AMERICAN BEACON

2025 | December

PERSPECTIVE

By Paul Cavazos, Senior Vice President and Chief Investment Officer

Why International Now

In this issue of Perspective, we examine the case for international equities, expanding on the following points:

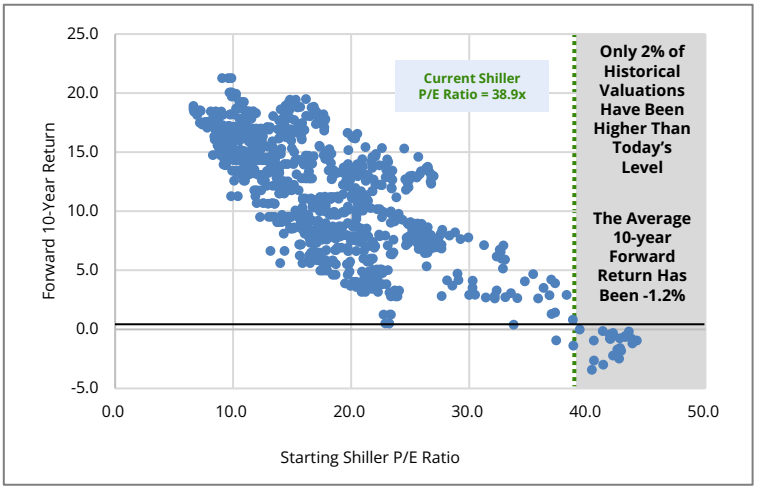
1. Expect lower forward U.S. stock returns amid high market concentration and stretched valuation
2. International and U.S. market leadership typically rotates in multi-year cycles
3. Weaker U.S. dollar (USD) is a catalyst for international equity
4. International equities at record discounts while earnings per share (EPS) growth forecasts have increased
5. Majority of the world's gross domestic product (GDP), corporate revenues and top-performing companies are located outside of the U.S.

We'll further make the case for active management through the lens of each of these positions.

> "Given historical trends, we believe this shift in favor of non-U.S. stocks is not merely an ephemeral market swing, but potentially the beginning of a sustained period of leadership."
>
> **– Jonathan Veiga, Portfolio Manager, American Century Investment Management, Inc.**

Expect lower forward U.S. stock returns amid high market concentration and stretched valuations. Over the past five years, a small group of mega-cap technology companies – Alphabet, Inc., Amazon.com, Inc., Apple, Inc., Meta Platforms, Inc., Microsoft Corp., NVIDIA Corp., and Tesla, Inc., collectively known as the "Magnificent Seven" – have driven a disproportionate share of U.S. equity market returns. These firms accounted for more than one-third of the S&P 500 Index's total market capitalization. This extreme concentration was a key contributor to the expansion of U.S. equity valuations relative to international markets.

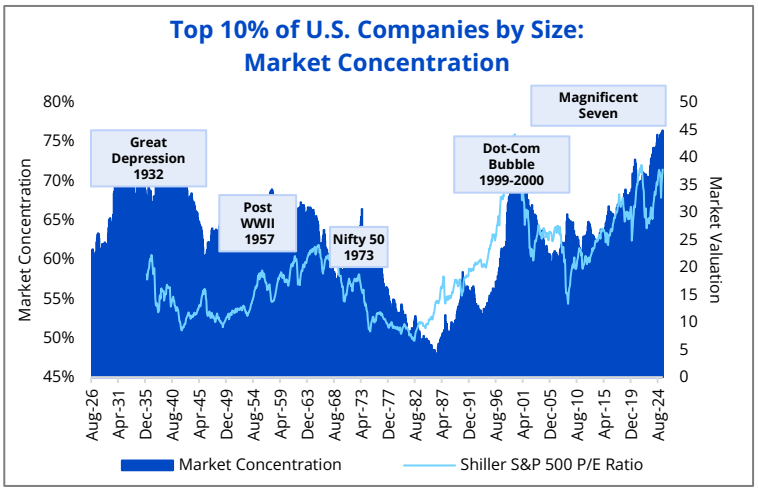
Inverse Relationship:
Starting Valuation and Forward 10-Year Returns



Source: Kenneth French Data Library, Morningstar and www.shillerdata.com. Portfolios formed on size. Market valuation is represented by the Shiller P/E ratio as of September 30, 2025.

