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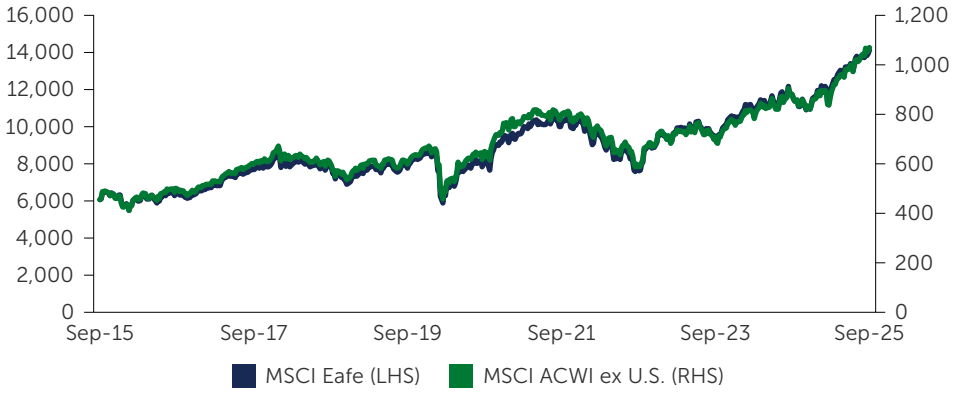
INSIGHTS

International Equities: A Strengthening Investment Case

International equity markets have hit all-time highs over the past 18 months, benefiting from a number of positive developments. While they have shared some of the same tailwinds as U.S. equities, international markets are increasingly supported by distinct, structural drivers—offering both sustained upside potential and meaningful diversification benefits.

Jon Greenhill
Co-Head of Developed Equities

Figure 1: International Equity Performance

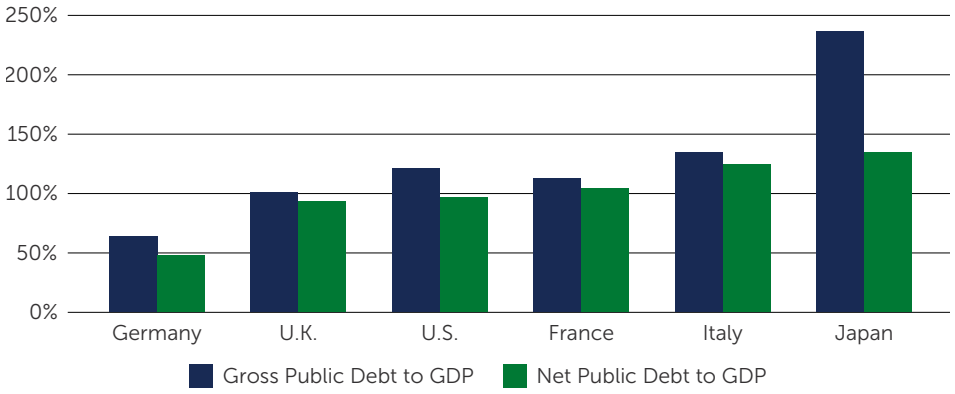


Source Bloomberg. As of October 2025.

Europe: A New Fiscal Era

At the heart of Europe's resurgence is a dramatic shift in German fiscal policy. Long known for its fiscal conservatism, Germany is now embracing expansionary spending—driven by rising infrastructure investment needs, sluggish growth, and political change. Friedrich Merz's Christian Democratic Union of Germany and Christian Social Union in Bavaria alliance emerged from the February election with a clear mandate to pursue increased public investment.

Figure 2: Government Debt as a Percentage of GDP



Source: IMF. As of December 2024.

Germany's long-standing "fiscal brake" (limiting the structural deficit borrowing to 0.35% of GDP) was effectively abandoned with the launch of a €500 B infrastructure fund in March. This move is expected to boost earnings across many sectors, both directly and through broader economic stimulus.

