Global equities — a staple ingredient in your portfolio

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Empirical evidence shows that equities have been a consistent source of long-term returns, outperforming other asset classes over multiple decades.[1] In addition, that longer equity holding periods may help reduce risk and improve performance.[1]

Yet despite this, the average equity holding period has decreased significantly over time.[2]

Today's challenging economic conditions, where stretched valuations leave investors vulnerable, with little to no room for error, have reinforced our commitment to global equities as a core component of an investment portfolio.

An allocation to global equities provides geographic and sectoral diversification opportunities[3] along with the ability to earn higher returns in the long-run, therefore potentially allowing investors to benefit from the equity risk premium.[4]

The case for long-term investing

Over the past several decades, the average holding period for equities has declined markedly, from seven years to 10 months.[2] This owes largely to technological advancements, such as the automation of exchanges, which has brought down transaction costs and increased the volume of trades that can be processed, leading to the growth of high frequency trading (HFT) from the early 2000s. HFT, which uses algorithms to trade stocks at ultra-fast speed, now accounts for around 50% of total stock trading volume in the US and 40% in Europe[5], and has thereby played a significant role in reducing the average stock holding period.

Technological progress has also changed the way individuals think about investing. With trading more accessible via online platforms and at one's fingertips through mobile apps, investors have become far more active and less patient.

A potential pitfall of focussing on short-term returns, rather than long-term fundamental value, though, is that investors may be tempted to sell prematurely or buy impulsively, and this can be detrimental to long-term performance.

Equities offer the potential for consistent, long-term returns

Equities can be volatile, especially over shorter periods, and it is not difficult to demonstrate why maintaining a longer investment horizon may be more desirable.

The chart at the bottom of this page shows the range of annualised change for the MSCI World Index since the early 1970s for different holding periods (the returns are annualised to make the results comparable across different time frames). It is evident that the variability of returns diminishes as the time frame grows. This implies that expanding the time horizon of an investment into equities potentially allows for smoother compounded annualised returns compared to shorter-term returns that can face higher spikes in volatility.

Evidence also suggests a longer holding period for equites improves the chances of positive performance. This of course includes times such as at the present, when valuations are stretched.

The chart on the following page uses US equities as a proxy for global equities' performance (US equities currently account for around 60% of global equities).[6]

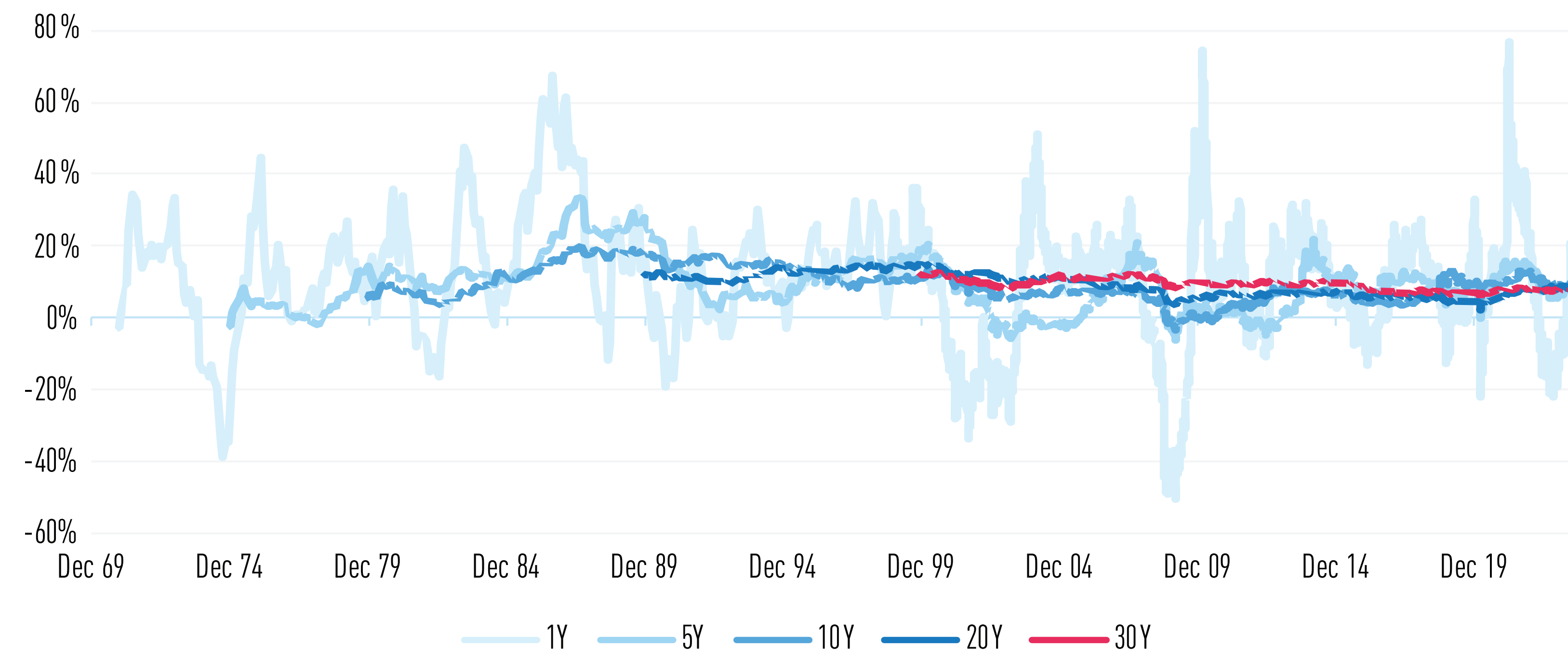
Such analysis suggests around 9% of annualised returns for equities since 1871 in nominal terms (or 6.9% annualised in real terms). This compares to just 2.5% of annualised returns for government bonds on average – in real terms – over the same time span.

