

## International Equities: A Valuation Opportunity Advisors Can Explain

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### ***A better starting point outside the U.S.***

For many advisory practices, international equities have been a difficult allocation to defend over the past decade. U.S. markets have dominated performance, and clients naturally question why they should maintain exposure abroad.

Today, the conversation is changing.

Within the MSCI ACWI ex-USA universe, several of the valuation dimensions embedded in Ativo's proprietary factor framework are screening near historically inexpensive levels. In simple terms, much of the skepticism toward non-U.S. markets appears already reflected in prices. For advisors, that matters. Starting valuation is one of the few variables that has consistently influenced long-term return outcomes

### ***What these valuation measures actually represent***

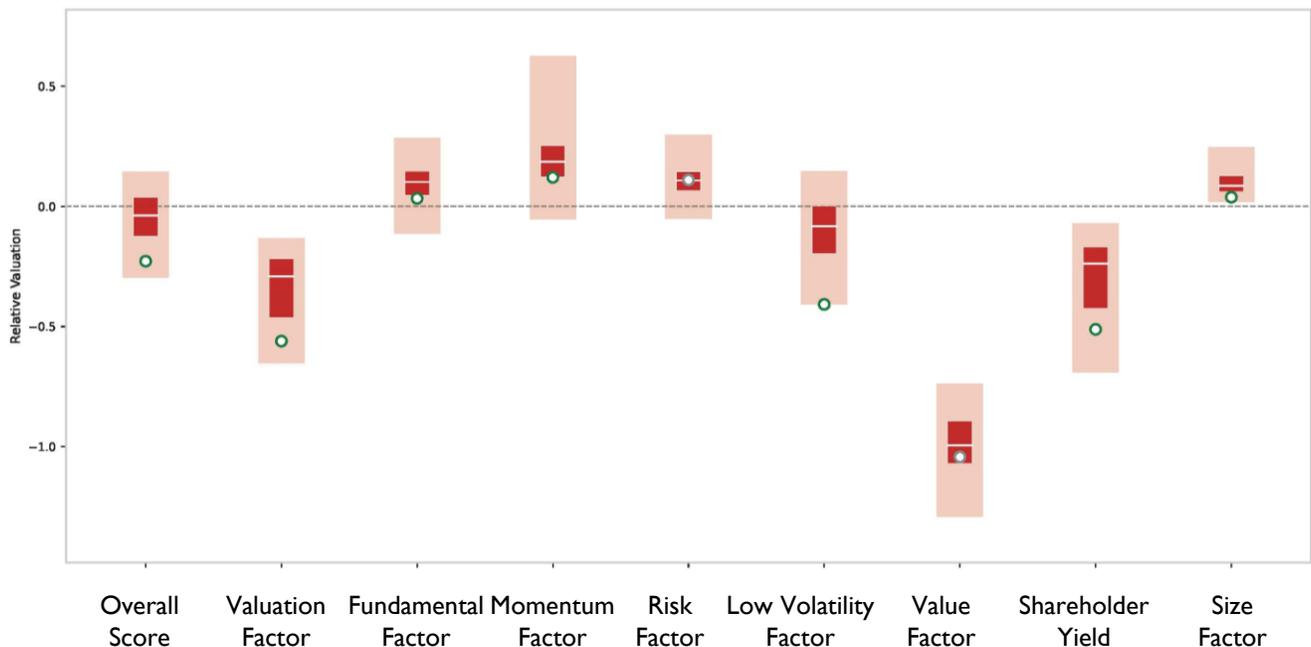
The analysis evaluates valuation conditions across multiple components of the Ativo Attractiveness Score — our internally developed multi-factor framework.

These are not off-the-shelf “value” or “momentum” factors. They are proprietary definitions grounded in:

- Intrinsic valuation using our DCFROI methodology
- Shareholder yield and capital efficiency
- Operating momentum and earnings trends
- Price behavior and sentiment
- Risk and volatility characteristics

When we review the current distributions relative to history, several of these measures are positioned toward the inexpensive end of their long-term ranges.

## Relative Factor Valuations – ACWI ex USA



Ativo Equity Factor Valuations as-of 02/28/2026\*

For advisors, this provides something concrete to discuss with clients: international equities are not simply “lagging” — they are priced more conservatively across multiple economic dimensions.

