

PLAYING ON A GLOBAL STAGE:

The Case for International Diversification



The 2026 FIFA World Cup features a record 48 teams from six continents, with matches held across the United States, Canada, and Mexico. Billions of viewers from around the world will tune in as passionate fans cheer on their national teams, all hoping to lift the coveted World Cup trophy after the final match is played.

The winner, of course, is not known in advance. That's the magic of the World Cup — and investing, where the same uncertainty applies. Diversification is important because the future is impossible to predict.

After more than a decade of U.S. dominance, it's tempting to bench international exposure entirely but complacency is often a late-game mistake. The strongest World Cup teams aren't built around a single country's stars; they rely on depth across positions and playing styles. A resilient portfolio is built the same way, with the right mix of complementary exposures positioned to perform across a range of conditions. That's the case we make throughout this commentary.



The World Cup is expected to generate more than \$13 billion in revenue, highlighting the economic scale of global consumer demand and international tourism.

“The best talent isn't all on one team.” Just like the World Cup showcases stars from every continent, global markets spread opportunity far beyond the U.S.

“Homefield advantage is real, but limited.” Fans love their home team, but global competition is where the real upside lies. Same with portfolios.



Since 1962, no nation has won back-to-back World Cups. Similarly, sustained market leadership across standard business cycles is historically uncommon.

“A single style can't win every tournament.” Teams with different tactics succeed in different eras — just as varied economic models shine under different global conditions.



The 2026 World Cup will span 3 countries, 16 host cities, 48 teams, and 104 matches, reflecting the increasingly interconnected nature of the global economy.



No Place Like Home

The home crowd advantage is very real in soccer, with host nations typically over-performing come tournament time. Similarly, since the Great Financial Crisis (GFC) low in 2009, U.S. equities have delivered exceptionally strong returns. Through April 2026, the S&P 500 has a total return of roughly 1,370% despite two bear markets, the COVID-19 recession, and several deep corrections. International equities have lagged, with the MSCI EAFE (international developed stocks) returning 480% and the MSCI Emerging Market index gaining 429%. While still respectable, international stocks haven't kept pace with the historically strong returns of U.S. large-cap equities.

Sports fans often gravitate toward either the home team or the most recent winners. Investors can fall into similar behavioral traps known as home country bias and recency bias, which are relevant for U.S. investors after nearly two decades of U.S. market outperformance. However, the strong returns since the GFC followed a "lost decade" for U.S. large cap stocks from 2000 to 2009, illustrating how leadership can shift after long periods of weakness. The S&P 500's annualized return was -0.9% over that decade, with losses magnified to -3.4% annualized after inflation. By contrast, the MSCI EAFE index held up better with annualized gains of 1.6%, while emerging markets shined with annualized returns of 10.1%.