Diversify[3] and capture growth opportunities with global equities

Many investors lean towards a home-country bias in equity investing due to their familiarity with the local markets and a perception that investing domestically helps mitigate currency risk.

However, this approach may inadvertently heighten portfolio risk by limiting diversification[3] to the local market, and it could also mean missing out on international return-enhancing opportunities.

MSCI world - long-term performance (in %, annualised)



Performance NTR in USD. Source: Bloomberg, Amundi. Data as at 20/02/2024.
Past performance is not a reliable indicator of future performance

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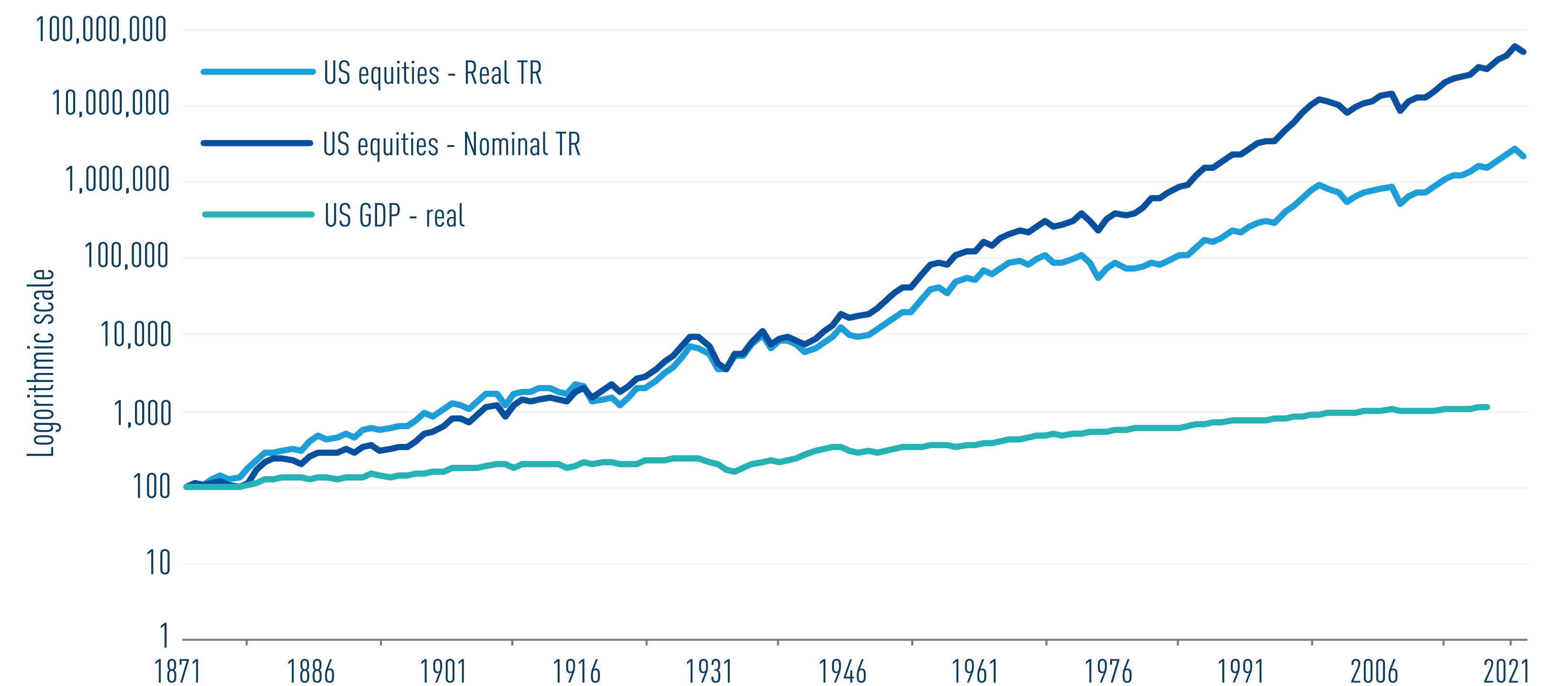
Equity returns: a long term perspective
Total Return (basis 100 in 1871)