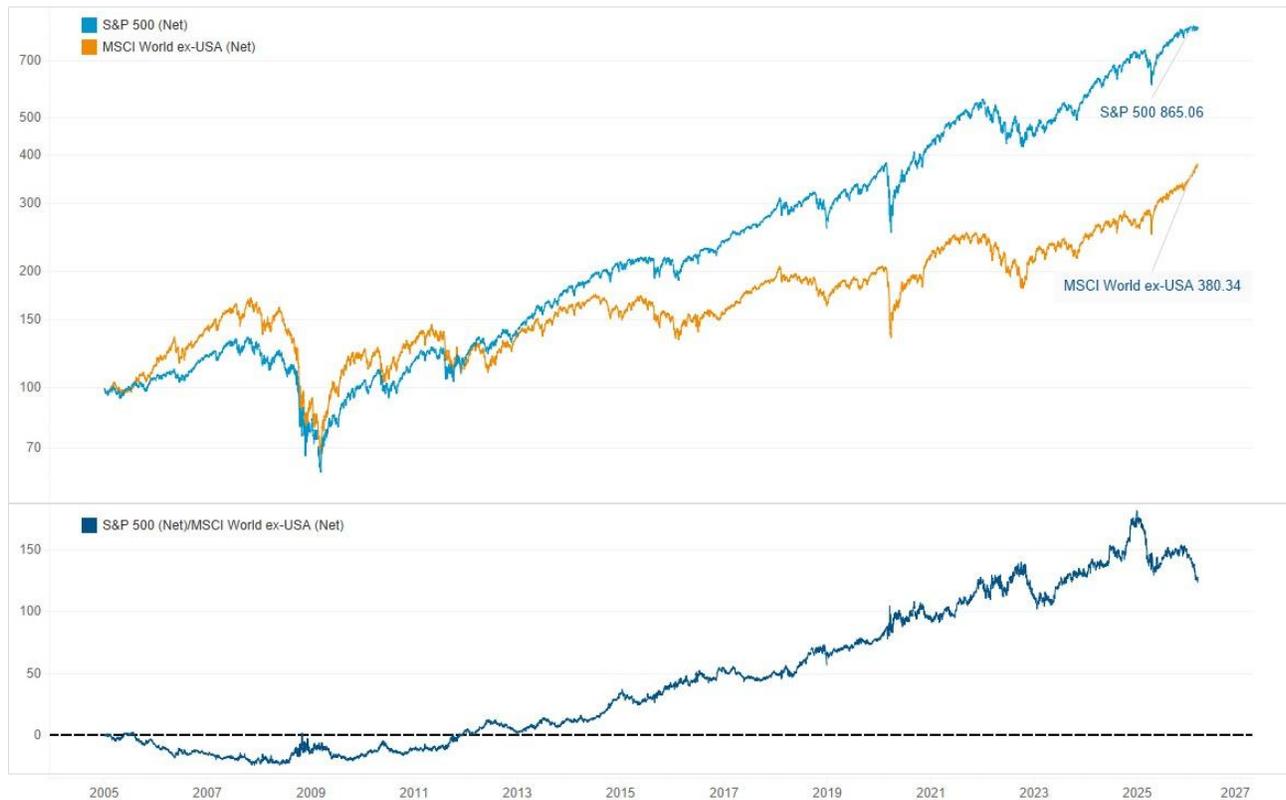
### **Why this matters in client portfolios**

Valuation is not a timing tool. International markets can remain out of favor for extended periods. Historically, lower starting valuations have been associated with improved long-term return distributions, although this relationship is not guaranteed and may not persist. When expectations are muted and pricing reflects caution, the return distribution becomes more balanced.

From a portfolio construction perspective, this creates three potential benefits:

- Improved diversification relative to concentrated U.S. exposure
- More attractive entry valuations across multiple internally defined factors
- Room for upside if sentiment stabilizes or capital rotates

For advisors managing client expectations, the message is not that international markets will outperform next quarter. The message is that the risk-reward balance appears more constructive than it has been in years.



S&P 500 vs MSCI World ex-USA daily performance shown 1/3/2005-01/31/2026  
(Normalized as of 01/03/2005)\*\*

### ***Relative performance: how stretched is the gap?***

The valuation backdrop becomes even more compelling when viewed in the context of the long-term performance gap between U.S. and international markets. The chart above provides important historical context for today’s international opportunity set.

