

Time to Look Outward: The Case for Global Leadership beyond the U.S.

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Key Takeaways

- Developed international markets are trading at steep discounts to the U.S. while delivering growth driven by real earnings, not inflated valuations.
- Structural reforms in Europe and Japan are fueling a new era of innovation, productivity and competitiveness.
- With supportive monetary policies and improving fundamentals abroad, global equities are poised to take the lead from the U.S.

U.S. equities remain expensive,¹ yet investors cling to them. That home bias has paid off, but valuations now argue for looking abroad. Developed markets offer broader diversification, stronger reform-driven earnings and less expensive multiples. Ignoring them risks missing value and balance—since leadership often shifts to where expectations are lowest and fundamentals are improving.

- **Valuations and Quality of Growth**

Developed international markets are trading at meaningful valuation discounts—roughly 8 price-to-earnings points below the U.S.²—yet are delivering performance driven by earnings growth, not multiple expansion. Corporate reforms, stronger balance sheets and rising dividends make this growth potentially more sustainable and shareholder-friendly.

- **Structural Economic Shift**

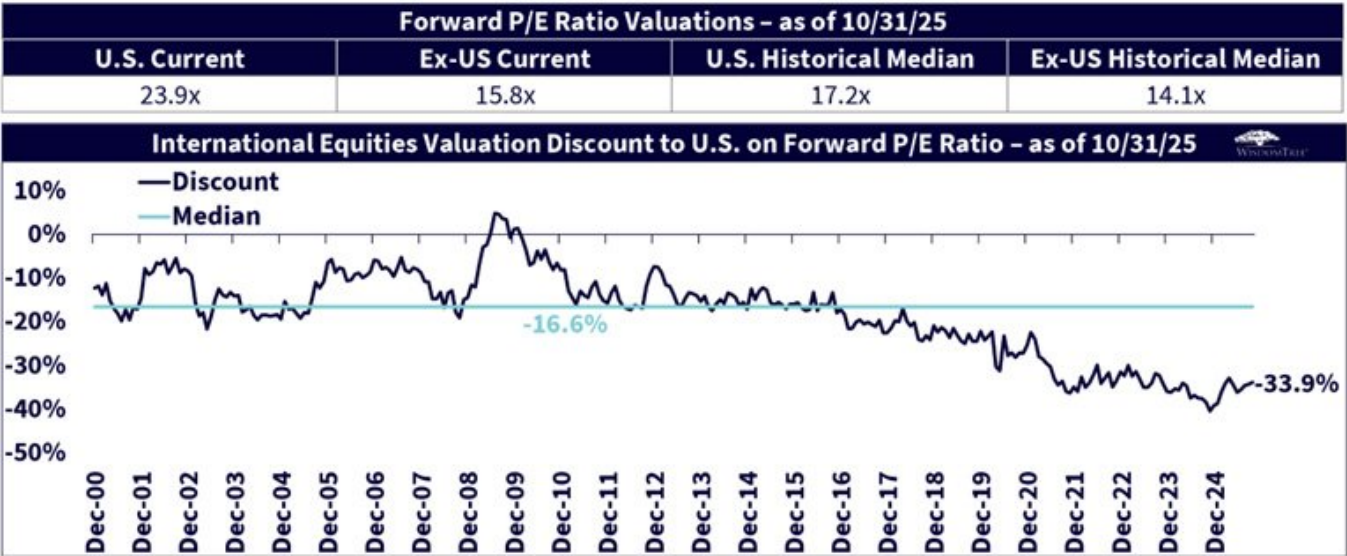
A fundamental transformation is underway across developed economies. Japan and Europe are redirecting spending toward defense, innovation and productivity—long-term growth levers absent for decades.³ These shifts represent durable policy changes, not short-term cycles, and are reshaping the earnings base and competitiveness of international markets for the next decade.

- **Monetary Tailwinds and Normalization**

Unlike the U.S., most developed markets now enjoy positively sloped yield curves and more accommodative central banks. Aggressive rate cuts and normalized term structures favor credit growth and financials, creating monetary conditions that support continued earnings expansion without the valuation stress present in U.S. equities.⁴

We see in figure 1, despite strong performance abroad, international equities remain deeply discounted compared to the U.S.—trading at a 34% forward price-to-earnings discount, twice their long-term median. The U.S. commands a 24-times multiple on stretched earnings, while ex-U.S. markets sit near 16 times with improving fundamentals. The valuation gap underscores overlooked opportunity, not underlying weakness.