Despite this shift, U.S. equities remain highly concentrated. The Top 10 companies now represent more than 40% of the S&P 500's weight, exposing investors to a narrow set of themes, most notably artificial intelligence. This concentration heightens portfolio risk and underscores the importance of diversification.

While the U.S. market has been propelled by enthusiasm around the Magnificent Seven and artificial intelligence-related growth, the recent moderation in earnings growth among these names, combined with stretched valuations, has prompted a rotation into other areas of opportunity. Increasingly, investors are turning their attention to non-U.S. equities, where valuations are more attractive and earnings prospects are improving.



Source: Kenneth French Data Library, Morningstar and www.shillerdata.com. Portfolios formed on size. Market valuation is represented by the Shiller P/E ratio as of September 30, 2025.

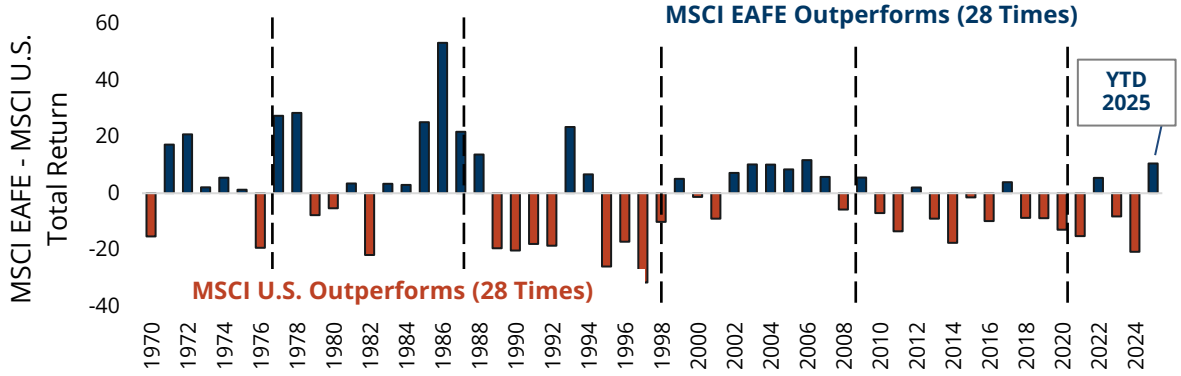
"The current risk-reward profile of U.S. equities is asymmetrical, with more downside risk than upside potential. In this context, global diversification is not a contrarian stance but a rational strategy. Valuations for U.S. stocks remain elevated, approaching historical relative highs compared to international peers. As a result, future returns are likely to be constrained by these high-starting-point multiples."

– Sarah Ketterer, CEO and Portfolio Manager, Causeway Capital Management LLC

U.S. and international market leadership rotates in multi-year cycles, and U.S. outperformance has extended beyond the historical average. From 1969 to 2009, the MSCI EAFE Index modestly outperformed the U.S. equity market, delivering annualized returns of 9.5% versus 8.5% for the U.S. Over the longer period from 1969 through September 2025, U.S. equities pulled ahead, generating 9.5% annualized returns compared to 8.3% for the MSCI EAFE Index. Despite this shift, long-term performance between U.S. and international markets has remained remarkably similar, underscoring the cyclical nature of global market leadership.

Year-to-date 2025, the MSCI EAFE Index has delivered its second largest margin of outperformance over U.S. equities in more than three decades. This serves as a powerful reminder of the importance of geographic diversification for long-term investors.

The current cycle of U.S. outperformance has extended well beyond historical norms, suggesting that the next phase may favor international markets. International equities are beginning this potential rotation from a position of relative strength, characterized by lower valuations and higher shareholder yields. These attributes provide a stronger margin of safety and increase the likelihood of mean reversion.

