may fuel this behavior:

### Myth #1:

#### U.S. investments outperform International investments

Although U.S. stocks have outperformed international stocks during the last decade, the outperformance often occurs in multi-year cycles. As shown in Chart 1, since 1975, U.S. outperformance vs international has lasted an average of 6.3 years. We’re currently 13.5 years into the current cycle of US outperformance based on 3-year monthly rolling returns. Although it’s difficult to time a shift *Cont’d on Page 2*

## Endowment Tip

### *Does your committee need to explain your endowment’s investment approach?*

A healthy diet is a balanced diet that includes a wide variety of foods in appropriate proportions. Each food group serves a different purpose but over time all food groups work together to provide the nutrients that a body needs to function properly. Like a healthy diet, a healthy long-term investment portfolio contains different types of investments – stocks and bonds, for example – that serve different purposes. Together, over time, they provide important balance in an investment portfolio.

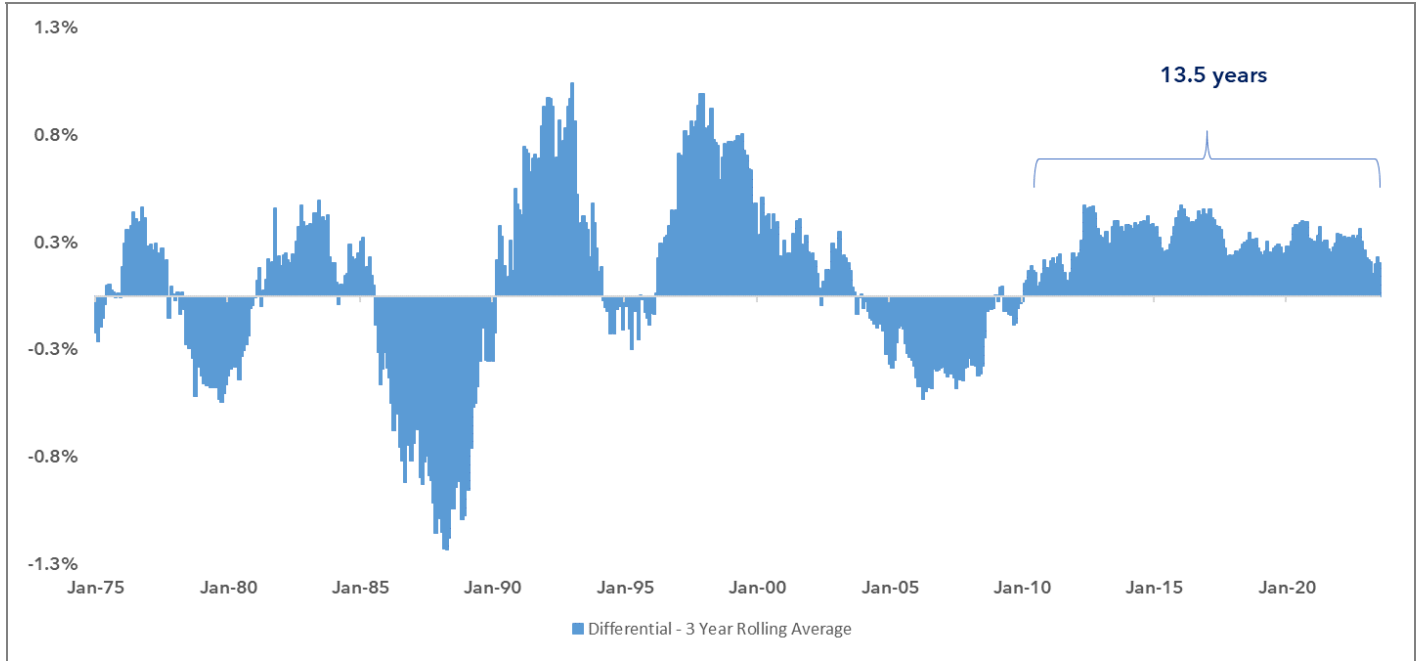
The “Strategic Asset Allocation” of a portfolio is a combination of different types of assets in varying weights providing balance. Some assets classes typically have higher returns than others. Some asset classes typically are riskier than others. But they all play a role in a portfolio. This is the core philosophy behind the ECF/State Street investment approach.

ECF can provide resources to help your committee talk about complex endowment issues. To start, see our blog:

[Perspectives - Episcopal Church Foundation](https://www.ecf.org/programs/endowment-management/blog/)  
(<https://www.ecf.org/programs/endowment-management/blog/>)

for more on asset allocation and other topics.

