

The big friendly trade

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A book at bedtime

For me, one of the best parts of the day is reading to my children at bedtime: settling into a comfortable chair and taking them on adventures into lands dreamed up in the fabulous imaginations of the finest authors. One staple is Roald Dahl, whose eccentric tales and kooky characters continue to delight around the world, with one of his books selling every three seconds.

A beloved classic and personal favourite is *The BFG*, the story of the eponymous Big Friendly Giant who teams up with a poor orphan girl, Sophie, to take down a troop of man-eating giants with the help of Her Majesty the Queen. Stirring, patriotic stuff.

One early scene shows our hero Sophie discovering all the strange details of the BFG's life, and, with her tummy rumbling, the subject turns naturally to food. Here, the BFG shows Sophie the true price of his non-human eating ways:

"In this sloshfunking Giant Country, happy eats like pineapples and pigwinkles is simply not growing. Nothing is growing except for one extremely icky-poo vegetable. It is called the snozzcumber... I squoggle it! I mispise it! I dispunge it! But because I is refusing to gobble up human beans like the other giants, I must spend my life guzzling up icky-poo snozzcubmers instead"

Sophie's initial reaction is denial, proclaiming that such a vegetable simply does not exist. The wise BFG gently reprimands her kneejerk scepticism, reminding her that:

"Yesterday we is not believing in giants, was we? Today we is not believing in snozzcubmers. Just because we happen not to have actually seen something with our own two little winkles, we think it is not existing."

We have [said](#) it [before](#), and we will [say it again](#): all great works of art contain valuable lessons for the thoughtful investor – and fantastical children's stories are no exception. The BFG's gentle caution is as clear as it is fundamental: a lack of personal experience does not mean that something cannot happen, does not exist, or is beyond the realms of possibility.

Indeed, in decision-making theory, this is more formally captured by the availability heuristic, defined as:

*"A judgmental heuristic in which a person evaluates the frequency of classes or the probability of events by availability, i.e., by the ease with which relevant instances come to mind"*¹

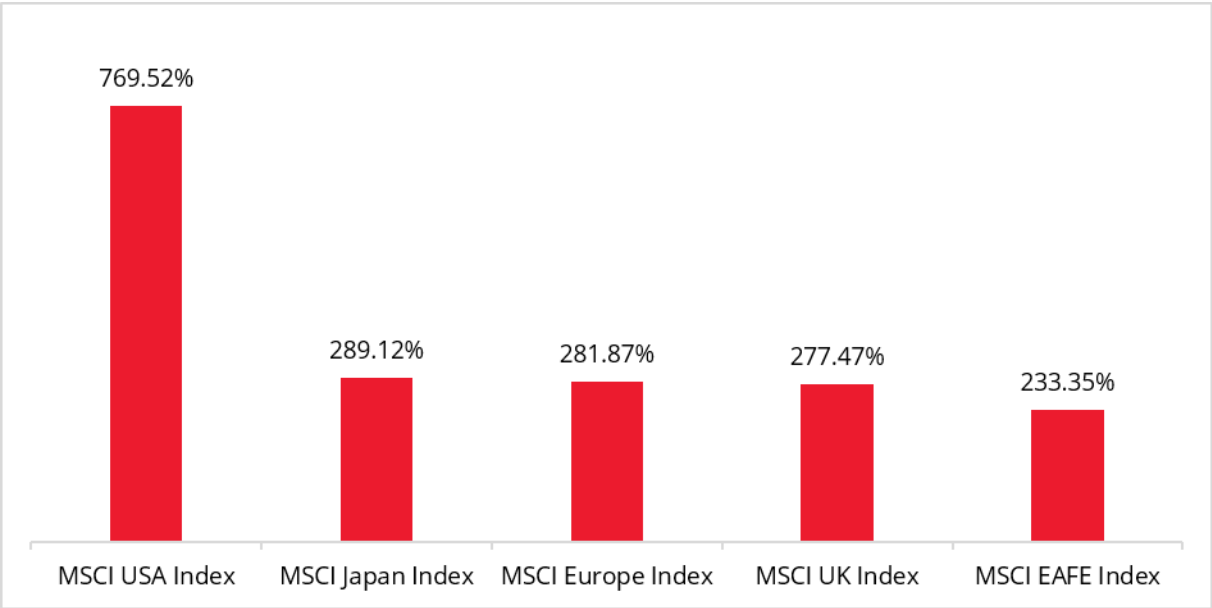
Today, many investors in our view are at risk of falling foul of this dangerous oversight, with one blind spot in particular: the continued exceptionalism of American equity returns.