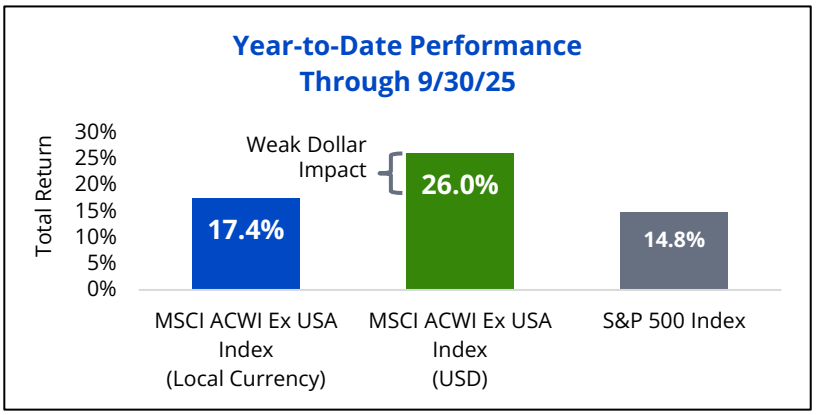


Dec. 1969 – Dec. 2009	
MSCI U.S.	+8.5%
MSCI EAFE	+9.5%

Dec. 1969 – Sept. 2025	
MSCI U.S.	+9.5%
MSCI EAFE	+8.3%

The MSCI EAFE Index has outperformed the MSCI US Index on a year-to-date basis by the second largest magnitude in more than 30 years.

A weaker U.S. dollar is a significant catalyst for international equity outperformance. Over the past five years, USD strength has acted as a persistent headwind for U.S.-based investors in international equities, often obscuring strong local currency returns in markets such as those represented by the MSCI EAFE Index. However, this trend has recently begun to reverse. The USD has weakened amid growing U.S. policy uncertainty, rising tariff concerns and mounting structural fiscal challenges.



Source: FactSet.

The U.S. currently runs one of the largest "twin deficits" globally, comprising both fiscal and current account deficits. While tariffs may help narrow these imbalances over time, they remain elevated and are projected to increase further, particularly considering expansive fiscal initiatives such as the Trump administration's "Big Beautiful Bill Act." Net interest costs as a share of GDP have reached multi-decade highs, and foreign investors are purchasing a smaller share of U.S. debt, reducing structural demand for the USD.

Over the past two decades, U.S. federal debt has ballooned from $7 trillion to more than $36 trillion, reflecting a reliance on deficit-financed growth that is unmatched by other major economies. In contrast, Europe and other developed markets maintain greater fiscal capacity to stimulate growth without raising concerns over debt sustainability. Planned fiscal packages in Europe are already providing support to local currencies, further strengthening the case for international exposure.

With widening U.S. fiscal imbalances and diverging global central bank policies, the setup for a sustained downtrend in the USD is supported. Additionally, foreign central banks are increasingly diversifying away from USD-denominated assets, further weakening structural support for the currency. In this environment, international equities offer not only valuation appeal but also potential currency-driven upside, making global diversification a timely and strategic imperative.

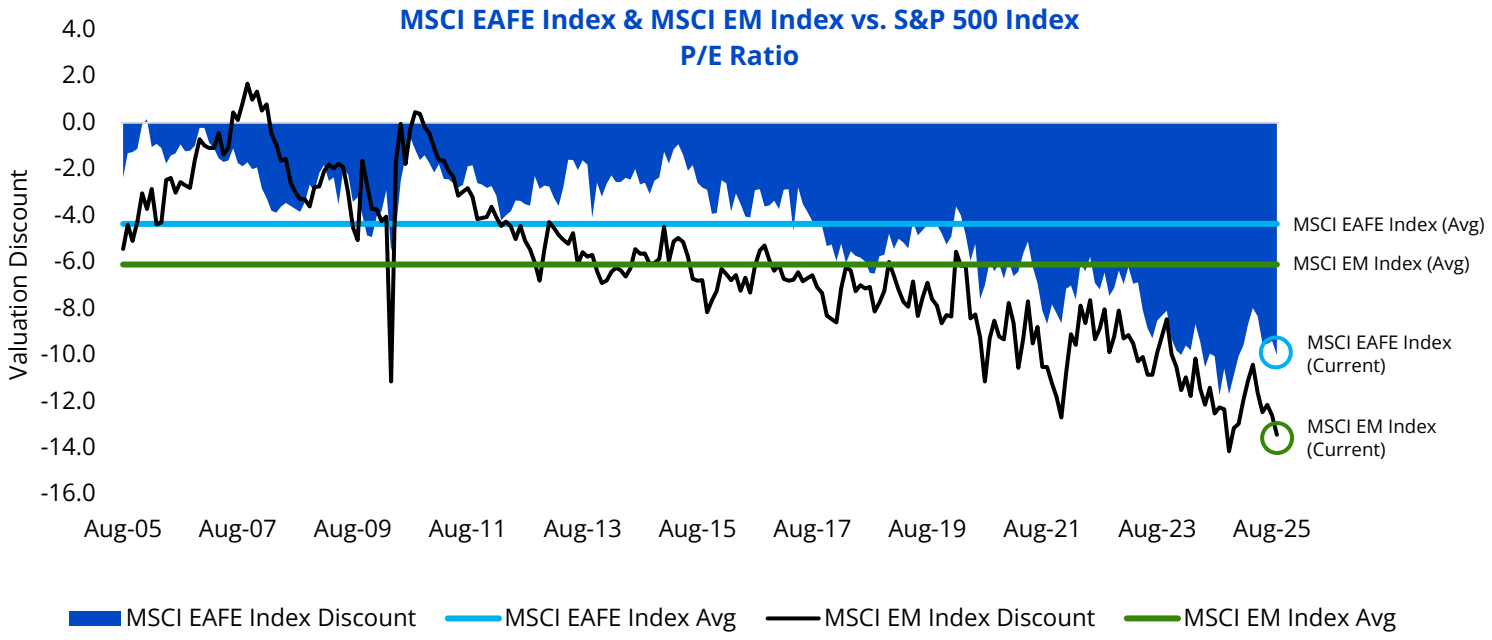
Reasons Why U.S. Dollar Weakness Could Persist