Figure 1: Lost Decade



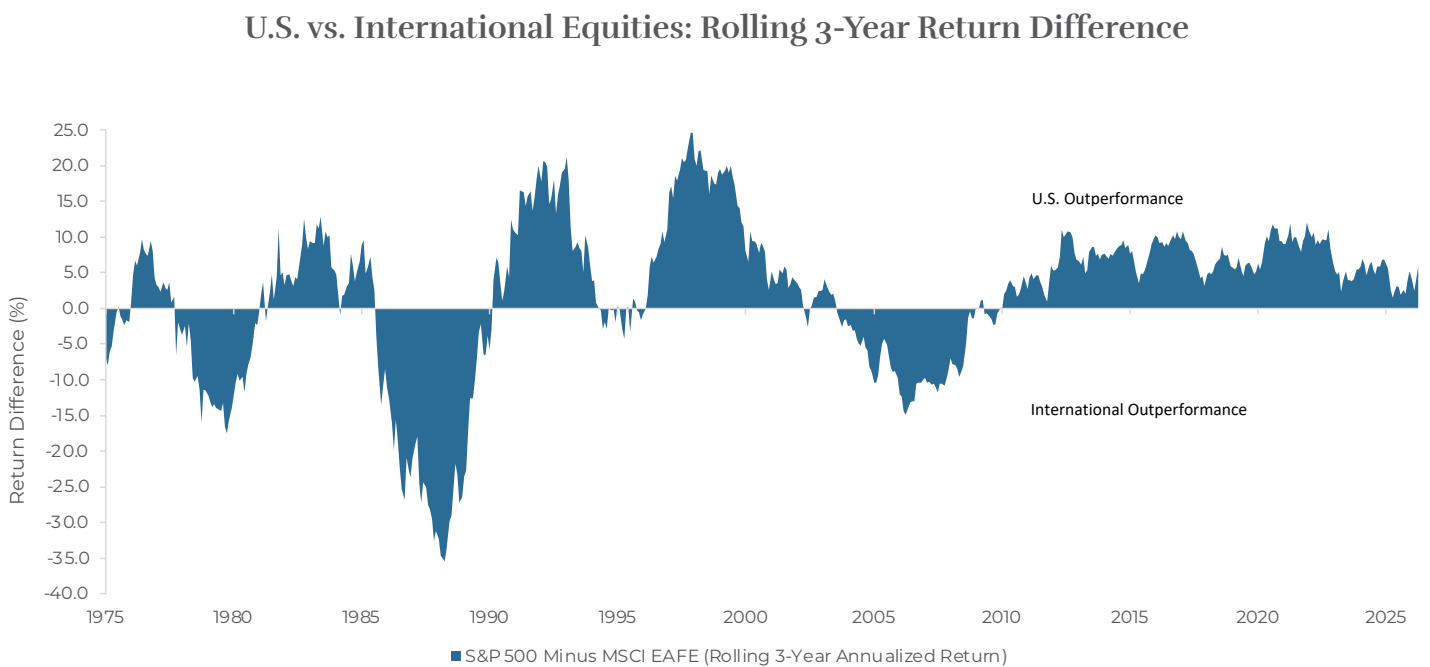
Source: Cetera Investment Management, Morningstar Direct, S&P Global, FTSE Russell, MSCI. Indexes used: S&P 500 (U.S. Large Cap), Nasdaq-100, Russell 2000 (U.S. Small Cap), MSCI EAFE (Int'l Developed), MSCI EM (Emerging Markets), MSCI ACWI ex U.S. (Global ex U.S.). Total returns used, which include dividends and interest.

We don't know in advance which markets will outperform in any given period. Concentration in the U.S., or any single country, is a significant bet on one currency, one economy, and the policy of one central bank. Even Brazil, with the most success in the World Cup, has experienced extended periods without winning, demonstrating how difficult it is to remain on top. International diversification spreads risk and return potential across regions, currencies, economies, and policy regimes. Because markets are not perfectly correlated, global diversification can help smooth out returns over the long run, as leadership shifts across regions in different environments. A well-constructed portfolio benefits from global diversification over time, rather than as a short-term allocation based on near-term conditions.

Leadership Rotates Around the Globe

The World Cup is decided over multiple rounds, and leadership typically changes from one tournament to the next. Equity market leadership follows a similar pattern, rotating between U.S. and international equities over time (**Figure 2**). While U.S. stocks have outperformed international equities across all rolling three-year periods since 2010, they lagged for much of the preceding decade. Historically, strong periods often follow weak ones. International equities led in the 1970s and 1980s, lagged in the 1990s, led again in the 2000s, and have trailed for much of the 2010s and 2020s. Investors who concentrate in one region, or try to time the leadership cycle, run the risk of being wrong — and that misjudgment compounds over time. Diversification reduces this risk.

