Beyond Borders

Artisan Partners Global Equity Team

ARTISAN PARTNERS
Insights

For Institutional Investors Only — Not for Onward Distribution

A R T I S A N P A R T N E R S

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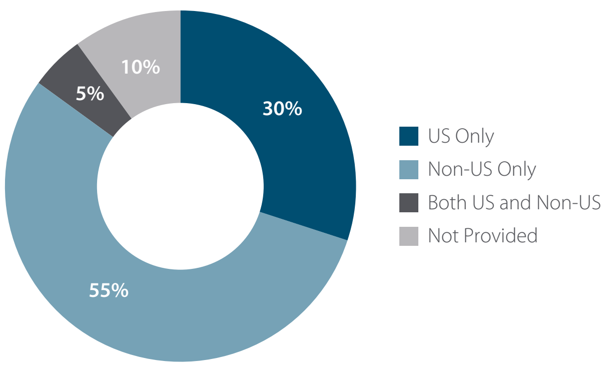
Investors may notice that US stocks are once again outperforming international equity. As of Q3 2024, the S&P 500® Index has gained 22.1% year-to-date, beating the 14.2% gain for the MSCI All Country World Index Ex-USA. While both returns exceed historical averages, the US market has been helped by the added surge in tech stocks this year, driven mainly by enthusiasm for generative artificial intelligence (AI). However, a closer look will reveal many highly profitable investment opportunities outside the US, often at much lower valuations.

In pharmaceuticals, for example, non-US stocks in the MSCI All Country World Index Ex-USA have returned 16.1% year to date as of 30 September 2024, proximate to the S&P 500® pharmaceutical industry's 19.5% return. Non-US pharma stocks also traded at a lower forward P/E ratio of 18, compared to 22 for the S&P 500® Index, allowing investors to buy them at lower valuations on average. Many overlook the fact that a large number of innovative pharmaceutical companies are based outside the US and over half of all clinical trials take place internationally. These studies are a key part of bringing new drugs, biologics, medical devices and surgical procedures to market.

Exhibit 1: Percentage of Registered Clinical Studies



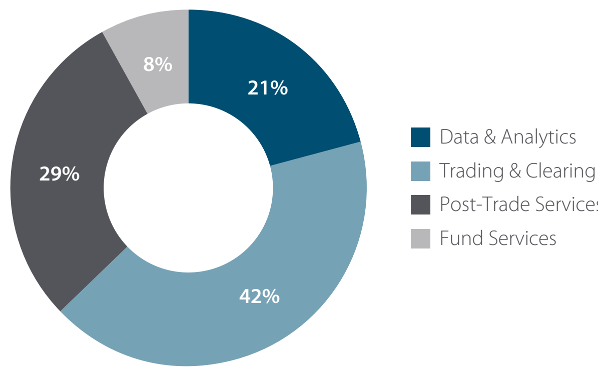
Source: ClinicalTrials.com, October 2024.

One example is Argenx, a global biopharma company based in Belgium. It has built a collaborative ecosystem of European scientists and antibody engineers to develop innovative treatments for severe autoimmune diseases. Although over 87% of its revenue comes from the US, investors need to look beyond US indices to access its ordinary shares and benefit from its growing cash flows. The company recently reported a 20% quarter-over-quarter increase in sales, led by its VYVGART® line, beating estimates by 12%.

Capital markets, a key segment within the financials sector, present another opportunity. Year to date, non-US stocks in this industry have outperformed their US counterparts while trading at lower valuations—a forward P/E of 16 for the MSCI All Country World Index Ex-USA compared to 20 for the S&P 500® Index.

Europe is home to key players, like the London Stock Exchange. It has increasingly diversified revenue streams by balancing intermittent trading and clearing revenues with fast-growing, recurring data and analytics revenues. In Germany, financial exchange operator Deutsche Boerse is accomplishing this transition mainly by acquiring and merging companies like Axioma, SimCorp and Institutional Shareholder Services. While EBITDA margins for Deutsche Boerse now hover around 60%, its stock currently trades at a reasonable 17X 2025 earnings. Not only have these deals added more stability to Deutsche Boerse's financials, but they have also strengthened its position in key markets such as North America. These multipliers for growth have yet to fully play out, and they could make the company even more profitable than it is today.

Exhibit 2: Deutsche Boerse Total Revenues



Source: Deutsche Boerse, March 2024

Other industries outside the US that have outperformed their counterparts in the S&P 500® Index this year include health care equipment and supplies; construction materials; real estate management and development; and aerospace and defense. Within these industries one can find companies such as Swiss medical device maker Medacta, known for its state-of-the-art artificial knee and hip replacements, as well as Mexican cement manufacturer and nearshoring beneficiary Cemex.

In aerospace and defense, investors have many high-growth international companies to choose from, many trading at discounts to US defense companies. Two such examples are South Korean defense manufacturers LIG Nex1 and Hanwha Aerospace. As geopolitical tensions continue rise, a growing number of countries are looking for the latest military tech available now at competitive prices. As a result, these two companies have developed the fastest-growing backlogs in the industry, inking deals with an increasing number of countries. In addition, UK-based BAE Systems is particularly well positioned to serve countries facing military threats in Europe, the Middle East and Asia Pacific. With its deep ties to the US Department of Defense, the company has a historically durable revenue source.

Foreign IT services companies have outperformed US counterparts this year, benefiting from the global growth of AI, which is being adopted beyond US borders. For example, Canadian e-commerce firm Shopify introduced its AI assistant, Sidekick, earlier this year. It is a productivity tool designed to help entrepreneurs optimize their e-commerce spending while achieving their marketing goals.

Lastly, professional services, an industry in the industrials sector, also boasts better year-to-date returns than those in the S&P 500® Index. This list includes RELX, a UK-based global information company and AI beneficiary. Half of its new and renewal revenues in its legal division are now generated from its AI-assisted platform called LexisNexis+. SGS, a Swiss testing and monitoring company, and Bureau Veritas, a French company in the same field, are partnering with Microsoft Azure to utilize AI and intelligent automation to optimize their industry's operations. We expect these initiatives will lead to greater efficiencies and even higher earnings. Further, we believe these companies are levered to several megatrends, including reshoring and nearshoring, as supply chains move from China to the US, Southeast Asia and Mexico.

As with any large, complex data sets, simply comparing topline returns of indices can be deceiving. By digging a bit deeper into sectors and industries such as pharmaceuticals, capital markets, defense and IT services, investors can find and invest in many high-quality, companies and achieve greater diversification. Active management can help investors identify these growth opportunities.

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