Four forces typically drive USD cycles. When moving in coordination, these forces create powerful momentum that can maintain or reverse dollar trends. Today, those forces point to a cycle of continued USD weakness.

#	Forces	Significance	Rationale Supporting a Weaker USD
1	Geopolitics	Global Trust Influences USD Demand	• Ongoing U.S. trade tensions strain confidence and reduce trade in USD • Global central banks are shifting reserves away from USD to mitigate risk • Robust growth and coordination abroad can erode U.S. dominance
2	Interest Rate Differentials	Global Interest Rate Spreads Impact USD Demand	• Lower U.S. interest rates are narrowing the previous U.S. yield advantage • Tariff-driven stagflation fundamentally lowers U.S. real returns • Increasing U.S. debt reduces demand for U.S. Treasury bonds
3	Investment Flows	Money Flows Affect USD Demand	• Overexposure to U.S. assets may trigger rebalancing and diversification • Cheaper international valuations may drive capital away from the U.S. • Emerging markets and commodities may regain investor interest
4	Foreign Exchange Adjustments	USD Valuation vs. Fundamentals	• The historically overvalued USD is at increased risk of correction • Large fiscal and trade deficits place downward pressure on the USD • Coordinated global actions to limit USD strength reduce demand

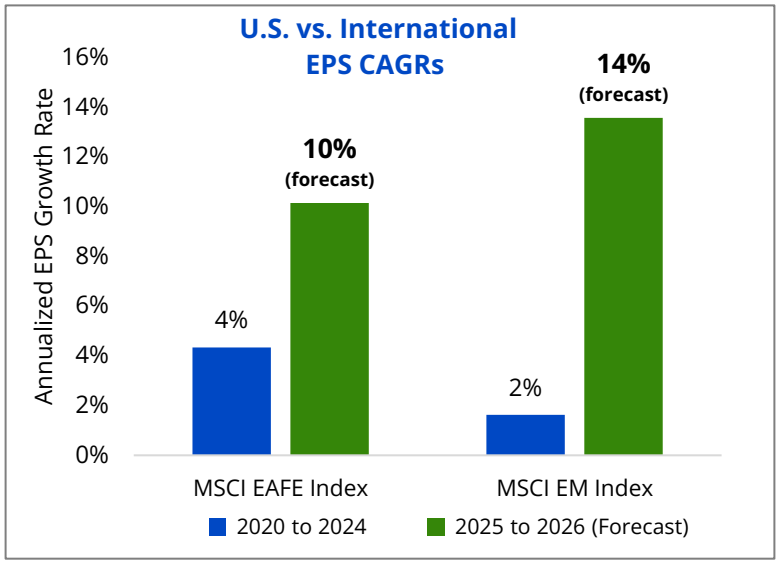
Sources: Ninety One Asset Management, American Beacon Advisors.

International equites are trading at record discounts despite significant upward revisions in EPS growth forecasts. We believe the key drivers behind the valuation discount of international equities relative to U.S. markets are beginning to reverse. Historically, exceptionally strong corporate profit growth, largely concentrated in the Magnificent Seven, was a major contributor to U.S. equity outperformance. Additionally, sustained USD strength amplified this divergence, enhancing returns for U.S.-based assets while dampening international performance when measured in USD terms. Together, these forces led to a significant re-rating of U.S. equities relative to their global counterparts.