The American dream

Most professional investors currently peddling their wares – your author humbly included – have lived and worked through a virtually uninterrupted period where one single trade dominated: buy America. In the last twenty years, the US equity market has resoundingly outperformed other major global markets, whether taken together – represented by the MSCI EAFE Index, which captures developed market returns outside of North America – or assessed separately.

¹ Amos Tversky, Daniel Kahneman, Availability: A heuristic for judging frequency and probability, Cognitive Psychology, Volume 5, Issue 2, 1973

Chart 1: Major markets – Total returns, 2006 - 2026

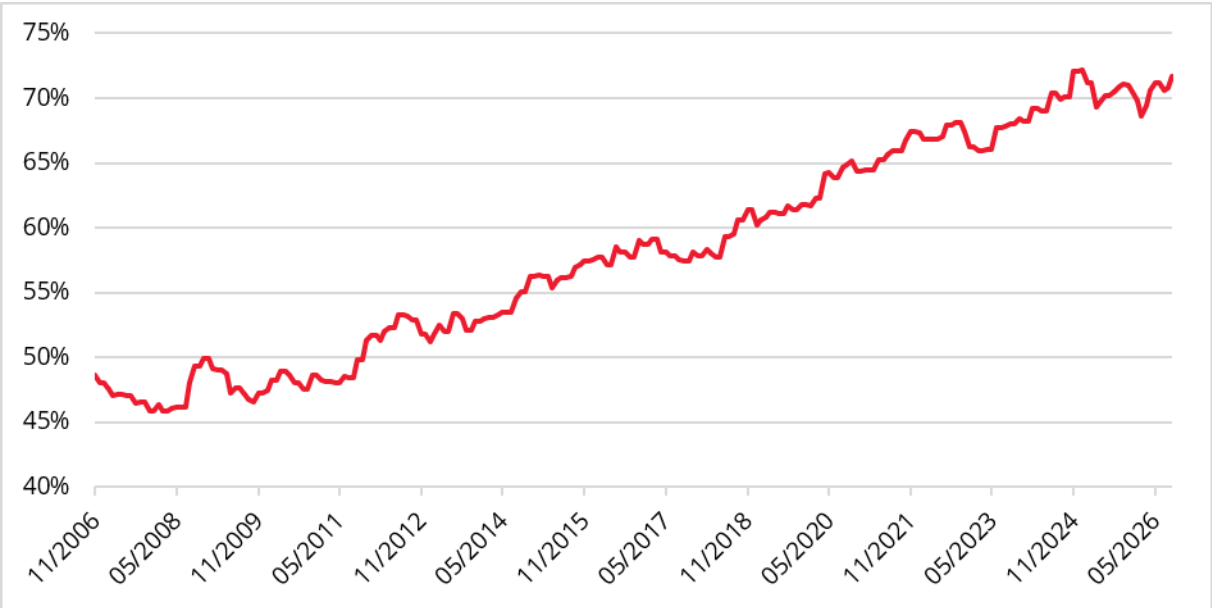


Source: Bloomberg, 30 June 2026. The information shown above is for illustrative purposes. Past performance is not a guide to future results.

As a result, the idea that there could ever be a period during which US equities might underperform their international peers is as foreign to many investors as the snozzcumber was to Sophie. With no prior personal experience to think of, and no recent data pointing to the contrary, why would this prospect even cross their mind?

Many investors have seen their exposures to US companies balloon over time, rising to historically unprecedented levels. A cursory look at the composition of the MSCI World, the most widely used benchmark of global equity markets, will attest to that fact: today, the US comprises 71.7% of the global market², the culmination of a steady upward march over the past twenty years.