Figure 2: Leadership Rotation

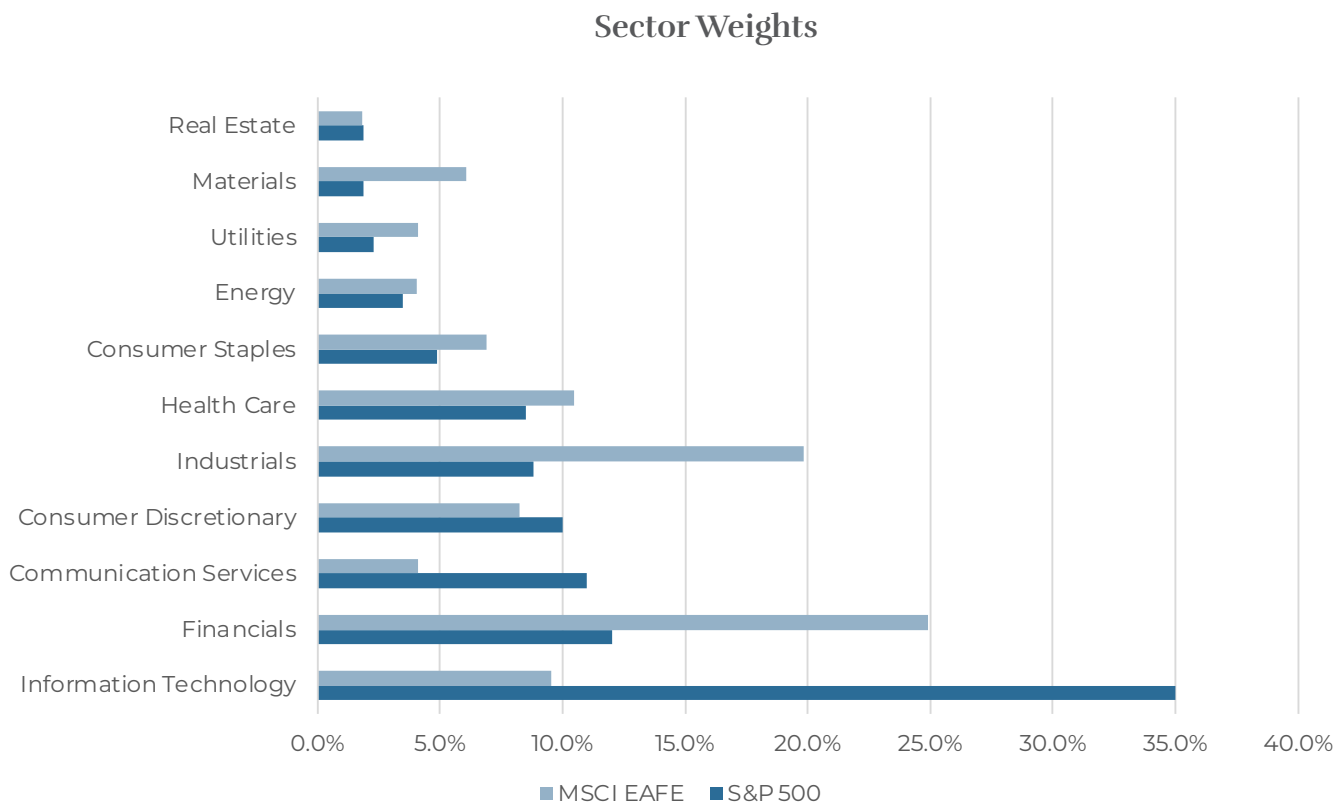


Source: Cetera Investment Management, FactSet, S&P Global, MSCI. Rolling 3-Year returns are annualized. Total return used, which includes dividends. Data as of 4/30/2026.

Leadership rotations are often driven by shifts in valuations, currency dynamics, and sector composition. The S&P 500 is heavily tilted towards growth-oriented sectors such as Technology, Consumer Discretionary, and Communication Services, which together account for more than half of the index. U.S. tech-oriented sectors have been a major contributor to returns for more than a decade and were a significant detractor from performance during the tech bubble collapse.

The S&P 500 is also heavily concentrated, with the top ten holdings currently representing 40% of the index. By contrast, the MSCI EAFE index has greater exposure to cyclical sectors like Financials and Industrials, while concentration at the top is more muted with the ten largest stocks accounting for roughly 14% of the index. These differences in underlying composition can meaningfully influence relative performance across different market environments.

