5 Reasons International Equities Are a Compelling Opportunity

History is full of surprises and the events of 2020 were are no exception, catching many investors off guard.

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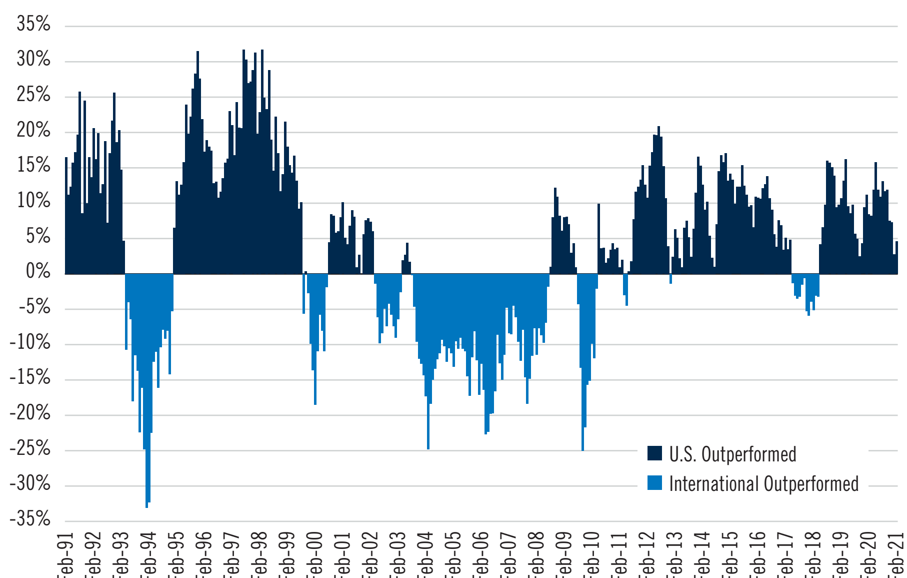
We expect volatility to remain high due to the economic uncertainty and the fiscal and monetary stimulus that continues to drive equity markets. But while it's impossible to predict the future, it is possible to be prepared.

The U.S. is one of the most dynamic economies in the world and home to leading global companies like Amazon and Alphabet, but it is not the be-all and end-all for investors seeking a well-diversified equity portfolio. Although U.S. stocks have outperformed international stocks in recent years, we don't know when market sentiment will shift once again and a change in market leadership will occur.

Historically, international and U.S. stock markets are cyclical in nature. Looking back over the last 30 years, international stocks have at times outpaced U.S. stocks over long stretches. Timing these shifts in market sentiment are virtually impossible. By including both U.S. and non-U.S. exposure in an equity portfolio, investors are optimally positioned to take advantage of growth opportunities around the world.

TAKING TURNS AT THE TOP: U.S. VS. INTERNATIONAL EQUITIES

Rolling 1-Year Excess Returns (S&P 500® vs. MSCI ACWI ex USA)



S&P 500 Index minus MSCI ACWI ex USA Index, as of February 28, 2021. Source: FactSet.
Past performance is not indicative of future results.