**Chart 1: Performance differential of the S&P 500 and MSCI World Index (Rolling 3-year periods)**



Source: Morningstar, 7/31/23

in performance from US to international and vice versa, current valuations have moved in favor of international.

### Myth #2: Portfolios with only U.S. investments are adequate

The U.S. market totals approximately 56% of the global market. A portfolio invested only in U.S. holdings would miss the opportunities found in the other 44% of the global markets.

At any given time, different countries have varying economic conditions, such as growth rates, interest rates, and inflation rates. This is because countries are often at different stages of their economic cycles. See Chart 2 for estimated GDP growth rates. While some economies are expected to grow during the next 5 years, others are expected to shrink. These differences can create opportunities. By investing in both U.S. and international assets simultaneously, or diversifying assets, investors can take advantage of these differences to improve returns.

An additional benefit of diversification is reducing risk. Imagine you have all your eggs in one basket. If the basket falls, all your eggs will break. This is like investing all your money in one asset class, such as US stocks. If the U.S. stock market crashes, you will lose a lot of money. Now imagine you spread your eggs out

over several baskets. If one basket falls, only some of your eggs will break. This is like diversifying your investments across different asset classes. If one asset class performs poorly, the others may still perform well, so you won't lose as much money. In other words, spreading investments between US and international markets can help to reduce risk in a portfolio by reducing reliance on any single market.

### Myth #3: International investments are more risky

Recent events internationally may have investors wondering if international investments are riskier:

- Russia's invasion of Ukraine
- China's zero-covid policy and its effects on the supply chain

**Chart 2: Estimated GDP Growth by Country (% , y/y)**

	US	Great Britain	Germany	Japan	China
2023	1.6	-0.3	-0.1	1.3	5.2
2024	1.1	1.0	1.1	1.0	4.5
2025	1.8	2.2	2.0	0.6	4.1
2026	2.1	2.0	1.8	0.5	4.0
2027	2.1	1.8	1.2	0.4	3.6
2028	2.1	1.5	1.1	0.4	3.4

Source: IMF, WEO database, as of June 2023

**Chart 3: Standard deviation (3 yr)**

S&P 500 Index	MSCI World Index
18.77	17.78

Source: MSCI, S&P, as of 6/30/23

measure the dispersion (or risk) of an investment, market, or even a portfolio.

As seen in Chart 3, the standard deviation of international markets is lower than the standard deviation of US markets. Mathematically, this means the returns of international markets are less dispersed around the average than the returns of US markets. In other words, international markets have less risk than US markets.

## Conclusion

It is important to not let myths of international investing derail a sound investment strategy of diversification. A well-diversified portfolio that includes international investments can help you take advantage of opportunities during various market cycles and reduce risk.

- Geopolitical risks (including changes in trade relationships, policy changes due to leadership changes, conflicts between two countries)

Yet risk can be quantified. How do international investments look then? Standard deviation is a measure of how much the price of an investment fluctuates over time. This measurement is applied to many things, including academic grading, polls, and pandemics, to name a few examples. In investing, standard deviation is used to

## Upcoming Webinars

### *TWO PART WEBINAR SERIES: The Truth About Endowment Structure Today*

#### **Part 1: The Truth About Endowment Spending (June 13, REPLAY)**

#### **Part 2: How Can Your Endowment Committee Have Meetings that Matter? (Sept 19, 2pm ET)**

An endowment or investment committee provides crucial oversight of church funds. Is your committee able to keep members engaged and attending regularly? Or do you struggle to find members? When you meet, do you understand where to focus? Or do you get sidetracked with unnecessary details? Join us on Tuesday, September 19, at 2 pm Eastern for a 30-minute webinar with ECF's endowment experts to consider how to have meetings that matter. We will address key features of effective endowment or investment committees and consider how to avoid common committee pitfalls. You will leave ready to invigorate your committee this fall.

Join ECF's endowment experts for a 30-minute webinar:

**Tuesday, September 19 at 2 pm Eastern**

[Click here to REGISTER](#)



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### *Year-End Giving: Tools & Tactics*

For many individuals, making year-end charitable gifts is a time-honored tradition. Nearly one third of annual giving occurs in December, with 12% happening in the last three days of the year. Is your faith community ready to promote year-end giving to its donors?

In this 30-minute webinar, members of the Episcopal Church Foundation's Endowment Management team will share tips, tactics, and turnkey tools to help local leaders mount a successful push for year-end gifts that will make a lasting impact on mission and ministry in 2024 and beyond!

**Tuesday, October 17 at 2 pm Eastern**

[Click here to REGISTER](#)