

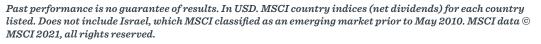
Which Country Will Outperform? Here's Why It Shouldn't Matter.

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Investment opportunities exist all around the globe, but the randomness of global stock returns makes it exceedingly difficult to figure out which markets are likely to be outperformers. How should investors deal with this kind of uncertainty?

First, they should remember that it's challenging, at best, to predict a country's returns by looking at the past, as shown by the performance of global markets since 2001 (see **Exhibit 1**). In the past 20 years, annual returns in 22 developed markets varied widely from year to year. (Each color represents a different country, and each column is sorted top down, from the highest-performing country to the lowest.)

HIGH	NZL	NZL	SWE	AUT	CAN	ESP	FIN	JPN	NOR	SWE	IRL	BEL	FIN	USA	DNK	CAN	AUT	FIN	NZL	DNK
LOW	AUS	AUT	DEU	NOR	JPN	PRT	HKG	CHE	AUS	DNK	NZL	DNK	IRL	NZL	IRL	NZL	HKG	NZL	IRL	NLD
	IRL	AUS	ESP	BEL	AUT	IRL	DEU	USA	SGP	HKG	USA	SGP	USA	DNK	BEL	NOR	SGP	USA	CHE	SWE
	AUT	NOR	AUT	IRL	DNK	SGP	NOR	ESP	SWE	SGP	GBR	DEU	DEU	HKG	JPN	AUS	DNK	НКG	NLD	USA
	BEL	ITA	NZL	SWE	NOR	NOR	CAN	FRA	HKG	CAN	CHE	NZL	ESP	BEL	AUT	AUT	NLD	NOR	USA	FIN
	ESP	JPN	CAN	NZL	FIN	SWE	SGP	CAN	BEL	JPN	NOR	HKG	NLD	SGP	ITA	USA	FRA	CHE	DNK	NZL
	NOR	CHE	AUS	ITA	CHE	DNK	AUS	DEU	CAN	USA	BEL	AUT	BEL	IRL	FIN	FRA	ITA	SGP	CAN	IRL
	USA	SGP	DNK	DNK	AUS	BEL	DNK	SGP	NZL	AUS	AUS	AUS	JPN	CAN	NLD	NLD	NOR	PRT	ITA	JPN
	GBR	CAN	NOR	AUS	SGP	AUT	PRT	DNK	ESP	CHE	NLD	SWE	CHE	CHE	PRT	PRT	DEU	AUS	FRA	PRT
	DNK	PRT	IRL	ESP	NLD	DEU	ESP	NLD	GBR	NOR	ESP	FRA	FRA	FIN	USA	DEU	ESP	FRA	PRT	CHE
	HKG	BEL	PRT	НКG	SWE	FRA	NLD	GBR	AUT	FIN	CAN	NLD	DNK	AUS	CHE	JPN	JPN	JPN	AUS	DEU
	CAN	GBR	FRA	PRT	DEU	ITA	FRA	SWE	NLD	AUT	JPN	CHE	SWE	NLD	FRA	HKG	PRT	NLD	SWE	AUS
	CHE	ESP	HKG	SGP	FRA	NLD	NZL	ITA	PRT	GBR	SWE	NOR	GBR	JPN	HKG	SGP	CHE	SWE	GBR	НКG
	PRT	DNK	ITA	CAN	BEL	AUS	GBR	AUS	DNK	DEU	DNK	USA	ITA	ESP	DEU	SWE	FIN	GBR	DEU	CAN
	NLD	нкд	SGP	GBR	HKG	GBR	ITA	НКG	FRA	NZL	НКG	GBR	AUT	GBR	SWE	GBR	GBR	DNK	BEL	FRA
	FRA	NLD	JPN	FRA	GBR	нкд	USA	PRT	ITA	NLD	FRA	FIN	NZL	SWE	NZL	ESP	USA	ESP	JPN	ITA
	DEU	FRA	BEL	DEU	USA	FIN	CHE	NZL	USA	BEL	SGP	ITA	НКG	ITA	GBR	FIN	SWE	CAN	SGP	NOR
	SGP	USA	CHE	JPN	ESP	СНЕ	AUT	FIN	CHE	FRA	DEU	CAN	PRT	FRA	AUS	CHE	AUS	ITA	AUT	AUT
	ITA	IRL	GBR	СНЕ	ITA	CAN	SWE	NOR	DEU	PRT	PRT	JPN	NOR	DEU	NOR	IRL	BEL	DEU	ESP	ESP
	SWE	FIN	USA	NLD	NZL	NZL	BEL	BEL	IRL	ITA	ITA	IRL	CAN	NOR	ESP	BEL	IRL	IRL	NOR	SGP
	JPN	SWE	NLD	USA	PRT	USA	JPN	AUT	FIN	IRL	FIN	PRT	AUS	AUT	SGP	ITA	CAN	BEL	HKG	BEL
	FIN	DEU	FIN	FIN	IRL	JPN	IRL	IRL	JPN	ESP	AUT	ESP	SGP	PRT	CAN	DNK	NZL	AUT	FIN	GBR
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		IZED RE		•						Mathematica de							DDT			
	DNK Denmark 11.7 NZL New Zealand 11.5				CHE			6.7 6.6	NLD DEU			6.0 4.7	6.0 JPN Japan 4.7 GBR United Kingdom			3.7 n 3.3	PRT Portugal ITA Italy			0.7 0.6
		Australia		0.3	SWE	Sweden		6.5	AUT	Austria	.,	4.4	BEL		5	3.1				2.0
	HKG	Hong Kon	g 7	.4	SGP	Singapo	re	6.3	FRA	France		3.9	FIN			0.7				
	USA	USA United States 7.0				Canada		6.1	ESP	Spain		3.8	3.8 IRL Ireland			0.7				



Two examples help make the point well:

• Austria posted the highest developed markets return in 2017—but the lowest the next year.

• The US ranked in the top five for annualized returns over the entire 20 years but finished first in the country rankings just once over that period. In nine calendar years, it was in the lower half of performers.

Investors can benefit from understanding that they don't need to predict which countries

Exhibit 1

Most Favored Nations

will deliver the best returns during the next quarter, next year, or next five years. Why? Holding equities from markets around the world—as opposed to those of a few countries or just one—positions investors to potentially capture higher returns where they appear, and outperformance in one market can help offset lower returns elsewhere. Put another way, a globally diversified portfolio can help provide more reliable outcomes over time.

Diversification neither assures a profit nor guarantees against loss in a declining market.

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