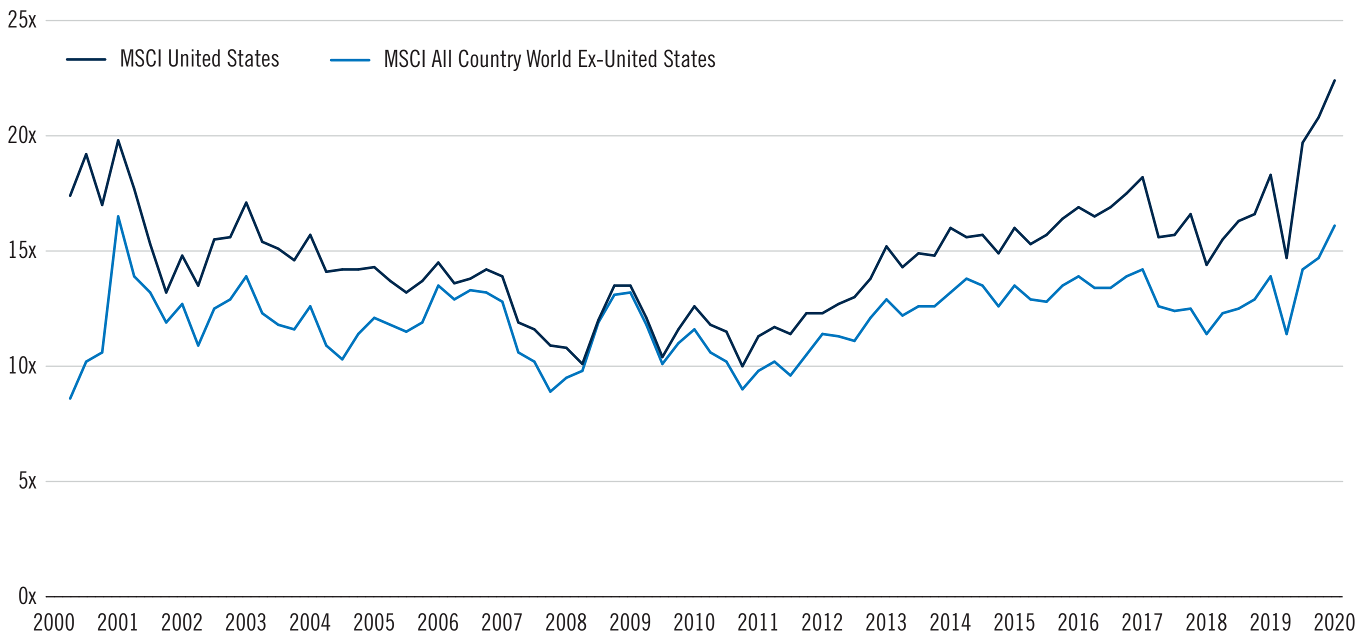
5 reasons why international equities are especially compelling now.

Reason 1: Attractive Valuations

In the post COVID-19 environment, U.S. equities have become relatively expensive, with the MSCI U.S. Index trading at an average of over 20x forward earnings. As a result of the run-up in valuations, international benchmarks are trading at the widest discount to U.S. indices of any point in the last 20 years.

VALUATION GAP BETWEEN MSCI USA AND EX USA INDICES

Forward P/E, Last 20 Years



Source: FactSet, as of December 31, 2020.

Reason 2: Diversify Idiosyncratic Risks

The pandemic demonstrates just how severe unknown risks can be, not to mention how widely the effects can vary. While the pandemic is global in nature, not all countries have been impacted to the same extent, and the global recovery will be uneven.

REAL GDP ANNUAL PERCENTAGE CHANGE

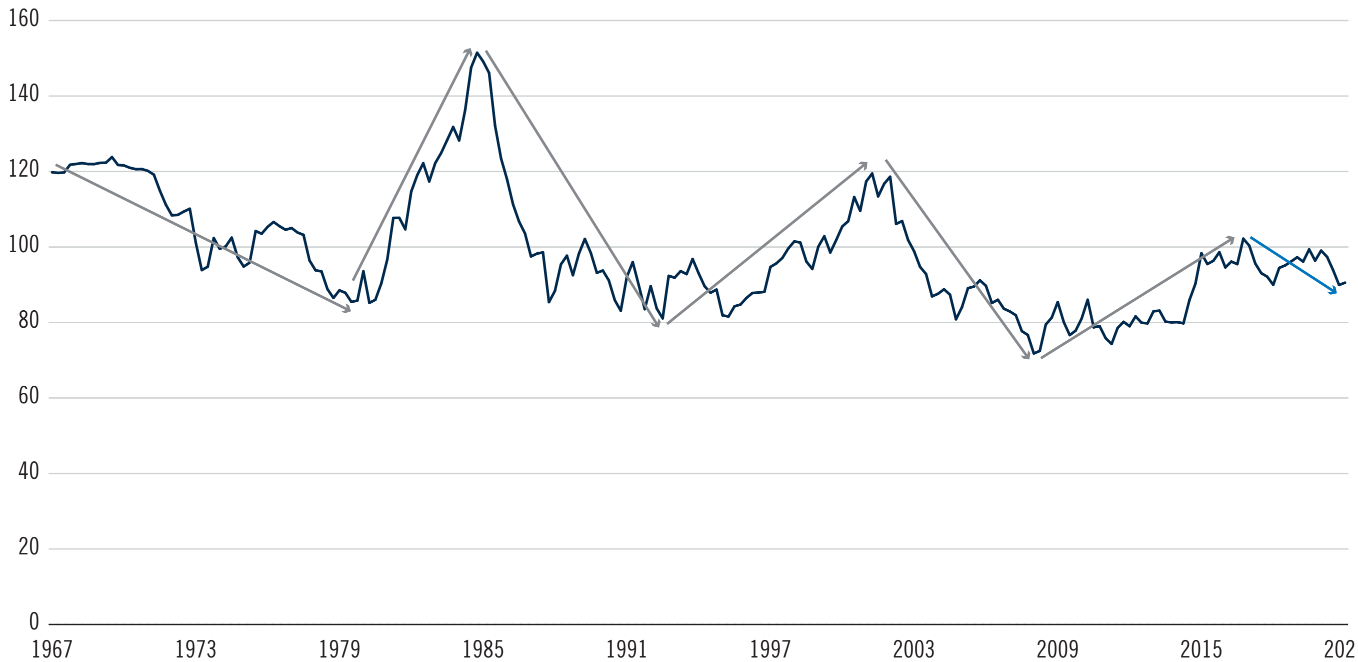
	ESTIMATE	PROJECTED	
	2020	2021	2022
United States	-3.4	5.1	2.5
Germany	-5.4	3.5	3.1
China	2.3	8.1	5.6
India	-8.0	11.5	6.8
ASEAN-5	-3.7	5.2	6.0

