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Surprise! Foreign Markets Show Resilience

Should investors consider opportunities in global stocks?

We believe international stocks could deserve a place in many investors' portfolios because they can potentially add [diversification and risk management benefits](#).

Another reason to consider foreign markets: They're currently outperforming the U.S. in some important ways.

The chart below shows two "economic surprise" indices—one focused on the U.S. economy and the other on global economies.

Tracking the Economic Surprise Indices



Source: Bloomberg, calculations by Horizon Investments. As of May 17, 2024.

It is not possible to invest directly in an index.

- The U.S. surprise index has fallen sharply into negative territory (-23), reflecting that economic data here at home has largely been weaker than expected lately.
- The global surprise index is currently positive—at 8.5—which means recent economic developments in foreign markets have been stronger than anticipated overall.

The upshot: International economies are delivering more positive data surprises that some equity investors like to see. That may be helping drive the recent outperformance of some international markets, such as China and various emerging markets.

That said, the relatively disappointing U.S. economic news likely isn't as bad as it may seem at first glance. Other than poor retail sales growth—which we're watching closely—most of the recent weakness has been in “soft” data, such as consumer sentiment and attitudes surveys. Moreover, such weakness may help finally give investors what they want: Fed interest rate cuts.

Ultimately, many key economic indicators remain strong enough that we believe the U.S. market represents the most attractive investment opportunity. However, modest allocations to global markets could play important roles in investors' portfolios going forward.

The CESIUSD Index, or U.S. Economic Surprise Index, is a Bloomberg index that measures daily data surprises relative to market expectations. The CESIGL Index, or Global Economic Surprise, is a Citigroup index that measures daily data surprises relative to market expectations.

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