Figure 3: Sector Composition Comparison

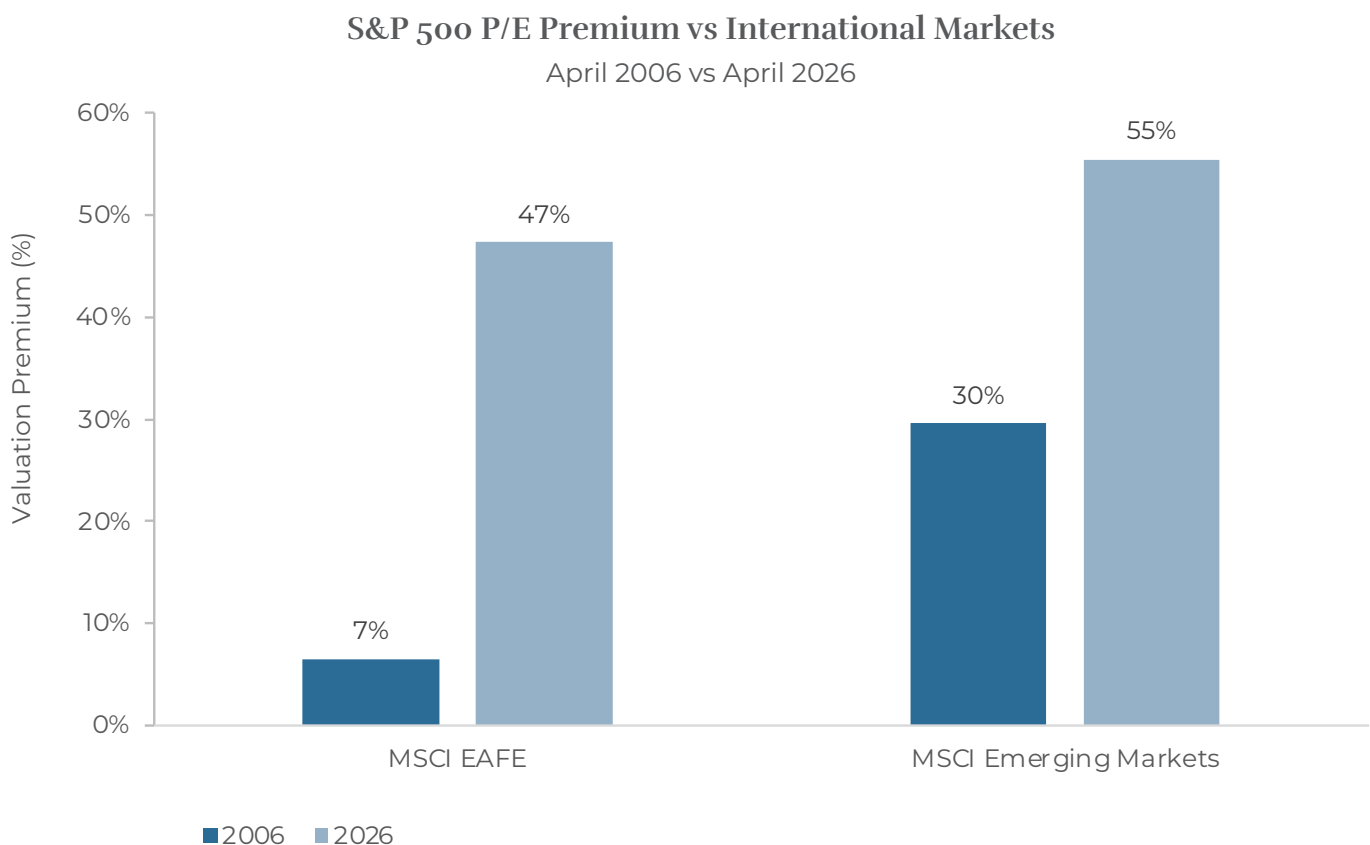


Source: Cetera Investment Management, MSCI, S&P Global. Data as of 4/30/2026.

Valuations also matter, and U.S. equities currently trade at a sizable premium relative to international markets (**Figure 4**). Shifts in market leadership have often coincided with large valuation gaps. Elevated valuations can weigh on forward returns, as seen in the aftermath of the tech bubble in 2000, which preceded the last major cycle of U.S. equity underperformance. While today's valuations aren't at levels reached at the tech bubble peak, they remain elevated by historical standards.

The S&P 500 trades at a trailing 12-month P/E ratio of 27.0, representing a 47% premium to the MSCI EAFE Index's P/E ratio of 18.3. Twenty years ago, that premium was just 7%. Similarly, the S&P 500's valuation premium relative to the MSCI Emerging Markets Index has widened from 30% to 55% over the same period.

