Through a Wider Lens: The Growth Opportunity Beyond US Markets

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Have the rules of International Growth Equity investing changed? The past 12 months have been chaotic and norm-busting: tariff whiplash, bunker bombs, rare earth chokeholds, AI overlords, deficit scolds. Against this backdrop, many investors see a world they no longer fully recognize, and they wonder how anyone can confidently identify long-term opportunities when uncertainty appears to be so high.

Jennison understands this perspective, but we believe "this time is not different." In 20 years of global equity investing, Jennison has managed through a range of crises, market shocks, and macroeconomic cycles. We believe it is important for investors to maintain a long-term perspective on international growth equities. Specifically, given today's market environment, investors should keep the following in mind:

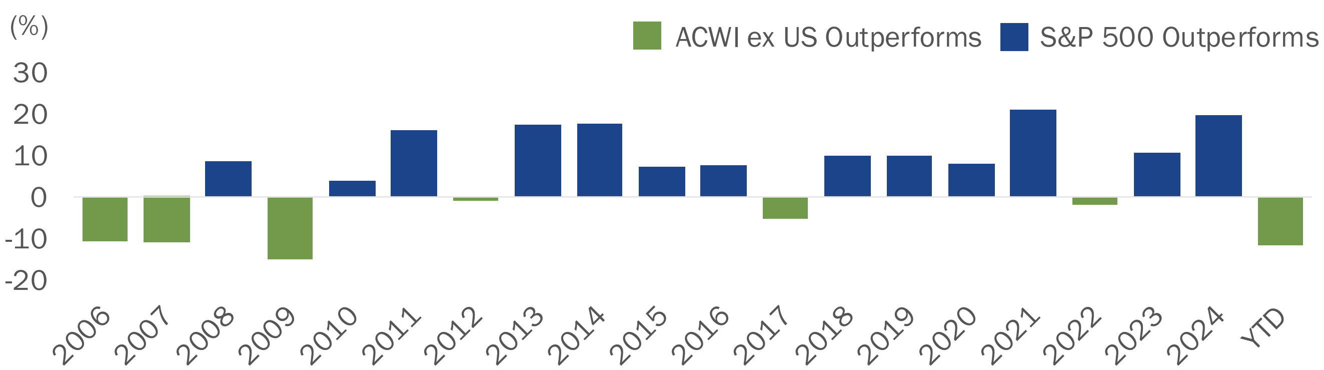
- Despite generating relatively strong performance through mid-2025, international growth equities remain historically inexpensive.
- The international growth equity space is inefficient for active investors, with opportunities to identify secular growth companies at favorable terms.
- Passive international equity strategies are underexposed to secular growth companies and are significantly exposed to traditional financials, industrials, materials, and energy, representing over 50% of the market opportunity.
- Bottom-up, fundamental investing, in our view, is the most effective way to identify opportunities because it incorporates both company-specific information and macroeconomic, geopolitical inputs.[1]
- The growth equity asset class includes a broad spectrum of companies with a range of characteristics. By understanding these characteristics, investors can better anticipate performance and long-term outcomes.
- Secular trends can boost the prospects of well-managed companies with exposure to these opportunities.

International Growth Equities Remain Attractive

International stocks (represented by the MSCI ACWI ex US) generated relatively strong returns compared to large cap US stocks (represented by the S&P 500 Index) in the first half of 2025, reversing a trend of market dominance by US companies (Exhibit 1).