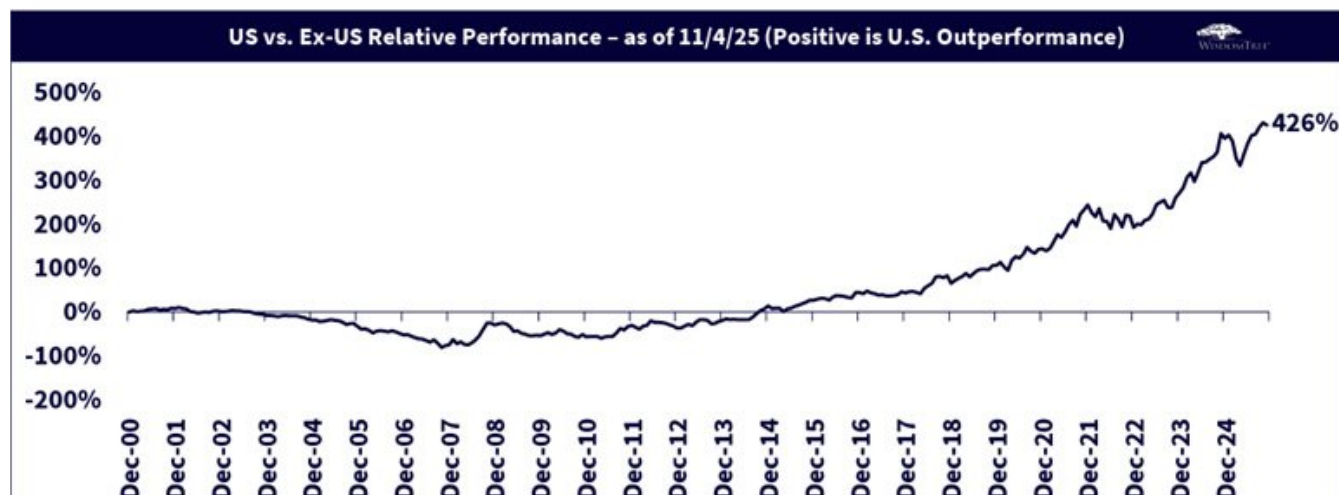
Figure 1: Overlooked Opportunity vs. Underlying Weakness?



Sources: WisdomTree, MSCI, S&P. Data begins 12/29/2000 to coincide with inception of [MSCI AC World ex-US Index](#). U.S. measured by [S&P 500 Index](#). Ex-U.S. measured by MSCI AC World ex-US Index. **You cannot invest directly in an index.**

In figure 2, we show that U.S. equities have outperformed international markets by over 400% since 2009—a dominance driven largely by multiple expansion and mega-cap concentration. That extraordinary run has stretched relative valuations to extremes. History suggests such gaps eventually revert, setting the stage for international markets to reclaim leadership as fundamentals, policy and valuations realign.

Figure 2: History Suggests that Such Gaps Eventually Revert



Sources: WisdomTree, MSCI, S&P. Data begins 12/29/2000 to coincide with inception of MSCI AC World ex-US Index. U.S. measured by S&P 500 Index. Ex-U.S. measured by MSCI AC World ex-US Index. **You cannot invest directly in an index.**

Conclusion: We Believe U.S. Equity Investors Need to Look Abroad

Developed international is set up for a hand-off: wide valuation discounts, real earnings drivers (reform, capex, dividends) and policy normalization versus a richly priced U.S. After an historic run of U.S. outperformance, the asymmetry now favors looking outward—where expectations are lower and cash returns matter more.

To express that view with discipline, consider:

- [WisdomTree Dynamic International Equity Fund \(DDWM\)](#).

1 Expensive refers to valuation, specifically metrics like the price-to-earnings (P/E) ratio where the valuation of the U.S. equity market remains high relative to the developed international equity market, with data sourced from Bloomberg as of 11/5/25. U.S. equities represented by S&P 500 Index; ex-U.S. equities represented by MSCI AC World ex-US Index.

2 Sources: WisdomTree, MSCI, S&P. Data as of 10/31/25, comparing the forward P/E ratio of the S&P 500 Index and the MSCI AC World ex-US Index.

3 Sources: Directorate-General for Economic and Financial Affairs, "The Economic Impact of Higher Defence Spending (Box 1)," Spring 2025 Economic Forecast: Moderate Growth amid Global Economic Uncertainty, European Commission, 5/19/25; "Defense of Japan 2025: Digest (Overview of FY2025 Budget & Fundamental Reinforcement of Defense Capabilities)," Japan Ministry of Defense, 2025.

4 Source: "Deposit Rate Reduced to 2 % as Euro-Area Financing Conditions Ease," European Central Bank, 6/5/25.

Important Risks Related to this Article

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