The top panel compares the total return level of the S&P 500 to the MSCI World ex-USA since the early 2000s. The divergence since 2010 is clear. U.S. equities have compounded at a meaningfully faster pace, particularly over the past decade.

The bottom panel shows the ratio of S&P 500 total return to MSCI World ex-USA total return. That ratio has trended steadily higher and is now near the upper end of its historical range.

In practical terms, this means U.S. outperformance relative to international markets has been persistent and cumulative. Periods of such sustained leadership are uncommon and typically coincide with wider relative valuation spreads. Extended performance gaps often reinforce valuation dispersion, as capital flows follow momentum and compress relative pricing differences. Over time, this dynamic can create more attractive forward return distributions for the lagging region.

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None of this diminishes the structural strengths of U.S. companies. However, when leadership becomes concentrated and prolonged, diversification benefits often increase at the margin.

For advisors, this chart supports three important client conversations:

**Concentration risk has increased.**

The relative performance gap reflects not just U.S. strength, but growing dependence on a narrower set of companies and sectors.

**Leadership cycles do change.**

History shows that extended periods of relative dominance are often followed by periods of mean reversion, even if the timing is unpredictable.

**Valuation and relative performance are connected.**

When one region significantly outperforms for a prolonged period, relative pricing differences tend to widen. That widening can improve the forward return distribution for the lagging region.

This does not imply that U.S. markets are poised for imminent underperformance, nor that international markets will immediately reverse the trend. Our process does not rely on forecasting turning points.

However, when viewed alongside the factor valuation data discussed earlier, the relative performance chart reinforces a broader point: international equities are entering this period from a more conservative pricing base, while U.S. equities are coming off an extended cycle of relative strength.

For portfolio construction, that combination improves the case for maintaining or thoughtfully increasing international exposure within a disciplined, process-driven framework.

***A differentiated international allocation***

Many international allocations today are broad, benchmark-like exposures with limited active differentiation. That can make it difficult for advisors to explain positioning or defend performance.

- We are not buying regions.
- We are identifying mispriced companies.
- We are focusing on economic reality rather than headline multiples.

A disciplined, factor-driven approach rooted in capital efficiency provides a clearer narrative: That clarity can strengthen client conversations around why international exposure exists in the portfolio and what role it plays.

### ***The advisor takeaway***

International equities remain diverse and cyclical. Policy, currency, and geopolitical variables will continue to create volatility.

What is observable today is valuation.

Across several dimensions of Ativo's proprietary framework, ACWI ex-USA equities are screening toward historically inexpensive levels. For long-term investors, that represents a more favorable starting point than the environment advisors have had to defend in recent years.

For practices seeking differentiated international exposure backed by a repeatable process, the current backdrop may provide both an investment opportunity and a compelling client narrative.

#### **\* Factor Valuation Charts**

This chart shows whether different investment factors currently look cheap or expensive compared with their own history.

To measure this, we sort stocks based on how strongly they exhibit a particular characteristic, such as value, momentum, or size. We then compare the typical valuations of stocks with the strongest exposure to that factor to those with the weakest exposure. If stocks with high exposure to a factor are trading at much higher prices than those with low exposure, the factor is considered expensive; if the difference is small, the factor is considered inexpensive.

The shape of each distribution shows how that factor's valuation has varied over time, while the red dot marks the current level. When the dot appears near the lower part of the distribution, the factor is relatively inexpensive compared with its history. When it appears near the top, the factor is relatively expensive.

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## ABOUT ATIVO

Ativo Capital Management, LLC is an investment advisor focused on delivering both top-quartile performance and exceptional service to clients. We follow a rules-based process utilizing quantitative methodologies to build long-only equity portfolios with high active share. We invest globally with an emphasis on international markets. Central to our approach is a proprietary multi-factor model that scores stocks based on our assessment of their intrinsic value and other internally developed factors, which have low correlation with one another over time.

Ativo is registered with the U.S. Securities and Exchange commission. Registration with the SEC does not imply a certain level of skill or training.

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\*\* The S&P 500 Index is widely recognized index representing large-capitalization U.S. equities. The MSCI ACWI ex-USA Index represents equity market performance across developed and emerging markets outside of the United States. Indices are unmanaged and cannot be invested in directly. Market data referenced in this material is obtained from third-party sources believed to be reliable; however, accuracy and completeness cannot be guaranteed. Data show reflects conditions as of February 28, 2026, unless otherwise noted.