Chart 2: Weight of US stocks in the MSCI World Index, 2006 - 2026



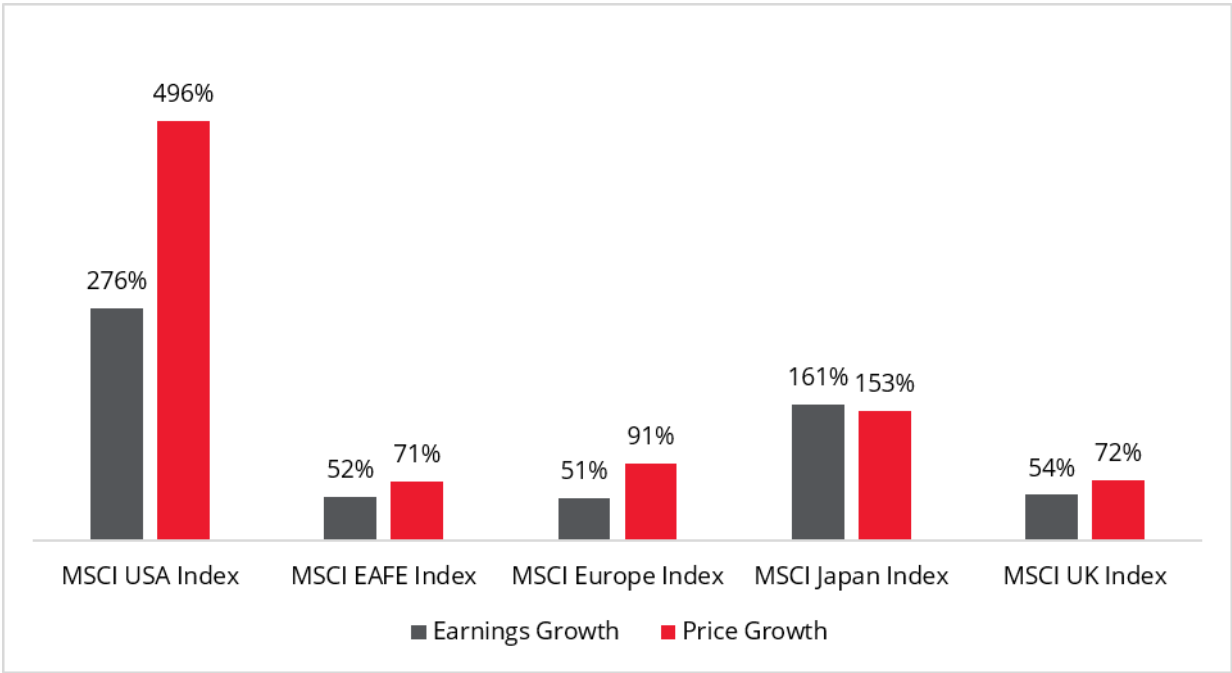
Source: Bloomberg, 23 September 2026. The information shown above is for illustrative purposes.

² Weighted by market capitalisation, data as of 23 September 2026; Source: Bloomberg, MSCI

Whilst it is true that corporate America has delivered strong earnings growth and economic success, this outsized representation runs well ahead of their share of global GDP, which currently stands at a mere 25.6%³. Instead, the majority of the increase in global equity market weight has been driven by an increase in valuation, rather than earnings: investors have been, by and large, willing to pay more and more for each dollar of American earnings than international ones.

Comparing the cumulative growth of earnings for various markets with the growth in their valuations – how much investors are willing to pay for those earnings – makes this point even more explicit.

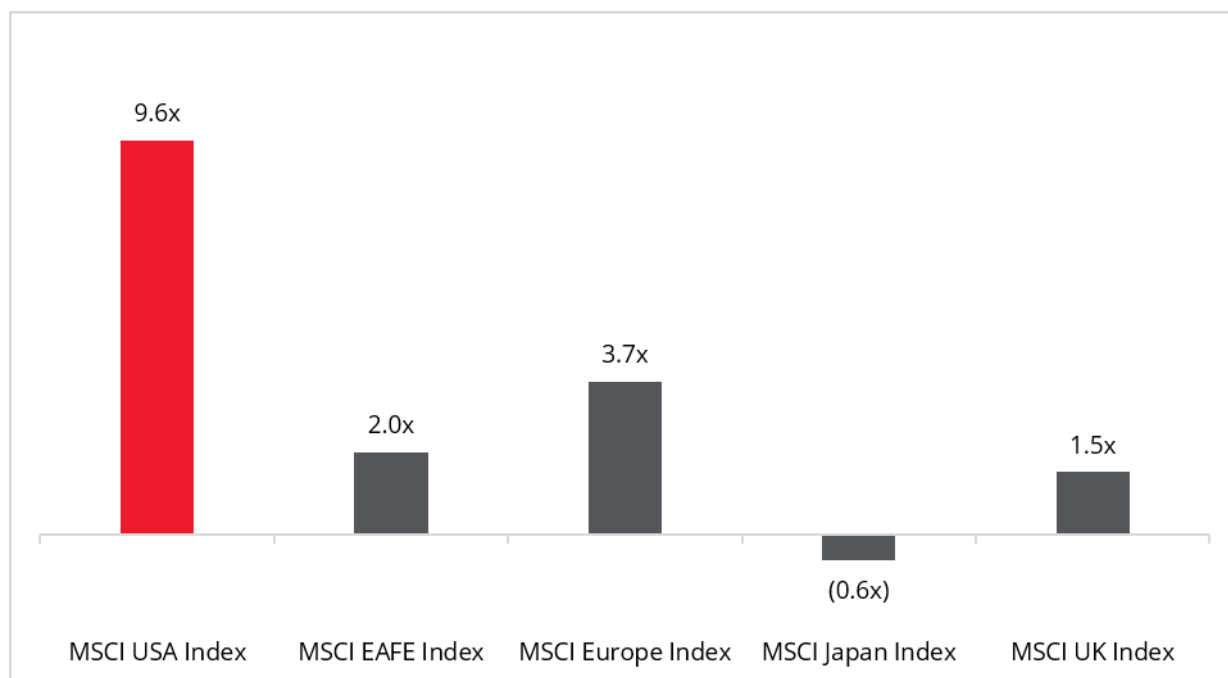
Chart 3: Major markets - Earnings and price growth, 2006 - 2026



