

NAPLES GLOBAL ADVISORS

“ To deny yourself exposure to international equities is to ignore a significant portion of the world's economic opportunity. ”
- David Swensen (Former CIO of Yale's Endowment)

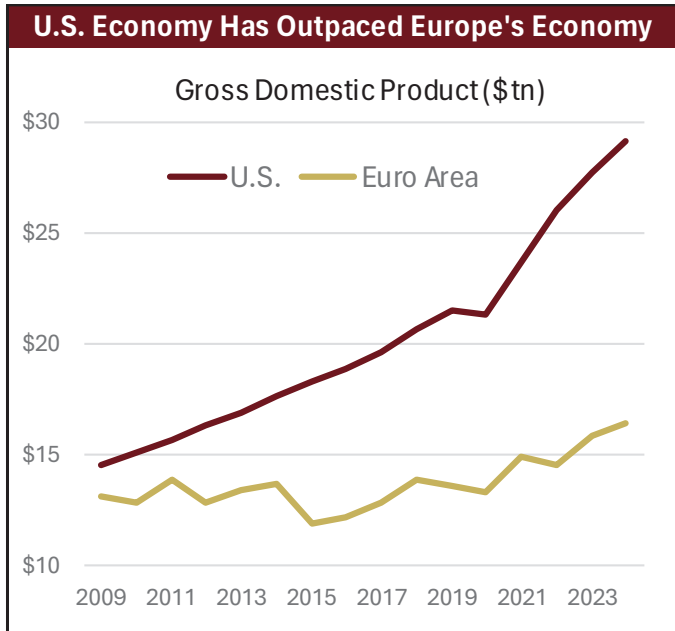
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American exceptionalism has been one of the most notable trends of the last 15 years. According to Google's AI Overview, exceptionalism is defined as “the perception or belief that a person, group, nation, or entity is unique, special, or superior to others. It often implies a departure from the norm or a deviation from typical patterns of development or behavior.” In our world of finance, American exceptionalism relates to the economy and the stock market. The U.S. economy has outpaced other developed countries by a wide margin over the last decade and a half. To put it in perspective, the U.S. economy was roughly the same size as the Euro-area economy coming out of the Great Financial crisis in 2009. Fast

forward 15 years, and the U.S. economy is now nearly double the size of Europe's. A stunning disparity in fortunes.



Source: Northern Trust, IMF

The U.S. stock market (S&P 500) has executed even better, beating the Rest of the World (MSCI All Country World ex U.S.) in 12 of the last 15 years and by an average margin of 8.8% a year—truly exceptional. There is not one singular explanation of this outperformance but rather a plethora of reasons including capitalism, historical work ethics, and innovation in technology. As such, the velocity and depth of the momentum in exceptionalism felt unstoppable.

With the incoming U.S. administration looking to seriously challenge the status quo of our globe's long-standing international trade regime, investors were seriously doubting the validity of their international investment exposure. Since the start of 2023, U.S. investors have added over \$125 bn of new monies to Domestic Equity funds while \$55 bn has been withdrawn from World Equity funds.¹ The appetite for American stocks and the distaste for international stocks were clearly palatable.

However, investing with a global opportunity set has been at the core of NGA's investment philosophy since our inception, and that has never wavered. The exposure to domestic companies undoubtedly makes up an overwhelming majority of our portfolios and likely always will. Yet, we have always stood by the belief that the U.S. does not have a monopoly on great ideas and great companies. Rather, great companies exist all over the world, and we should do our best to unearth them on behalf of our clients. In fact, there are foreign companies with products and/or services that we cannot access in the U.S. Examples of unique businesses include semiconductor fabrication plants, biotech focused on human plasma, and distribution of bitumen used in the construction of roads in Africa.

This is why we have travelled over 300,000 cumulative miles across the globe to discover new attractive investment opportunities and with one main goal in mind. Irrespective of domicile, we want to invest in companies with products and/or services that will experience growing demand. Growing demand leads to expanding sales and earnings. Expanding earnings drives stock prices higher over long periods of time and ultimately provides an adequate risk-adjusted return for our clients. That is the #1 goal of investing in equities—domestically or internationally.

