Verus Market Note

Is the *international equity outperformance* story a mirage?

The investor rotation out of U.S. stocks and into international stocks has been a big story in 2025, regularly capturing headlines. Some have pointed to an increasingly attractive market environment in regions such as the European Union, which has chosen a path of fiscal stimulus, greater defense spending, and loosening of debt restrictions. Others believe this rotation is occurring because of a 'buyer's strike', whereby international institutions are dumping U.S. assets in protest of Trump administration trade policies and placing those funds into local asset markets.

In this week's Market Note, we illustrate that much of this story seems to be a mirage. It is foreign currency fluctuations that have contributed nearly all of the outperformance of non-U.S. equities relative to the U.S. market, rather than underlying equity market performance[1]. If these currency movements are removed, it is apparent that U.S. equities only slightly lagged in 2025 and outperformed materially over the past year.

Including currency market movements

Equity Market	Since January 1st	Past 1 year
S&P 500	6.2%	14.9%
MSCI EAFE	19.4%	17.5%
MSCI EM	15.3%	15.1%

Excluding currency market movements

Equity Market	Since January 1st	Past 1 year
S&P 500	6.2%	14.9%
MSCI EAFE	7.8%	7.6%
MSCI EM	10.8%	12.6%

If the effects of foreign currency movements are removed from performance, we see the U.S. equity market has only modestly under-performed in 2025, and has materially out-performed over the past year

Source: Verus, Bloomberg, as of 6/30/25 – 'Including currency' figures above are the currency unhedged figures that most investors are accustomed to seeing in performance reports and elsewhere. 'Excluding currency' figures show the actual equity performance of international equity markets from the standpoint of a local investor.

[1]Most U.S. investors choose not to hedge the foreign currency risk of their international investments that are denominated in foreign currencies. This means that as those foreign currencies move down or up in value, the U.S. investor experiences a commensurate loss or gain in the performance of their international investments. In recent years, these foreign currency losses or gains have often been larger than the underlying performance of their investments.