

ASSET MANAGEMENT VIEWPOINTS

CARY STREET
PARTNERS

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European Resurgence

For most of the last decade, U.S. equities have outperformed their overseas counterparts. In a reversal of that trend, since the onset of 2025, international markets have significantly outperformed. This is especially true of developed markets, most of which are in Europe. Through March 7th, the EAFE index of developed markets has gained 10.66% YTD. The EAFE (European, Australasia, and the Far East Index) includes Asian markets, notably Japan. Europe alone has gained 14.92%. Emerging markets have not been totally left out, with MSCI Emerging Markets gaining 5.28%, led by China, up over 20%. This compares to the S&P 500 Index and Russell 1000 Index, which have lost 1.66% and 1.83% over the same period.

Several factors are driving this outperformance. On a macro level, Europe, particularly Germany, is pivoting toward a policy of infrastructure and defense investment. There are also proposals within the European Union to unify capital markets more effectively, a long-standing structural weakness in Europe. Most important from a fundamental investor perspective are increasing earnings expectations on the continent, some related to the defense sector anticipating greater investment, some coming on financials upgrading forecast. A lot of non-U.S. outperformance going forward will depend on European financials versus U.S. technology. Those sectors are heavyweights within their respective indexes.

MSCI ACWI vs. MSCI USA

12/31/2024 to 3/8/2025	MSCI ACWI Ex. USA		MSCI USA	
	Portfolio Weight	Total Return	Portfolio Weight	Bench. Total Return
Total	100.00	8.23	100.00	-1.80
Financials	23.80	10.47	13.66	1.13
Consumer Discretionary	11.18	10.06	11.22	-10.02
Information Technology	12.95	1.57	31.31	-7.49
Industrials	13.75	10.56	8.47	1.79
Communication Services	5.91	15.09	9.63	-0.28
Materials	6.27	9.72	2.10	4.59
Consumer Staples	6.58	8.03	5.43	6.40
Utilities	2.88	4.39	2.26	2.20
Energy	4.84	2.01	3.33	2.06
Real Estate	1.70	2.53	2.18	4.60
Health Care	8.85	8.53	10.41	8.19

Source: John Hancock, FactSet

Earnings expectations for the S&P 500 currently sit at around 12% in 2025, outdistancing EAFE, which has current expectations of about 8%. That said, EAFE expectations have been rising, while S&P

earnings expectations may be poised to diminish because of tariff imposition. Emerging market expectations are also robust at about 13% growth.

Our viewpoint is one in which international diversification makes sense; however, we would be wary short term given the recent strong run. The ratio of EAFE to S&P has broken out to the upside, in a long-term positive development. But there are signs of short-term exhaustion that have accompanied the move. Adding exposure on a retracement of gains or averaging into these markets would be most appropriate.

MSCI Europe Financials



Source: John Hancock, FactSet

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The MSCI EAFE Index is a stock market index that measures the performance of large- and mid-cap companies across 21 developed markets countries around the world. Canada and the USA are not included. EAFE is an acronym that stands for Europe, Australasia, and the Far East.

The MSCI Emerging Markets is a global stock market index that tracks the performance of large and mid-cap companies across 24 emerging markets. It is maintained by MSCI, formerly Morgan Stanley Capital International, and is used as a common benchmark for global emerging market stock funds.

The Standard & Poor's (S&P) 500 Index is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.

The Russell 1000® Index measures the performance of the large-cap segment of the US equity universe. It includes approximately 1,000 largest US stocks, representing 93% of investable US equities by market capitalization. CSP2025052