THREE KEY ACCELERATORS ARE AMPLIFYING THIS SHIFT

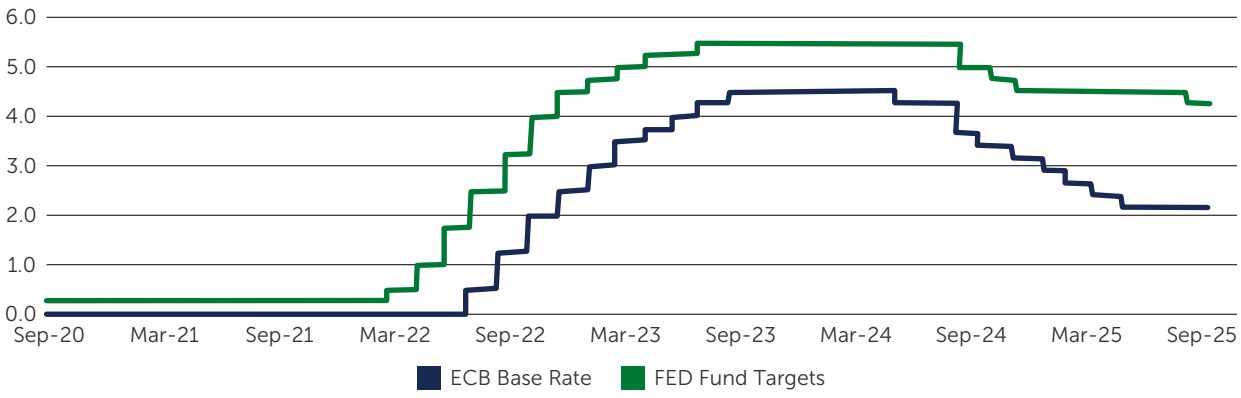
1. **Private Investment Surge:** Companies like Siemens are advancing joint investment plans that could collectively rival government infrastructure spending, amplifying the impact of public initiatives.
2. **The E.U. Recovery & Resilience Fund** is a €723 B financial instrument set up to help E.U. member states recover from Covid, with 60% of the fund yet to be spent.
3. **Defense Spending Boom:** One clear outcome of the Russia-Ukraine conflict has been Europe's renewed commitment to taking greater responsibility for its own defense. Many European nations have acknowledged that large parts of their defense infrastructure are no longer fit for purpose and are raising defense budgets to 2.5–3.5% of GDP. This shift has provided significant support to defense-related stocks and is expected to have a positive impact on the wider economy with associated gains for a broad range of companies.

Our conversations with European companies across various sectors are beginning to show evidence of improved corporate sentiment in response to these developments. While uncertainty around geopolitics and other factors is an ever-present risk, increased investment and earnings opportunities are emerging, with the potential to consistently reward equity investors.

An enhanced equity culture provides another interesting development. Across Europe, governments are reviewing and restructuring long term retirement and savings policies to incentivize increased personal savings—shifting the financial burden away from the state. The U.K., Sweden and Holland are leading the way, with German, Spanish and Italian legislators increasingly addressing this issue. Ultimately, these reforms are likely to increase long-term equity market participation by European retail investors, increasing liquidity and reviving the new listings markets in Europe.

Monetary policy has provided an additional source of support for European equity markets. The European Central Bank (ECB), facing fewer inflationary pressures than the U.S. Federal Reserve (Fed) and a weaker growth backdrop, has acted more aggressively to reverse some of the post-Covid tightening. Since European firms are typically financed through shorter duration debt, rate cuts are reducing interest costs and should prove supportive of economic growth.

Figure 3: Base Rate History



Source: Bloomberg. As of September 2025.

U.K.: The Home of Multinationals

While the U.K. continues to face considerable economic headwinds, we continue to identify attractive investment opportunities within its equity market. Notably, over 80% of revenues generated by companies listed on the FTSE100 come from outside the U.K., underscoring the global nature of the market.

