



Midyear Outlook: Earnings Buoy Case for International Equities

June 17, 2026

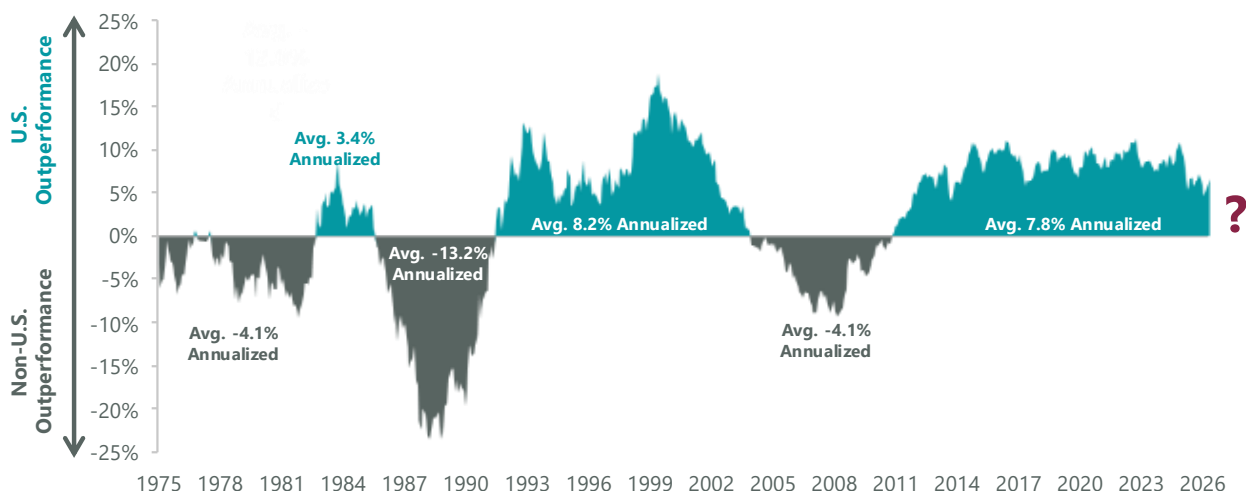
Key Takeaways

- ▶ Earnings revisions outside the U.S., particularly in emerging markets, have moved materially higher; earnings momentum is often a key driver of sustained market outperformance.
- ▶ International markets generally offer greater exposure to cyclical sectors such as financials, industrials, energy and materials, which may benefit in an environment of firmer inflation, higher nominal growth or rising fiscal support outside the U.S.
- ▶ A recovery in Chinese consumer demand and the continued democratization of AI are other potential catalysts that could support structural growth and diversification as market leadership continues to broaden.

Ingredients in Place for Durable Leadership

After a long stretch of U.S. market leadership, the case for international equities is becoming more apparent. Recent performance has already started to reflect that shift, with international developed and emerging markets outperforming the U.S. in 2025 and EM continuing to lead year-to-date. However, we believe this opportunity extends beyond a short-term rebound. Improving earnings expectations, attractive relative valuations and a broader set of macro catalysts suggest non-U.S. equities may be entering a more durable period of leadership.

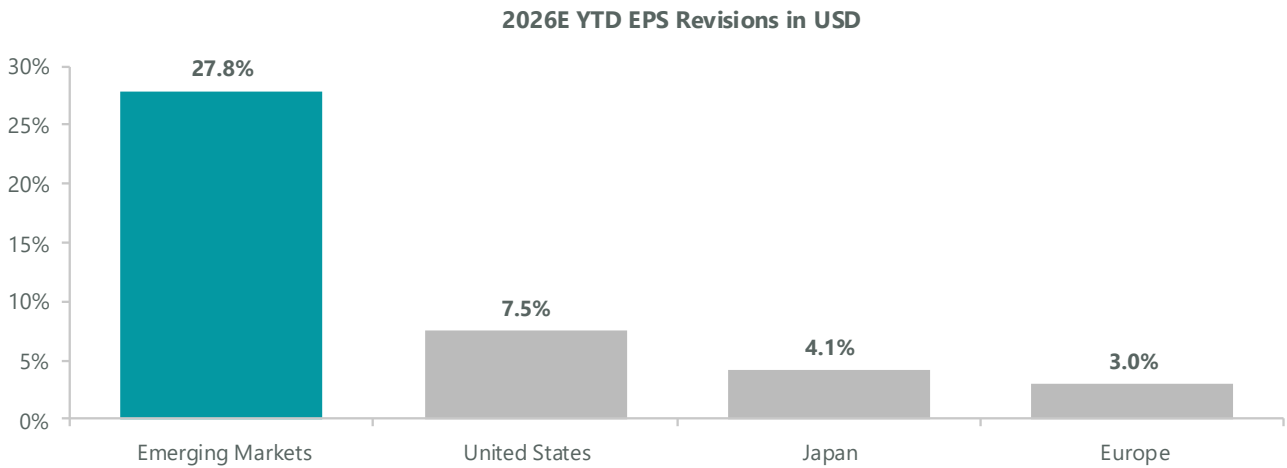
Exhibit 1: Could Turning Point Be Near for Non-U.S. Leadership?