Source: FactSet, September 2025.

Today, that dynamic is shifting. The USD appears structurally weaker, driven by widening fiscal imbalances, declining foreign demand for U.S. debt and diverging global monetary policies. At the same time, the earnings-growth differential between the S&P 500 and international equities has narrowed considerably. As these tailwinds for U.S. equities fade, the valuation gap between U.S. and international markets may begin to close, creating a more favorable environment for global diversification and non-U.S. equity leadership.



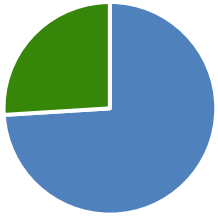
Sources: American Beacon Advisors; Lazard Asset Management. Annualized EPS CAGRs.

"We believe that investors who are willing to look outside of the U.S. equity markets can find equities trading at historic low valuations relative to U.S. stocks, including many that trade at steep discounts to their intrinsic value. These are the types of companies in regions around the world that our strategy and philosophy are designed to discover."

– Jonathan Veiga, Portfolio Manager, American Century Investment Management, Inc.

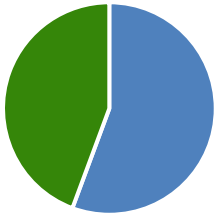
Most of the world's GDP, corporate revenues and top-performing companies per annum are not located in the U.S. The breadth of high-performing opportunities outside the U.S. continues to be underappreciated. Developed ex-U.S. and emerging markets comprise most of the listed companies, offering active managers access to a significantly larger and more diverse opportunity set. From a macroeconomic perspective, the U.S. economy accounts for just 26% of global GDP in nominal USD terms, and only 15% when measured on a purchasing power parity basis. Meanwhile, U.S. equity market capitalization stands at nearly 200% of U.S. GDP, an elevated ratio, whereas EAFE equities trade at a substantial discount to their respective GDPs, at less than 80%. This disparity highlights the relative valuation advantage of international markets. Performance data further underscores the global opportunity. Over the past decade, only about 10 of the Top 50 performing stocks in the MSCI ACWI Index (proxy index for global equities) each year were domiciled in the U.S. Year-to-date, just five of the top 50 performers are U.S.-based. Despite this, U.S. equities still comprise roughly two-thirds of global market indexes, even though 74% of global GDP and more than 70% of listed companies are located outside the U.S.