Source: Bloomberg, 30 June 2026. The information shown above is for illustrative purposes. Past performance is not a guide to future results.

³ Source: IMF World Economic Outlook, April 2026

Chart 4: Major markets - P/E multiple expansion, 2006 - 2026



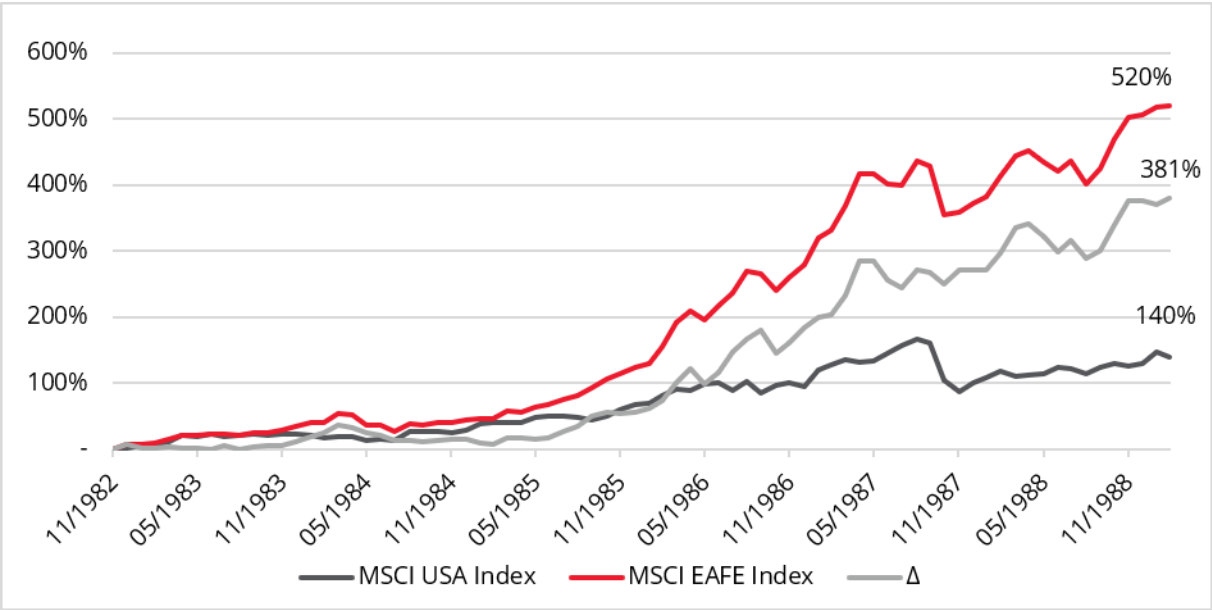
Source: Bloomberg, 30 June 2026. The information shown above is for illustrative purposes. Past performance is not a guide to future results.

In light of these seismic shifts, driven largely by changes in valuation, we believe that the cautious investor – cognisant of the [ringing alarm bells in US equity valuations](#) – must consider today whether the future may look different from the recent past.