Source: IMF, World Economic Outlook, January 2021. Economies are listed on the basis of economic size. Note: For India, data and forecast are presented on a fiscal year basis with FY2020/2021 starting in April 2020. India's growth projections are -7.6% in 2020 and 11.0% in 2021 based on the calendar year.

Reason 3: Diversify Currency Exposure

Exposure to international equities can be a good hedge against the risk of U.S. dollar depreciation. Over the past 50 years, U.S. stocks have performed well during periods of U.S. dollar strength, outperforming international equities by 108.7% on average. But during periods of U.S. dollar weakness, international equities have outperformed domestic equities by an average of 31.8%. The dollar peaked at the end of 2016 and has since weakened by approximately 11%. This suggests a good entry point given the average U.S. dollar cycle is 7 years and 9 months. It is reasonable to expect that the currency's decline may continue for another few years, and international equities have actually lagged so far in the current cycle.

USD SPOT (DXY) INDEX



	USD Performance	MSCI EAFE/ACWI ex US Performance	S&P 500 Performance
9/30/69–6/30/80	-31.2%	95.4%	92.6%
6/30/80–12/31/84	75.0%	23.3%	83.2%
12/31/84–9/30/92	-46.4%	224.7%	226.8%
9/30/92–6/29/01	47.2%	78.2%	248.5%
6/29/01–3/31/08	-39.9%	116.6%	21.9%
3/31/08–12/30/16	42.3%	8.9%	104.7%
12/30/16–1/29/21	-11.4%	52.6%	83.0%

Past performance is not indicative of future results.

See Index definitions on last page. Source: Bloomberg.

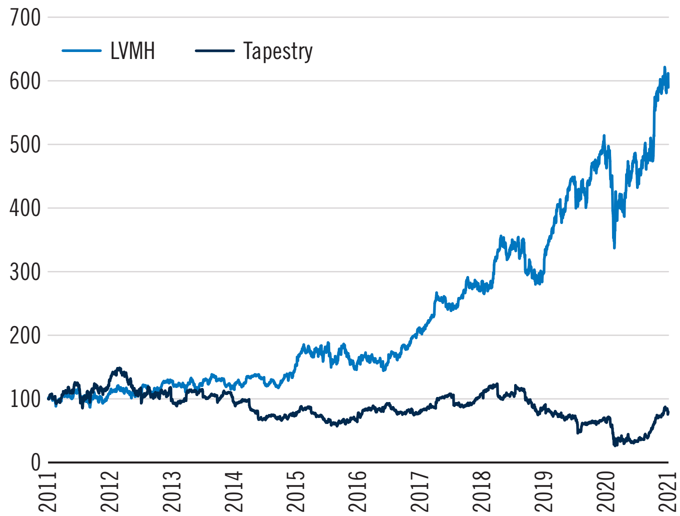
Reason 4: Non-U.S. Companies Dominate Certain Sectors

The U.S. is home to many top-performing companies in the information technology and communication services sectors. However, some of the world's most compelling companies in the consumer staples, consumer discretionary, and industrials sectors can be found in Europe, thus providing opportunities for business diversification in a U.S.-biased portfolio. As examples, consider the performance of French luxury conglomerate LVMH or Hong Kong-based hand and power tools manufacturer Techtronic versus their U.S. peers.