% Global GDP



International represents **74%** of Global GDP

% Global Revenue



International represents **56%** of Global Revenues

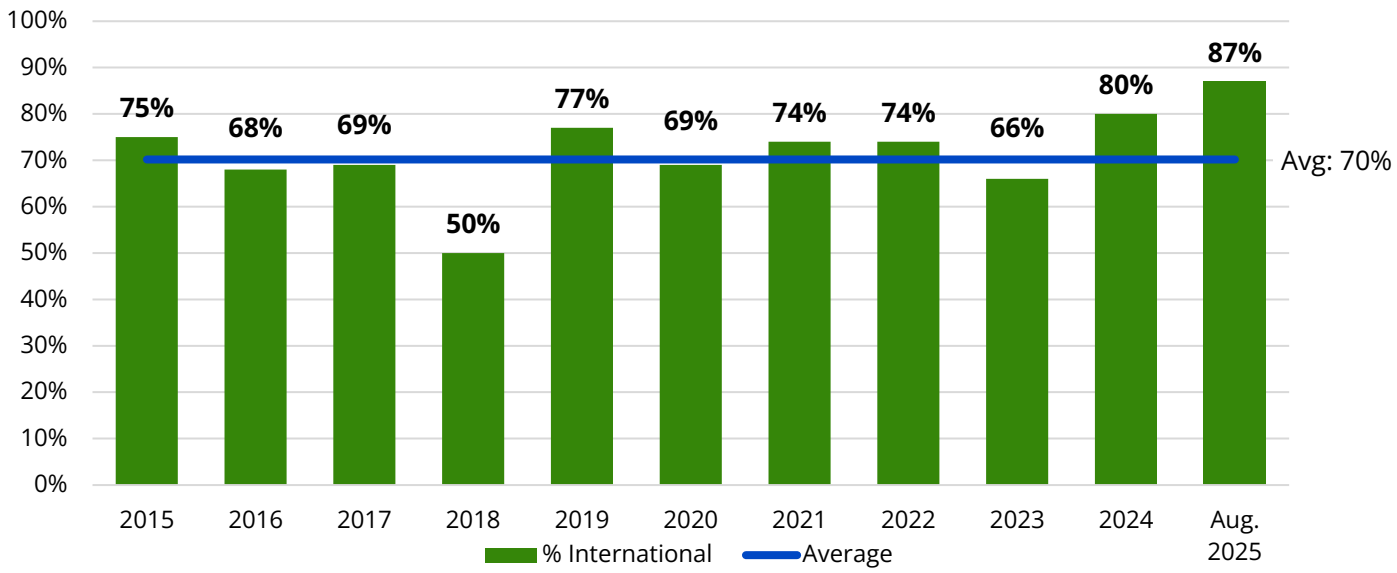
USA International

Sources: FactSet; World Bank (2024); American Beacon Advisors.

"Some of the most innovative, high-return companies in industrial automation, luxury, semiconductors and healthcare are domiciled internationally but are global in reach."

– Harry Hartford, President and Portfolio Manager, Causeway Capital Management LLC

% of Top 100 Performing Global Companies Based Outside the U.S.



Source: FactSet; American Beacon Advisors.

Active management is vital in international markets. The global equity landscape offers a significantly broader opportunity set than is often reflected in investor portfolios, providing active managers with a far larger and more diverse hunting ground for alpha generation (excess return over an index).

In the U.S., the Top Seven stocks, primarily in technology and related industries, make up more than one-third of the S&P 500. This concentration limits flexibility for active managers and increases exposure to a narrow set of themes. By comparison, the largest constituents in the MSCI EAFE Index collectively represent less than 10% of the index and span multiple industries, allowing for more meaningful securities selection and greater potential for differentiated performance.

Sector composition also plays a critical role. The U.S. market has become increasingly technology-heavy. This creates heightened sensitivity to the valuation cycle of a single sector. EAFE markets, on the other hand, maintain a more balanced sector distribution, with technology exposure in the high single digits to low teens. This stability enables active managers to pursue alpha across a broader range of industries.

Valuation dispersion further enhances the case for active management. The most expensive quartile of U.S. stocks trades at a median price-to-earnings ratio of 34x, more than double that of the top quartile in EAFE, which trades around 15x. Outside the top quartile, valuations are more evenly distributed internationally, offering a wider selection of reasonably priced companies with attractive fundamentals.

Several structural differences in international markets can also create mispricing opportunities that skilled active managers are well-positioned to exploit. These include lower sell-side coverage, language and accounting complexity, and varying degrees of state influence. Such inefficiencies can lead to alpha generation through deep fundamental research and local expertise.

In Closing

The case for global diversification has never been stronger. U.S. equities have enjoyed an exceptional run, but this cycle has stretched beyond historical norms, leaving valuations high and concentration risks elevated. The risk-reward profile for U.S. stocks is increasingly asymmetric, and the next phase of leadership is likely to emerge from abroad.

International markets offer lower valuations, improving earnings, and a broader opportunity set, supported by catalysts like a weaker USD and fiscal resilience abroad. This alignment of valuation appeal and macro tailwinds creates a compelling entry point.

Active management will be key. International markets provide fertile ground for differentiated performance through research and local insights. The breadth of innovation and growth outside the U.S. underscores the importance of looking beyond our borders.

Our role is to help position portfolios for long-term success. Today, that means embracing global diversification as a strategic imperative to help mitigate risk, enhance returns and align with the evolving dynamics of global markets.

Special Thanks
Kirk Brown, Robyn Serrano and Brandon Teamer contributed to this report.