The fall of a giant

Although it has faded from memory, and certainly from headlines, there have in fact been sustained periods of time when US investors suffered years of substantial equity market underperformance, typically following the bursting of a large valuation bubble. For instance, at the end of the Nifty-Fifty era in the late 1970's – when 50 US blue-chip companies such as Xerox, Polaroid and Revlon were seen as safe investments at any price – investors caught up in this enthusiasm with US companies saw the value of their shares plummet, and would spend the next six years trailing their international peers by nearly four hundred percentage points:

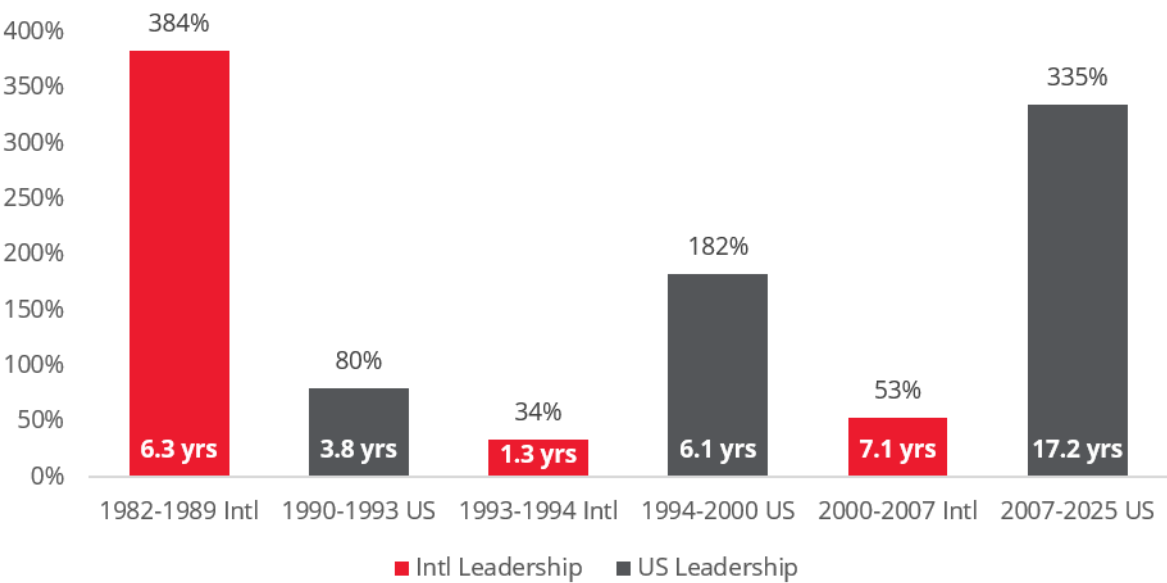
Chart 5: MSCI EAFE vs MSCI USA – Performance 1982 - 1989



Source: Bloomberg, 23 September 2026. Normalised to 0. Delta shows the relative difference between the performance of the two indices. The information shown above is for illustrative purposes. Past performance is not a guide to future results.

In fact, what the long-term record shows overall is a series of cycles, punctuated by gut-wrenching rotations that change the direction of over- or under-performance on a periodic basis.⁴