NON-U.S. COMPANIES VS. U.S. COMPETITORS

LVMH VS. TAPESTRY, INC.

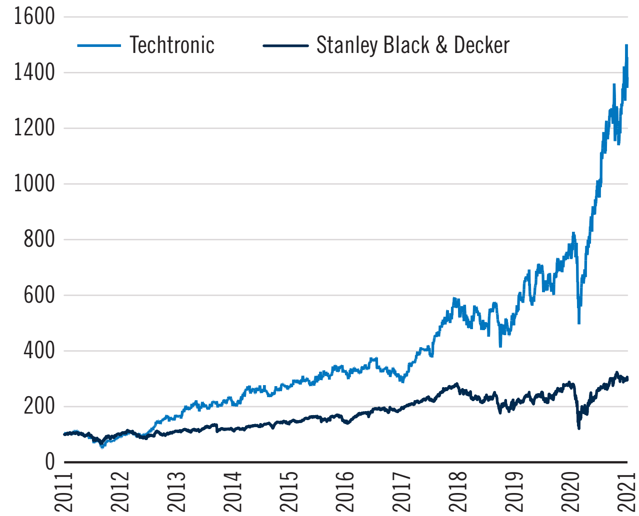
Total Return, Last 10 Years



Source: FactSet, as of January 2021.

TECHTRONIC VS. STANLEY BLACK & DECKER

Total Return, Last 10 Years



Source: Bloomberg, as of January 2021.

Past performance is not indicative of future results. These companies may or may not represent a position in any Vontobel portfolio. This is not a recommendation to purchase or sell, but merely an illustrated example. The reader should not assume that an investment in any securities identified was or will be profitable.

Reason 5: A Complement to U.S. Equities

A handful of stocks are increasingly driving performance of the S&P 500® Index. With more people working from home and e-commerce on the rise due to the pandemic, this trend has accelerated even further. As the U.S. market narrows and the S&P 500 continues its climb, a large number of international equities can sensibly complement domestic exposures. It is worth considering that:

- Without the benefit of the FANGMAN stocks (Facebook, Amazon, Netflix, Alphabet (formerly Google), Microsoft, Apple and NVIDIA) over the past decade, the S&P 500's return would have been substantially less – from 267% to 207%.

An Active Approach to International Equities

Investors focused on U.S. equities alone are missing out on a world of attractive growth and diversification opportunities. The Virtus Vontobel Foreign Opportunities Fund (JVXIX), subadvised by Vontobel Quality Growth Boutique, uses an active, bottom-up approach to identify great businesses around the world. Vontobel's high-quality approach seeks to provide superior alpha capture with lower risk over full market cycles. By diversifying both idiosyncratic risks and currency exposure, this strategy offers investors the potential for lower overall portfolio volatility and a hedge when the U.S. is lagging broader global markets.

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INDEX DEFINITIONS

The **U.S. Dollar Index (USDX)** indicates the general international value of the USD by averaging the exchange rates between the USD and major world currencies. The ICE US computes this by using the rate supplied by some 500 banks. The **MSCI AC World ex USA Index (net)** is a free float-adjusted market capitalization-weighted index that measures equity performance of developed and emerging markets, excluding the U.S. The **S&P 500® Index** is a free-float market-capitalization weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **MSCI EAFE Index (net)** is a free float-adjusted market-capitalization weighted index that measures developed foreign market equity performance, excluding the U.S. and Canada. It was developed with a base value of 100 as of 12/31/1987. The **MSCI USA Index (net)** is a free float-adjusted market-capitalization weighted index that measures the performance of the large and mid-cap segments of the U.S. equity market. MSCI indexes are calculated on a total return basis with net dividends reinvested. All indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

IMPORTANT RISK CONSIDERATIONS

Equity Securities: The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Geographic Concentration:** A fund that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting of that location. **Foreign & Emerging Markets:** Investing in foreign securities, especially In emerging markets, subjects the fund to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Prospectus:** For additional information on risks, please see the fund's prospectus.

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