A prime example is a large catering services provider operating across thousands of offices, hospitals, schools and entertainment venues. With 70% of its revenue derived from North America, where it holds a leading market position, this company is clearly an international business. The firm also has an impressive track record of delivering sustained growth and high returns which we believe will be extended well into the future. We see similar examples across the consumer staples, pharmaceuticals, energy and insurance sectors.

Subdued investor sentiment toward the U.K. has left many companies attractively valued. Many of these businesses offer broad diversification and compelling growth prospects, presenting opportunities for active investors focused on fundamental analysis to uncover exciting investment ideas within the U.K. market.

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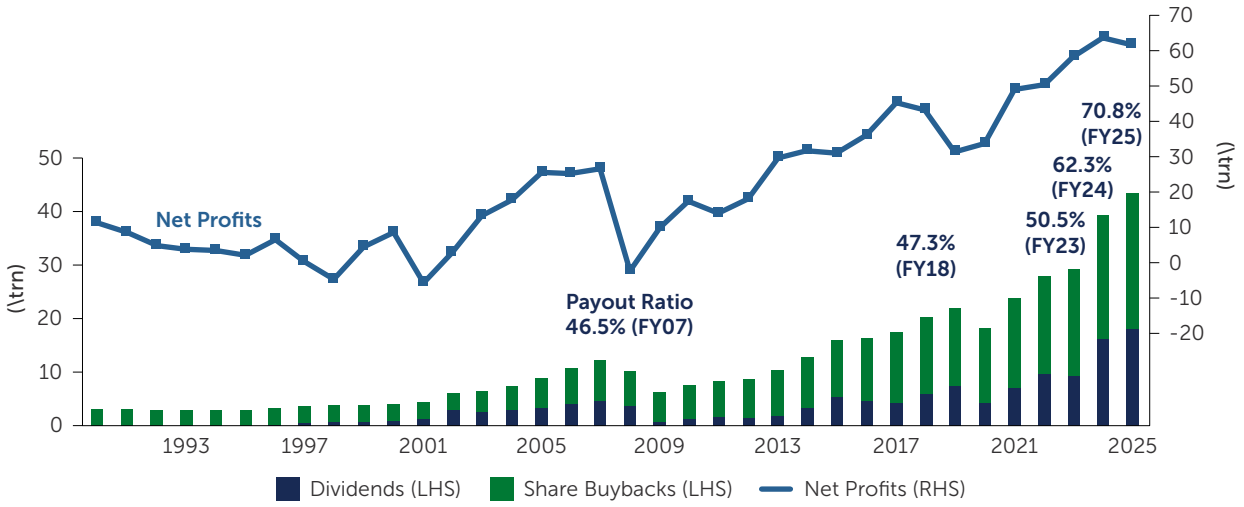
Japan: Structural Improvements Driving Equity Gains

Japanese companies continue to show meaningful progress in profitability, corporate governance and shareholder returns. Shareholder activism, generational shifts in management and regulatory reforms have sharpened the focus on profit generation and capital efficiency.

KEY INITIATIVES DRIVING STRONG TAILWINDS FOR JAPANESE EQUITIES INCLUDE:

- Improved capital allocation through M&A, growth investment and business disposals
- Restructuring and cost optimization
- Dividend increases and expanded buybacks

Figure 4: Japanese Company Performance



Source Nemura. As of September 2025.

A growing number of companies in Japan are undergoing significant transformation, underscoring the scale and momentum of change across the market. Firms such as Sony and Hitachi have undergone significant strategic transformation over the past decade, with their efforts highly rewarded through substantial share price appreciation.

Our frequent interactions with Japanese companies demonstrate that these trends are both durable and expanding, with the potential to offer a broadening set of investment opportunities within the Japanese market.