Chart 6: US vs EAFE – Performance cycles

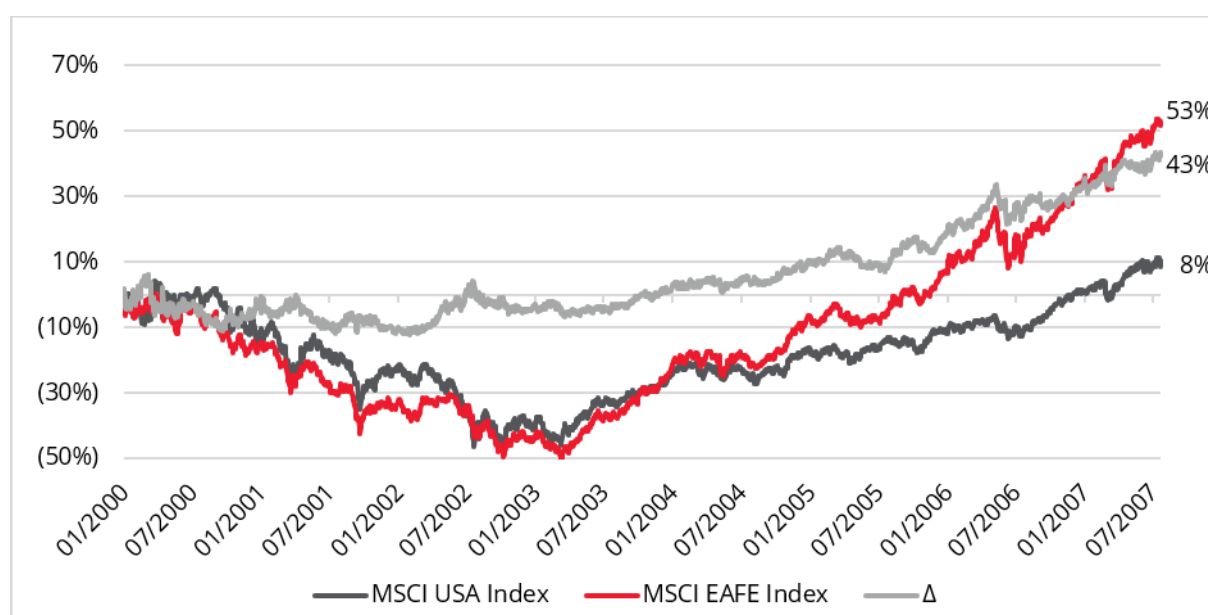


Source: Bloomberg, Redwheel, December 2025. Relative total return performance of U.S. Large Cap (MSCI USA) and International Developed (MSCI EAFE) equities from December 31, 1969. Regime changes are determined when cumulative outperformance peaks and is not reached again in a subsequent 12-month period. Past performance is not a guide to the future. The information shown above is for illustrative purposes.

⁴ See [‘The case for international value’](#), Redwheel, June 2026

Today, we stand at a time in history when the share prices of US corporations have, in aggregate, outperformed their international peers for the longest stretch on record: 17.2 years and counting, eclipsing their prior run of 6.1 years, from 1994 – 2000, memorably a time of a large build-up of frothy valuation excess. As we have [previously noted](#), US equity valuations today are abnormally elevated, sitting well above the Nifty Fifty era, and only a touch below the highs experienced just before the dotcom bubble burst in early 2000. Both events triggered a subsequent multi—year period of international outperformance against the US, with the start of the new millennium a similarly bleak time for US domestic equities.

Chart 7: MSCI EAFE vs MSCI USA – Performance, 2000 - 2007



Source: Bloomberg, 23 September. Delta shows the relative difference between the performance of the two indices. Normalised to 100. The information shown above is for illustrative purposes. Past performance is not a guide to future results.

We are not, of course, suggesting that investors flee from the US in its entirety, nor do we claim to be so prescient as to foresee what the next decade holds. However, our observations are merely that, whilst it may seem unconscionable to many, the US market can, and has, underperformed its international peers for many years in the past. With valuations as high as they are today, the risk of that repeating in the future is, at the very least, a genuine one, one which all investors would be prudent to consider.

In sickness, health

Before we conclude, one final word of caution about the US market is worth considering. The current boom is being notably driven by ever fewer companies, a sign of an extraordinarily inefficient market propped up by myopic investors crowding into a waning number of trades and pushing the envelope of irrational exuberance. As this is being written, the clearest example yet of this phenomenon has presented itself: on Monday, September 21st – when the S&P 500 Index rallied to within 1% of its all-time high – more companies in the index fell to new lows than new highs⁵. There have only been two days in recorded history with similar dynamics at play: December 21st, 1999, and July 23rd, 1929, both pre-empting devastating and historic losses for US equity markets – and marking the start of years of international outperformance.

A positive corollary of this high degree of US dispersion – many companies seeing valuations fall, offset by a few huge winners – is that, for the discerning active investor willing to look hard, there is an increasing number of cheap opportunities emerging in the US. Indeed, the exposure to North America in our global strategy has increased through the course of 2026

⁵ Bloomberg, 21 September 2026

– nearly doubling to ~44% today, but still well below the global index – as we feast on those companies left at the wayside of the technology boom.

As the BFG cautions Sophie, it is incumbent on investors today to be mindful that, just because many today have never seen (with their own two little ‘winkles’) the US underperform for any meaningful stretch of time, it does not mean that this cannot come to pass. Indeed, we would argue that current corporate valuations, and increasing reliance on a handful of exceedingly popular companies, make that outcome more likely than not. As always, one man’s risk is another’s opportunity – and we believe that the opportunity for compelling returns lies, today, in cheap international markets.

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