Figure 4: Elevated U.S. Valuations



Source: Cetera Investment Management, Morningstar Direct, S&P Global, MSCI. Trailing 12-Month P/E ratio of S&P 500 relative to the MSCI EAFE Index and MSCI Emerging Markets Index for April 2006 and April 2026.

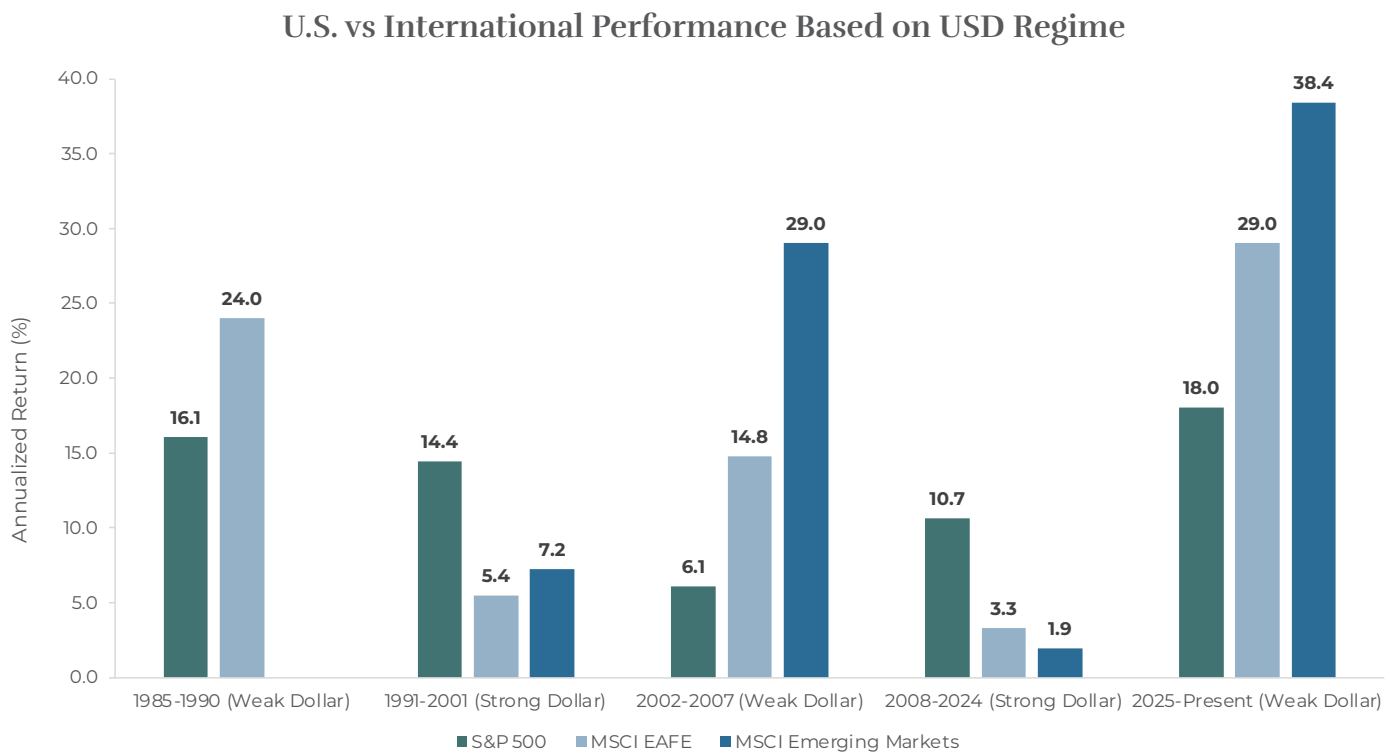
Stronger earnings growth isn't required for international outperformance. U.S. equities tend to grow earnings faster, but expectations matter. With lower starting valuations, international markets have a lower hurdle to exceed expectations relative to U.S. equities. This dynamic often plays out in the World Cup, where heavily stacked favorites do not always live up to expectations and can disappoint on the field.

