ORION OCIO

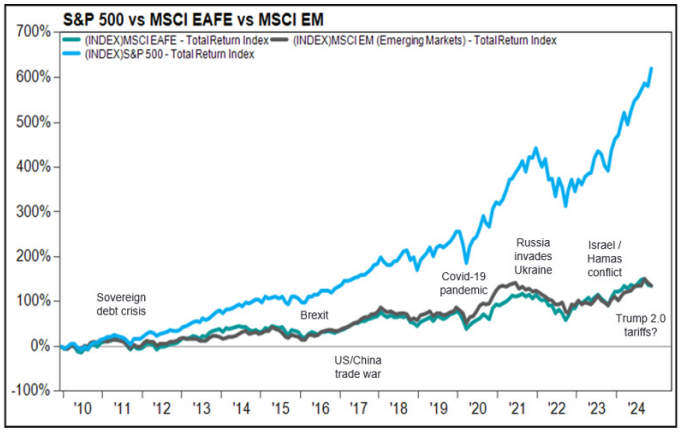
FEBRUARY 10, 2025

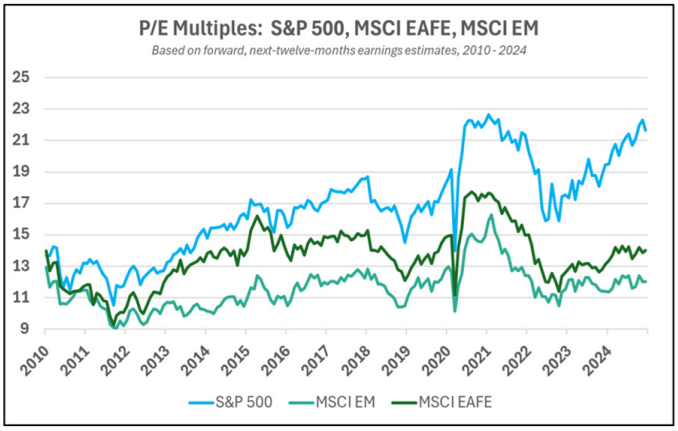
Weekly Note

Orion OCIO On What Wall Street Is Wondering About, Worrying Over, Or Wishing For This Week...

What Lights A Fire Under The Rest Of The World?

- It's been a rough run for international stocks; buffeted by the European Sovereign Debt Crisis, Brexit, the US / China trade war and generally lackluster economic performance around the world, the MSCI EAFE Index and the MSCI EM Index have gained 100% since 2010. Over that period, aided by the Magnificent 7, a robust policy response to the Covid-19 pandemic and generally above trend US economic performance, the S&P 500 has returned 600% (see chart, lower left).
- The degree and duration of the performance disparity between our markets and the rest of the world have more than a few clients wondering if it is time to abandon foreign stocks. We share our clients' frustration with the relative and absolute returns from international equities and would point out that Orion has a structural bias to US stocks and has been overweight our markets for some time now...but we are not ready to give up on the rest of the world just yet.
- First, there are the diversification benefits of owning ex-US stocks; then there is the issue of valuation....while valuation in and of itself is not a reason to purchase an investment, consider that the S&P 500 trades at about 22x earnings while the MSCI EAFE Index and the MSCI EM Index trade at about 14x and 12x earnings (see chart, lower right); finally, there is fiscal, regulatory and trade policy through a second Presidential term for Donald Trump...we wonder, and we admit it is pure speculation, if the US assumes a pro-growth fiscal and regulatory policy posture (think lower tax rates and more deference to the private sector) and an adversarial trade policy posture (think higher tariffs), if that proves the catalyst for other countries to undertake economic reforms that will unlock the value in their respective stocks markets. It is a potentiality we think about often.
- And we would note that year to date, the MSCI EAFE Index is up 6%, nearly double the return of the S&P 500.





Source: FactSet January, 2025

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The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

The MSCI Emerging Markets (or EM) Index is an index which tracks performance of international equity securities in developed countries in Europe, Australia, Asia, and the Far East, excluding the U.S. and Canada.

The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East.

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