Exhibit 1: US vs. International Stock Outperformance Reversed in 2025

S&P 500 Minus ACWI ex US Performance



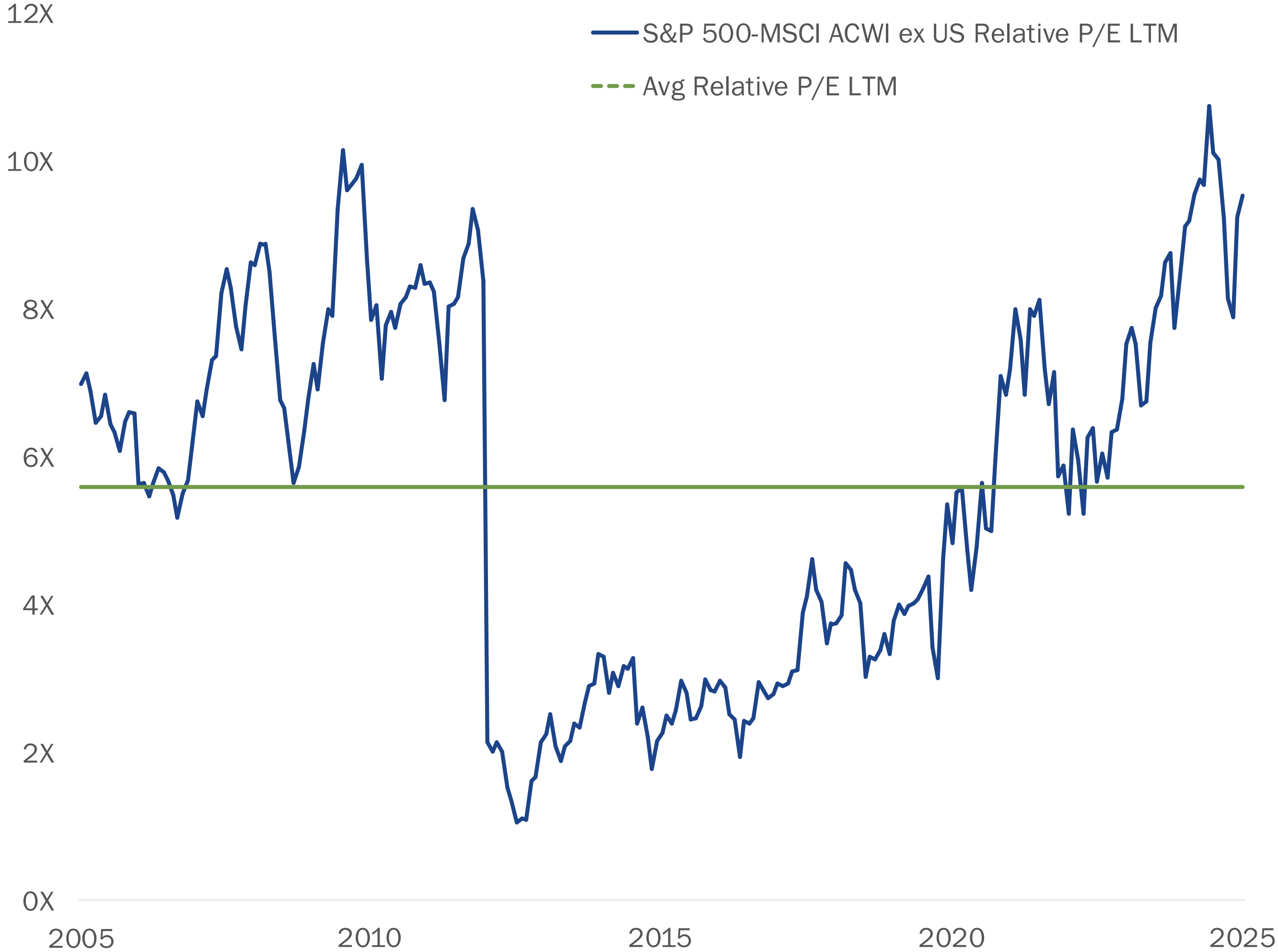
Data through June 30, 2025. Past performance does not guarantee future results.
Source: MSCI, Standard and Poor's, Jennison

[1] Active bottom-up fundamental investing is not suitable for all investors. There is no assurance that any strategies, methods, sectors, or any investment programs were or will prove to be profitable.

Despite the recent outperformance, however, international growth equities remain relatively inexpensive (Exhibit 2). US stocks, led by technology companies, have been lead performers over the past several years. This outperformance has also driven multiple expansion, leaving US stocks with far higher valuations than their international peers. The outperformance of US stocks, in many ways, has been fundamentally justified. US tech companies, unlike previously in the tech bubble of the late 1990s, have generated strong earnings and returns. International stocks, however, include many competitive, well-run, and innovative companies that offer growth potential at a relatively attractive price. These companies offer opportunities for skilled and perceptive investors.