Global Exchange

A key benefit of global exposure is currency diversification. While U.S. companies generate a sizable share of revenue overseas, U.S. based investors do not benefit from currency diversification by holding only domestic stocks. Investment returns traditionally come from price appreciation and income (dividends and interest), while international investments add a third driver of returns through currency movements.

During periods of U.S. dollar weakness, international equities have tended to outperform because foreign currency appreciation boosts dollar-based returns. This additional source of return cannot be replicated by holding only domestic securities.

Figure 5: The Currency Impact



Source: Cetera Investment Management, Morningstar Direct, S&P Global, MSCI. Total returns used, which include dividends. Returns are annualized. Data as of 4/30/2026.

Recent dollar weakness provides a timely example. The U.S. dollar index declined 9% in 2025 and fell more than 12% over a 13-month stretch through early 2026. Over that period, international equities had stronger returns than U.S. stocks. In 2025, both the MSCI EAFE Index and MSCI Emerging Market Index returned more than 30% versus a 17.9% gain for the S&P 500. It was only the fourth time in the last 16 years that the MSCI EAFE Index outperformed the S&P 500, and it was the widest margin of outperformance in 32 years. While it's too soon to conclude that another major rotation is underway, relative strength in international markets has emerged.

World Cup teams must qualify for the tournament by competing internationally under varying conditions. For investors, international investing can feel like playing away matches where changes in exchange rates can have a meaningful impact on returns for those based in the U.S. A prolonged period of dollar weakness could support the next phase of international outperformance. Global diversification benefits are strengthened for U.S. investors during periods of dollar weakness, particularly when valuation gaps are wide, though currency trends do not drive returns on their own. We'll look at how global equity markets are weighted in the next section.



Going Global

Roughly 96% of the world's population lives outside the U.S and nearly three-quarters of global economic activity occurs overseas based on GDP. Advances in technology and expanded global trade continue to integrate the world economy.

Much of the developed world has aging populations and slower growth trends, while many emerging markets have younger populations and more favorable demographic trends. These regional differences create varying growth paths and potential economic drivers over time, opening up additional diversification opportunities.

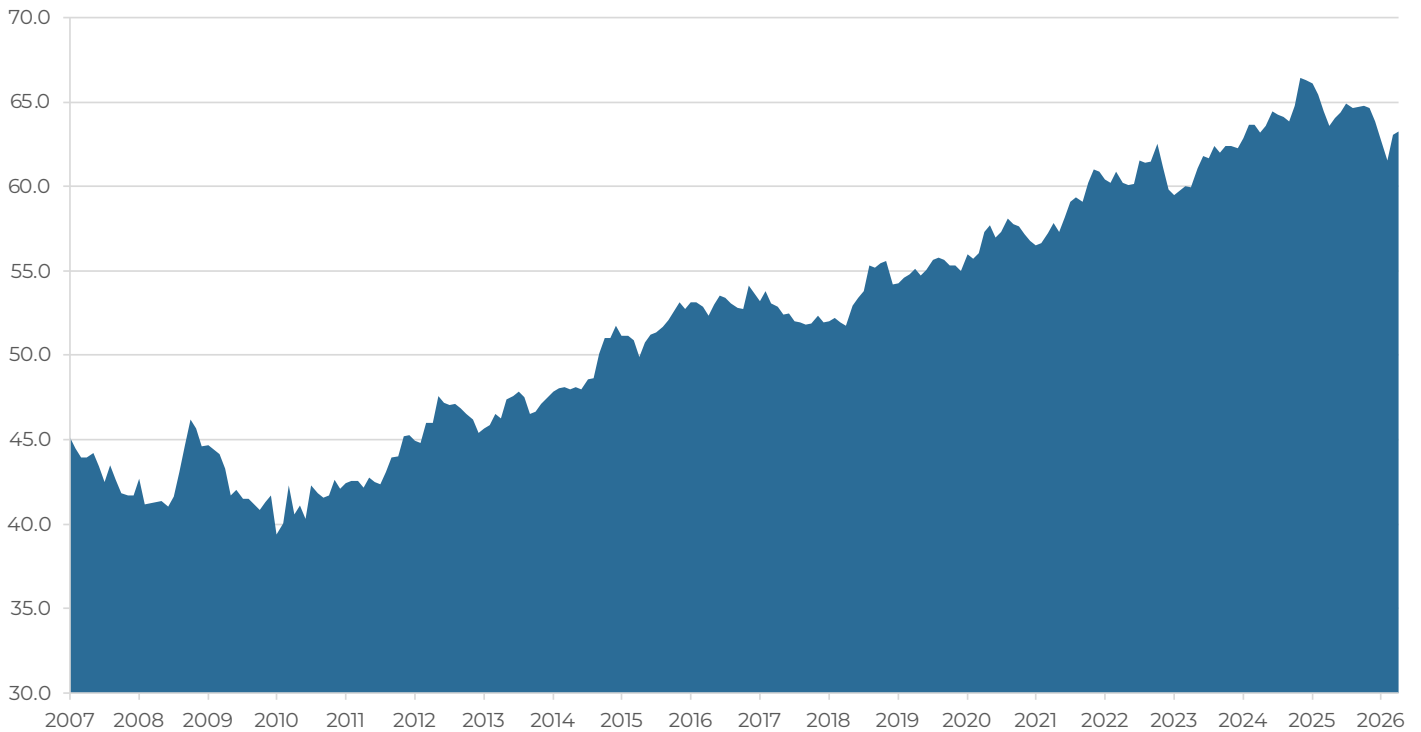
Companies within the S&P 500 generate more than 40% of their revenue internationally, and the U.S. imports more than \$3 trillion of foreign goods each year.¹ With the economy operating on a global scale, maintaining global portfolio exposure helps reflect that reality. Even the best World Cup teams don't rely on a single star player. That helps to explain why global icons like Cristiano Ronaldo (Portugal) and David Beckham (England) never won a World Cup. History also shows that World Cup success has often favored balanced teams built around depth and tactical discipline rather than individual star power; qualities that top-ranked 2026 World Cup favorites including France, Spain, and Argentina must demonstrate to win the tournament.



