To learn more about how international stocks may benefit your portfolio, we recommend speaking with your financial advisor. (UBS)

Reduce home bias to improve your portfolio

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Within portfolios, home bias is the tendency for investors to over-invest in their home country's stock market, leaving them under-allocated to international stock markets. Home bias can be damaging to investor portfolios, leaving investors poorly diversified against country-specific stock market risks such as politics, demographics, and geopolitics.

According to UBS Chief Investment Office (CIO) research, home bias is observed in most countries. For example, South Korean investors hold 66% of their portfolios in Korean stocks, which make up only 1% of the global stock market by market capitalization. Swiss investors allocate 42% to Swiss stocks, even though they make up only 3% of the global stock market and are heavily concentrated in a handful of companies.

In the US, investors allocate 75% of their portfolio to domestic stocks, which make up about 63% of the global stock market. Although the US stock market is better diversified than many other countries' markets, it is increasingly concentrated in a handful of expensive mega-cap technology and communication stocks. The US has experienced long bouts of underperformance versus global stocks in the past; from 1999 to 2007, following the Tech Bubble, US stocks gained just 38% while the MSCI EAFE index rallied 91% and the MSCI Emerging Markets Index grew 408%.

Home bias leaves investors exposed to greater risk from domestic economic and political shocks, such as Brexit. As highlighted in the March 2024 UBS Monthly House View Investment Strategy Guide, "while there may be good reasons for some home bias (for example, due to tax and regulatory considerations), too large a home bias can result in poorly diversified portfolios. Localized crises, like the Asian financial crisis of the late 1990s and the Eurozone sovereign debt crisis of the late 2000s, illustrate how regional challenges can hurt investors whose portfolios are heavily tilted toward the countries in which they live."

Going forward, we expect international stocks to add about 15–20% to returns versus a US-only stock portfolio, with a better risk-adjusted return as well. Moreover, we expect a globally diversified portfolio to have recover more quickly from losses due to stock and sector concentration risks.

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