Note: Price return. Data shows rolling five-year annualized performance differential between S&P 500 and MSCI ACWI ex-US indexes. Data as of May 1, 2026. Sources: Macrobond, S&P, MSCI. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

One reason for that optimism is the earnings backdrop, particularly in emerging markets. Earnings revisions for the MSCI Emerging Markets Index have moved materially higher, outpacing the improvement seen in the U.S., Europe and Japan. That matters because earnings momentum is often a key driver of sustained market outperformance. In our view, emerging markets remain well positioned to benefit from continued demand tied to the AI buildout, and particularly the companies and countries providing the infrastructure, components and power needed to support that expansion.

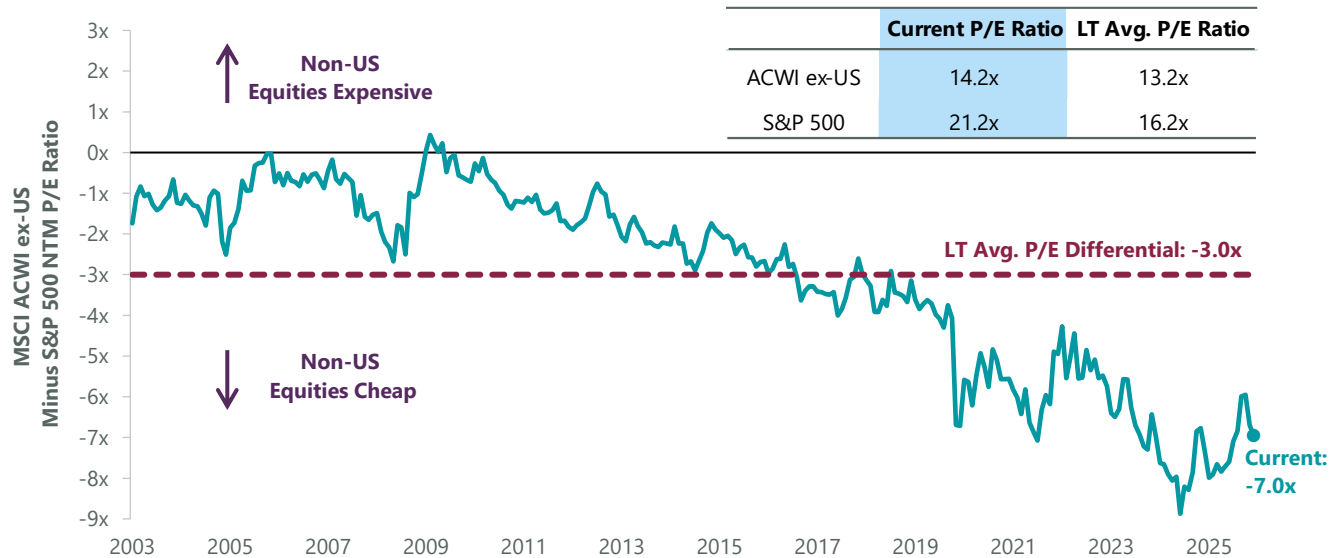
Exhibit 2: Emerging Markets Seeing Positive Earnings Revisions



Japan represented by the MSCI Japan index, Europe represented by the MSCI Europe index, Emerging Markets represented by the MSCI Emerging Markets index, and United States represented by the MSCI USA index. Data as of June 17, 2026. Sources: FactSet, MSCI.

Valuations further strengthen the argument. Even after recent gains, the discount between U.S. and non-U.S. markets remains historically wide, leaving room for further upside if fundamentals continue to improve. A softer U.S. dollar would add another tailwind, as dollar weakness has historically supported non-U.S. equity returns by easing financial conditions and improving capital flows into overseas markets. If monetary policy in the U.S. becomes more accommodative and long-term rates move lower due to a durable resolution in the Middle East, that combination could provide additional support for international equities broadly.

Exhibit 3: Global Valuations Remain Attractive



As of May 29, 2026. Sources: FactSet, MSCI, S&P.

Beyond the near term, several structural forces could help make this cycle more durable than prior periods of non-U.S. outperformance. International markets generally offer greater exposure to cyclical sectors such as financials, industrials, energy and materials, which may benefit in an environment of firmer inflation, higher nominal growth or rising fiscal support outside the U.S. A commodity upcycle tied to data center construction, grid modernization and renewable energy investment could also disproportionately benefit many international and emerging economies, particularly those with meaningful metals and resource exposure.

There are other potential catalysts as well. A recovery in Chinese consumer demand would have meaningful spillover effects across global supply chains and regional equity markets. At the same time, the continued democratization of AI could improve productivity and reduce costs for companies outside the U.S., broadening the benefits of technological innovation beyond a narrow group of mega cap winners. Taken together, these trends suggest international equities may offer investors a combination of cyclical upside, structural growth and diversification at a time when market leadership may be starting to broaden.

The opportunity in international equities is no longer just about valuation support or mean reversion. It is increasingly supported by improving earnings, favorable macro conditions and multiple pathways to broader market leadership.

About the Author



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- 21 years of investment industry experience
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