About Paul Cavazos

Paul B. Cavazos serves as senior vice president and chief investment officer of American Beacon Advisors. He also serves as vice president of the American Beacon Funds complex. In addition, he also is a member of the companies' Product Management Committee. Mr. Cavazos is responsible for overseeing the investment sub-advisors to the American Beacon Funds and corporate pension plan investments. His comprehensive background includes leading defined benefit and contribution plans, conducting investment manager searches, due diligence and risk-control oversight. Before joining American Beacon in 2016, Mr. Cavazos served as chief investment officer and assistant treasurer at DTE Energy Company in Detroit. He was responsible for the development of asset allocation strategies, as well as fiduciary oversight for DTE's $10 billion in retirement trust assets. In 2014, Mr. Cavazos received the prestigious CIO Industry Innovation Award of the Year from Chief Investment Officer magazine. Previously, Mr. Cavazos served as chief investment officer at Navistar, where he was responsible for all investment aspects of the company's $5 billion in retirement trust assets. His experience also includes investment and finance roles at The Boeing Company and Chrysler Corporation. Mr. Cavazos is a member of the Committee on Investment of Employee Benefit Assets, which is a plan sponsor organization representing more than 120 of the country's largest pension funds. CIEBA's members manage more than $2.5 trillion of defined benefit and defined contribution plan assets on behalf of more than 16 million plan participants and beneficiaries. Mr. Cavazos served as chairman of the CIEBA Board of Directors from October 2020 to October 2022. He previously served a two-year term as its vice chair. In those roles, he assisted CIEBA on a number of defined benefit and contribution issues. He continues to serve as a director on the CIEBA Board of Directors. Mr. Cavazos earned an MBA in Finance from the McCombs School of Business at The University of Texas at Austin. He also holds a B.S. in Finance from Oakland University in Rochester, Michigan.

About American Beacon Advisors
American Beacon Advisors is a Dallas/Fort Worth-based investment management firm with more than $60 billion in assets. Founded in 1986, the firm is known for its sub-advised exchange-traded funds, mutual funds and collective investment trusts, as well as separate account management and OCIO solutions. The firm partners with leading managers across asset classes to deliver disciplined, research-driven portfolios. For more information, visit www.americanbeaconadvisors.com.

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Past performance is no guarantee of future results.

Political, economic, regulatory and social events may react differently in foreign markets and be more difficult for investors to understand. Foreign markets can operate differently and are independent from U.S. markets, and foreign currency exchange rates may change rapidly in comparison to the U.S. dollar.

Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark is a fund's alpha.

Annualized Return: The annualized return is the geometric mean of the returns with respect to one year.

Compound Annual Growth Rate (CAGR): Required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's lifespan.

Correlation: A statistical measure of how two securities move in relation to each other.

Earnings Per Share (EPS): A financial metric for company profitability.

Gross Domestic Product (GDP): The total market value of all final goods and services produced in a country during a specific time period; it is a key indicator of a country's economic health.

Magnificent Seven: This is a term for seven of the most dominant and influential technology-focused companies in the U.S. stock market, known for their substantial market capitalization and rapid growth. The stocks that make up the Magnificent Seven are: Alphabet (GOOGL, GOOG): Parent company of Google and YouTube, focused on search, advertising, and cloud computing. Amazon (AMZN): E-commerce giant with a dominant cloud computing platform (AWS) and streaming services (Prime). Apple (AAPL): A leader in consumer electronics (iPhone, iPad, Mac) and services (Apple Music, App Store). Meta Platforms (META): The social media behemoth that owns Facebook, Instagram, and WhatsApp, and is investing heavily in the metaverse. Microsoft (MSFT): A major software provider, cloud computing leader (Azure), and owner of LinkedIn and Xbox. Nvidia (NVDA): A key player in the artificial intelligence (AI) boom due to its dominance in graphics processing units (GPUs) essential for AI and data centers. Tesla (TSLA): The leading manufacturer of electric vehicles (EVs) and a key player in renewable energy solutions.

Nifty 50 (NSEI): In the United States, the term Nifty 50 was an informal designation for a group of roughly 50 large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or "blue-chip" stocks.

Market Capitalization: Value of a corporation or other entity as determined by the market price of its securities.

Non-U.S. Domiciled: Any company or entity whose primary base of operations is not in the United States.

Price-to-Earnings Ratio ("P/E Ratio"): Current share price of a stock divided by its earnings per share.

Shiller P/E Ratio (CAPE ratio): A valuation measure that uses real earnings per share over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle.

Valuation: The process of determining the value of an asset or company. Stock analysts determine the value of a company based on current and future earnings, the market value of the company's assets and the balance sheet. A company with a high price-to-earnings ratio is said to have a high valuation or be highly valued. Bond analysts determine the value of a bond based on projections of future interest rates, and they use their valuation to determine whether a bond should be bought or sold at its current price.

Volatility: A statistical measure of risk. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Yield: The annual return on an investment, expressed as a percentage of the price. For stocks, yield is the annual dividend divided by the purchase price, also known as a dividend yield. For bonds, it is the coupon rate divided by the market price, called current yield.

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