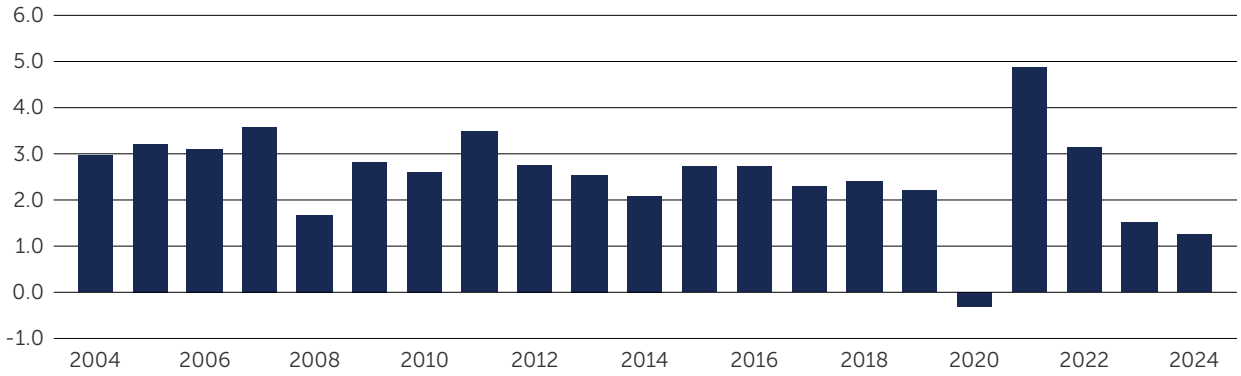
Asia-Pacific

There are also potentially compelling investment opportunities across Hong Kong, Singapore and Australia, driven by rising regional wealth and the dynamic economic landscape. The diversity and rapid evolution of these economies present considerable benefits to those in a position to capitalize on the structural changes.

For example, Hong Kong is strategically positioned to benefit from the ongoing growth and development of the Chinese economy due to its deep financial ties with Mainland China and cross-border market connectivity. Meanwhile, Singapore remains a financial and economic powerhouse at the heart of Asia. Both markets offer investors the opportunity to capitalize on structural growth trends that are less correlated to the economic fluctuations among Western economies.

Australia stands out for its relative economic stability. Government finances are notably healthier than in many other developed markets, and a robust banking sector adds further resilience. This foundation has resulted in a long track record of economic growth, helping the economy sidestep much of the volatility and deep recessions that have affected other developed nations in recent decades.

Figure 5: Australian GDP YOY



Source: Bloomberg. As of December 2024.

Australian companies are recognized for their innovation and operational excellence, regularly producing global leaders across various sectors. Resmed, the global leader in sleep apnoea devices provides such an example, having built a dominant position due to impressive product development and strong execution.

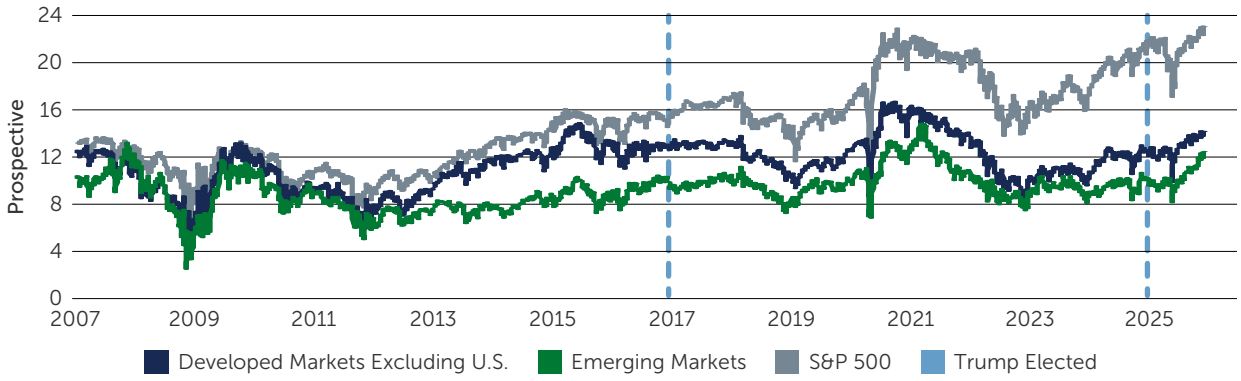
A large domestic investor base—led by large superannuation pension funds—continues to support the local equity market. While this has driven valuations to a premium compared to international peers, it has also fostered a deep and sustained equity culture nationwide.