The MSCI All Country World Index (ACWI) is a broadly diversified global index covering roughly 85% of the investable equity universe across developed and emerging markets. Its current composition is roughly 63% U.S., 27% international developed markets, and 10% emerging markets.

Figure 6: Global Equity Exposure

MSCI All Country World Index (ACWI): U.S. Weight (%)



Source: Cetera Investment Management, Morningstar Direct, MSCI. Data as of 4/30/2026.

While every investor’s comfort level is different, there are clear diversification benefits to going global. The equity market is already diversified on a global scale, and exposure can be shifted over time without requiring extreme allocation adjustments.

The U.S. share of global equity markets has fluctuated historically, largely driven by relative performance. Today’s weighting of 63% is near the upper end of its 20-year range, compared with a low near 39% in 2010. The U.S. has been a clear leader in performance across multiple market regimes, but there have also been extended periods when leadership rotated overseas, and there is no guarantee U.S. dominance will persist. That is not our base case, but diversification exists because the future is uncertain.

The Final Whistle

Much like the World Cup, investing is global. While the U.S. is home to many of the world's largest companies, it does not have a monopoly on return potential. Markets move through cycles, and the U.S. has been the clear leader since the Great Financial Crisis.

We remain optimistic on U.S. equities, while also recognizing the diversification benefits of global investing. International exposure can complement U.S. equities, especially when conditions shift. Every World Cup brings surprises, and it's rare for a champion to repeat, like long-term market leadership. Global diversification will not maximize returns in any single period, but it can help reduce downside risk, decrease uncertainty, and widen the opportunity set over time.

Whether it's investing or the World Cup, every winning strategy begins with a great plan. Your Cetera financial professional serves as a trusted coach, helping guide allocation and investment decisions to align with your unique goals and long-term needs.



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Glossary

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is a price-weighted average of 30 U.S. blue-chip stocks traded on the New York Stock Exchange and NASDAQ. The index covers all industries except transportation, real estate and utilities.

The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index includes over 2,500 companies, spanning all 11 sector groups.

The Russell 2000 index is comprised of 2000 small-capitalization companies. It is made up of the bottom two-thirds in company size of the Russell 3000 index.

Sources:

1: U.S. Bureau of Economic Analysis (BEA). <https://www.bea.gov/sites/default/files/2026-02/trad1225.pdf>