Exhibit 2: International Stocks Remain Attractively Valued Compared to US Stocks

S&P 500 Index P/E Minus MSCI ACWI ex-US P/E



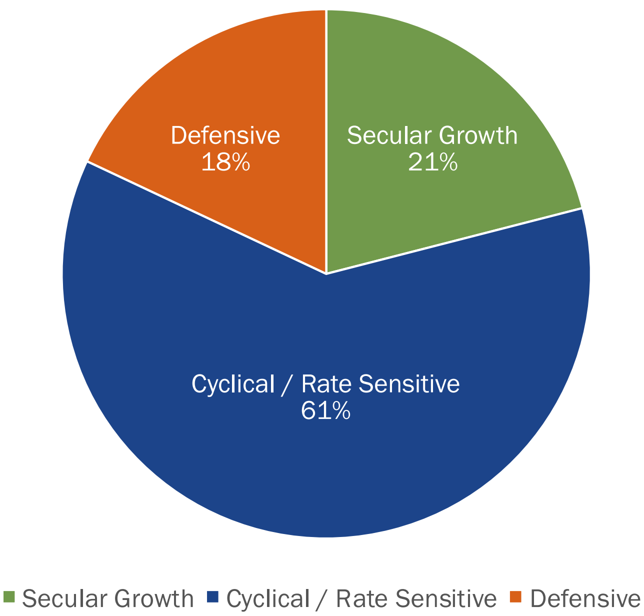
Data through June 30, 2025
Source: MSCI, Standard & Poor's, Jennison

International Companies Offer Growth Opportunities for Active Investors

International equities offer investors diversification, but the core international index (the MSCI ACWI ex US) has a distinct value bias, as is highlighted by its large, 61%, weight to cyclical/rate-sensitive sectors—financials, energy, materials, and industrials—and lower weight to secular growth sectors like technology (Exhibit 3). These higher-growth companies have historically outperformed their slower-growing counterparts. Active strategies that focus on consistently faster-growing international companies have the potential to outperform.

Exhibit 3: Passive Exposure to International Equities May Lean to Value

MSCI ACWI ex US



As of June 30, 2025
Sources: Jennison, MSCI

Historical performance suggests that passive or core international strategies that attempt to replicate broad indexes may end up missing significant excess return opportunities. We note that the overwhelming allocation to international equities remain in core mandates, leaving many investors underexposed to secular growth companies in their international allocation.

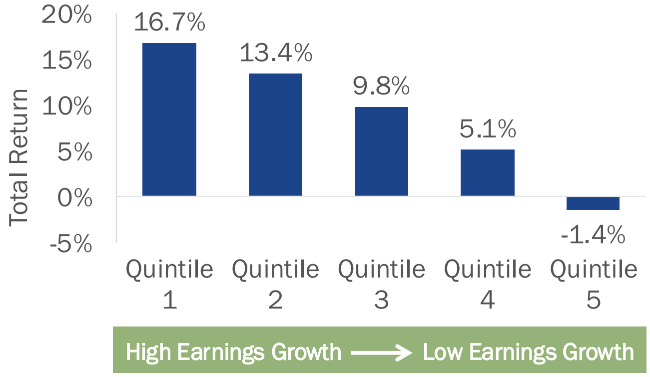
Bottom-Up, Fundamental Investing: Applicable through a Range of Environments

Over the past 20 years, the Global Equity team has traveled the world to uncover the most promising growth companies, tackle challenges, and invest through varying market environments. What has this journey taught us? Bottom-up, fundamental investing, in our view, is the most effective way to identify potential alpha opportunities because it incorporates both company-specific information and macroeconomic, geopolitical inputs.

Historically, companies with the highest earnings growth have significantly outperformed their peers with lower earnings growth (Exhibit 4). We believe identifying companies with unique and defensible business models, products or services with inflecting demand, and growing addressable markets lays a foundation for early identification of high-earnings-growth companies that offer compelling investment potential. These are often companies introducing innovations that change how we live or how businesses operate. They may have product offerings with relatively scarcity, value and pricing power, protected intellectual property, or a wide network effect. These companies, while not immune to changing market environments, tend to nonetheless prove more resilient, and durable, over time. Their idiosyncratic characteristics help withstand market pressures or in some cases recover faster in certain circumstances.

Exhibit 4: Returns Have Historically Followed Growth

MSCI All Country World Index Performance by 5-Year Earnings Growth Quintile



Data for 12/31/97 to 3/31/25. Most recent data available.
Source: FactSet and MSCI. Chart was created by Jennison using FactSet data for the MSCI All Country World Index. The cart above reflects the average median annualized returns of index stocks over rolling 5-year periods, ranked by quintiles based on 5-year historical earnings growth (1=highest, 5=lowest).
Past performance does not guarantee future results.