There are other secondary reasons to invest in international stocks, however, and they are on full display this year. Diversification is the main ancillary benefit of owning foreign securities. As we mentioned above, we are largely looking

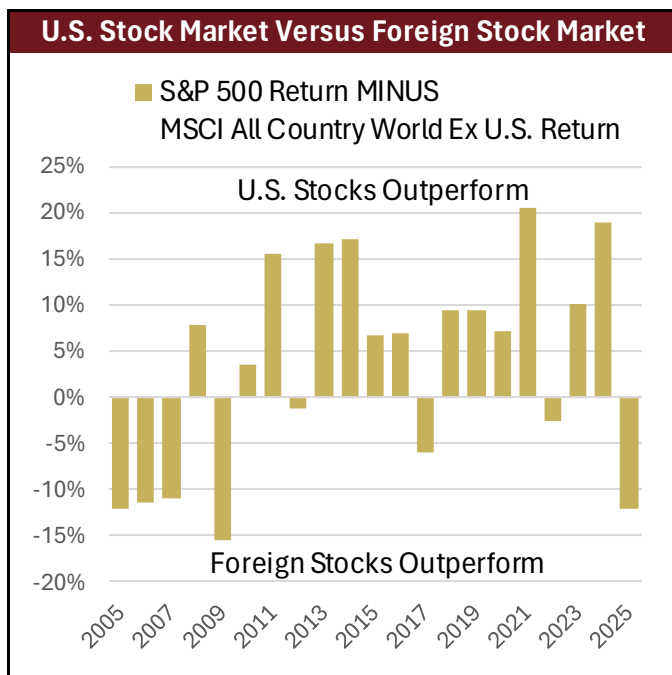
for foreign companies with exposures and drivers that may not necessarily be available domestically, which by design adds diversification to client portfolios. But on a much larger scale, companies outside the U.S. can be exposed to different monetary policies, economic cycles, and/or fiscal programs. As an example, Europe has pledged to step up its own defense spending in response to a combination of factors such as the proximity of Russia's war on Ukraine, decades of underinvestment in defense, and potential shifts in priorities of traditional allies. As a result, we have seen Euro-area defense companies rally 71% year-to-date versus 27% for U.S. defense companies.²

All diversification means is that the performance between U.S. and non-U.S. markets can ying and yang, ebb and flow. Ultimately that provides consistency and smoothness of long-term results. This minimization of volatility is particularly valuable in times of stress.

For the last 15 years, international markets have been mostly “ebbing” and U.S. equities have mostly been “flowing.” But 2025 has brought about a tangible change. Perhaps a bit confounding given all the negative global headlines, international stocks are the best performing asset class year-to-date, up 18%, whereas U.S. stocks are up only 6%.³ As the chart depicts, that is International's largest outperformance since 2009. There appear to be some tectonic shifts in motion, but it is not yet clear whether this is the end of this cycle's American exceptionalism. If performance between the U.S. and non-U.S. markets normalizes to a more balanced state, we will be delighted to have our international exposures in client portfolios.

Finally, we would be remiss to not mention one additional reason to own foreign equities—as a hedge to a complete reversal of American exceptionalism. This is not something we talk about often with clients because it is simply not our outlook. However, we do understand that some clients are worried about a variety of domestic issues (out-of-control budget deficits, threats to the U.S. dollar's reserve status, etc.). For those who are worried and want to hedge against this risk of reversal, we would propose that owning foreign companies that earn revenue in foreign currencies and that share their cash flows with investors via dividends in foreign currencies is a fantastic hedge if it all goes wrong here in the U.S. Again, that is not our base case. We continue to believe in a level of American exceptionalism, but we understand that some clients may want a hedge if that is not the case. While foreign stocks have performed extremely well year-to-date, ~11% of their 18% year-to-date return has been driven by the decline in the U.S. dollar versus other currencies.⁴ Certainly, a nice “hedge” to have inside client portfolios this year.

Naples Global Advisors remains committed to traveling the globe to perform our boots-on-the-ground research in pursuit of companies that can provide adequate risk-adjusted returns, diversification, and/or a hedge. In fact, we are already making our preparations for a trip to the **Land Down Under** in the second half of this year. We feel it is our duty to go that extra mile on your behalf, whether it's through our thoughtful investment research and portfolio management, our unbiased financial advice, or our dedicated service.



Source: Bloomberg, S&P, MSCI

¹ *Weekly Estimated Long-Term Mutual Fund Flows*, Investment Company Institute, 25 June 2025, www.ici.org/research/stats/weekly-mfflows.

² Euro-area defense company performance measured via the MSCI Europe Aero & Defense Index (MXEU0AD). US defense company performance measured via the S&P500 Aero & Defense Index (S5AEROX).

³ International stock performance measured via the MSCI All Country World Index ex USA. US stock performance measured via the S&P 500 Index.

⁴ US dollar depreciation measured via the US Dollar Index (DXY).



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