Source: Amundi, Shiller, Maddison Project. Data as at 22/02/2024. Past performance is not a reliable indicator of future performance.

By contrast, embracing global equities can offer several distinct advantages:

Enhanced diversification[3]
Investing across various economies and markets can help reduce the impact of volatility in any single domestic market, potentially leading to a more stable and resilient portfolio.[7]

A deeper opportunity set
An allocation to global equities can provide access to some of the world's leading companies and a broader array of industries and sectors not always available or prominent in one's home market.

Opportunities in different economic cycles
Investing in global equities allows you to take advantage of the varying economic cycles of different countries, capitalising on growth in expanding economies while others are contracting. This can help diversify[3] potential risks as well as enhance returns.

Attractive valuations
Global equity markets provide opportunities to buy stocks at lower valuations due to different market dynamics, providing potentially higher returns as these valuations normalize.

Potential currency gains
Through exposure to different currencies, allocating to global equities can also help hedge against the impact of domestic currency fluctuations. A weaker home currency may boost returns on foreign investments.

Accessing the global opportunity

One of the easiest and most cost-efficient ways to invest in international equities is through ETFs, which provide investors with access to global markets through a single transaction, and trade like a stock.

ETFs tracking the MSCI World index, for instance, provide exposure to over 1,600 large and mid-cap stocks across 23 developed markets. And for investors seeking even greater diversification[3], there are ETFs tracking more all-encompassing indices, such as the Solactive GBS Global Markets Large & Mid Cap Index, which offers exposure to large and mid-cap stocks in both developed and emerging markets.

The IMF estimates an average of 4.0% year-on-year (YoY) GDP growth for emerging market economies over the next five years.[8] That is twice as much as the forecast for developed markets over the same period (1.7% YoY).[8] The choice ultimately comes down to investor preferences and requirements.

For more information visit amundietf.com

[1] https://www.investopedia.com/ask/answers/032415/which-investments-have-highest-historical-returns.asp. Past performance is not a reliable indicator of future performance.

[2] Source: NYSE, Bloomberg, Amundi. Data as of 20/02/2024.

[3] Diversification does not guarantee a profit or protect against a loss.

[4] The equity risk premium (ERP) refers to the additional return that investors expect to derive from investing in equities over and above that of a so-called risk-free investment such as government bonds.

[5] Source: European Central Bank. Research Bulletin. No.78. How does competition among high-frequency traders affect market liquidity? December 2020

[6] https://www.statista.com/statistics/710680/global-stock-markets-by-country/

[7] Capital at risk. Investing in funds entails risk, most notably the risk of capital loss. The value of an investment is subject to market fluctuation and may decrease or increase as a consequence. As a result, fund subscribers may lose part or all of their initial investment.

[8] https://www.imf.org/en/Publications/WEO

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