Valuation Appeal: A Key Driver of International Equity Gains

While recent trends have supported stronger international equity performance, much of the recent upside has also stemmed from compelling valuations. Lower profitability, weaker returns and limited exposure to high-growth tech sectors help justify the discount to U.S. equities—though this valuation gap has however become unusually wide.

This dynamic has created both relative appeal and significant potential upside, especially as structural and policy tailwinds began to take hold.

Figure 6: Prospective Price-Earnings Ratios



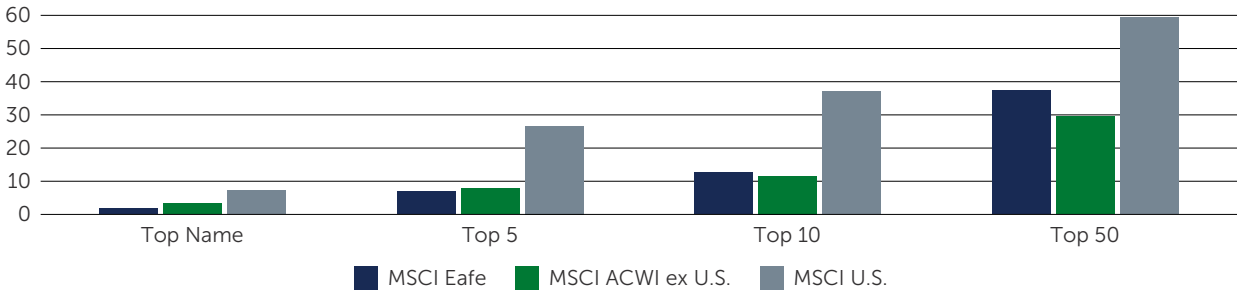
Source: Minack Advisors. As of October 2025.

Diversification: A Broader, More Balanced Exposure

International equities can offer broad diversification through both market structure and currency exposure. While U.S. performance has been heavily concentrated in the "Mag7," international markets have delivered more balanced gains across sectors and been less reliant on the the technology-driven themes.

Though less geared to high-growth areas like AI, international markets may offer insulation from potential reversals in sentiment. As AI shifts from development to deployment, we expect its beneficiaries to broaden—with many international firms well-positioned due to rich data assets, strong market shares and deep customer relationships.

Figure 7: Indices Concentration



Sources: Bloomberg; Barings. As of October 2025.

Currency diversification adds further appeal. After years of post-Covid dollar strength, 2025 has seen a reversal against most major currencies, lifting dollar returns from international holdings. If this trend continues, sustained dollar weakness could further enhance the diversification benefits and return potential of international exposure.

Key Takeaway

We believe the supportive factors outlined above—from fiscal and structural reforms to valuation and diversification—remain both persistent and powerful. With valuations still attractive and scope for further rerating, international markets present an attractive investment proposition with the potential to deliver strong and sustained equity returns.

Risks and Considerations

While international equities offer compelling opportunities, investors should remain mindful of several key risks. These include geopolitical developments that can sway market sentiment, and currency volatility that can add complexity for global investors. These factors underscore the importance of diversification and careful credit selection.

Barings is a $470+ billion global asset management firm that partners with institutional, insurance, and intermediary clients, and supports leading businesses with flexible financing solutions. The firm, a subsidiary of MassMutual, seeks to deliver excess returns by leveraging its global scale and capabilities across public and private markets in fixed income, real assets and capital solutions.*

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**As of September 30, 2025*

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