Global Growth Companies Are on a Spectrum

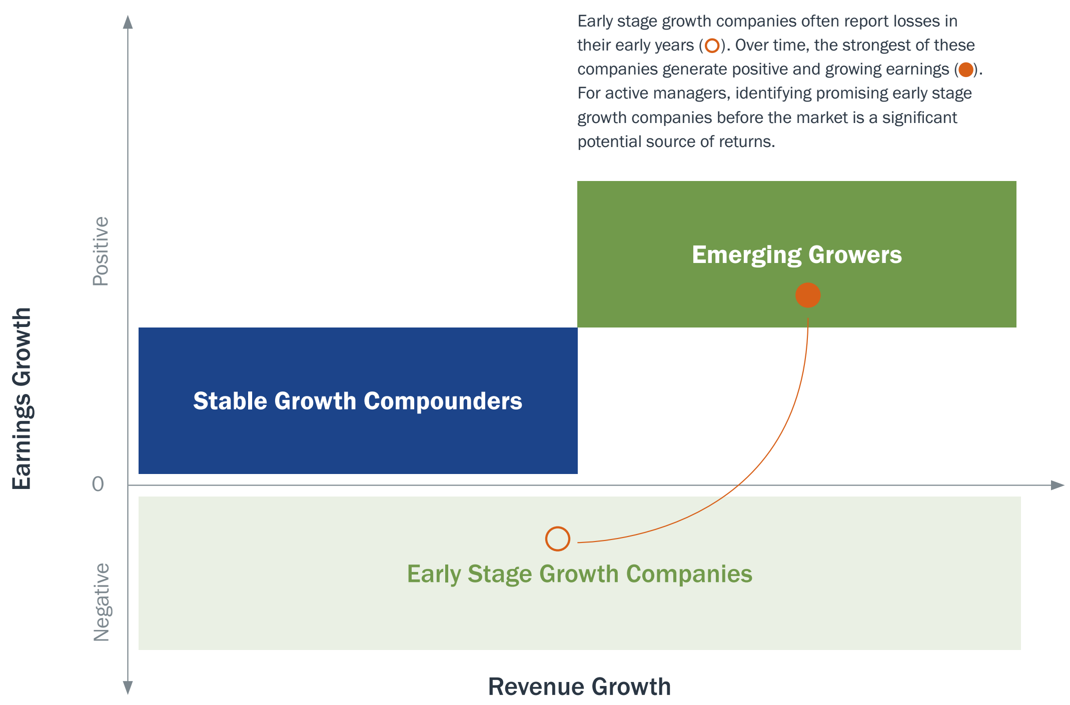
The sources of growth can vary and are often fluid. While strong, persistent growth is typically driven by innovation or technological disruption, the drivers are rarely, if ever, predictable or static. In the course of our fundamental research, we have observed two distinct types of growth companies: emerging growers and stable growth compounders.

Although both groups consist of growth stocks, the differences in their characteristics and performance can be profound (Exhibit 5). Emerging growers are typically young disruptors, in a new or developing industry, and offer significant upside potential. To fuel their rapid growth, emerging growers reinvest their cash flow into sales, marketing, research, product development, and achieving scale, while reporting relatively low—or no—profits. These strategic decisions can depress margins and earnings over the short term (usually 1–2 years), but this is typically followed by a phase of pronounced growth over the following 3–5 years.

Stable growth compounders also demonstrate above-average growth potential, but they have a history of profitability and established drivers of growth. Stable growth compounders are often former emerging growers that have matured into large or mega cap companies with a flourishing mix of products and services. They can maintain their competitive position through continued innovation and expansion into new markets or by leveraging an established business that cannot be easily replicated by competitors.

Jennison follows a bottom-up investment process and does not deliberately weight the portfolio toward emerging growers versus stable growth compounders or vice versa. In adverse conditions, some active managers deviate from their philosophy and process, known as "style drift," or more colloquially, "capitulation." While we try to learn as many lessons as possible from the experience (see our *The Global Spectrum of Growth* paper), we do not deviate from our fundamental long-term philosophy.

Exhibit 5: Two Distinct Types of Growth Companies: Emerging Growers and Stable Growth Compounders



For illustrative purposes only.
Source: Jennison

Global Secular Trends

Secular trends can boost the prospects of well-managed companies with exposure to them. We have observed several:

- **AI is a truly global phenomena**, with potential winners and losers in several areas and industries. In early 2025, for example, the launch of a new generative AI model upended assumptions about the competitiveness of Chinese firms in AI. DeepSeek, a Chinese AI startup, announced that its R1 model could achieve comparable performance to leading US models at lower cost. Lower costs improve affordability and accessibility for users, ultimately driving increased adoption and broader AI use. We view this trend as broadly beneficial for consumers, enterprises, and the tech industry overall. Ultimately, the DeepSeek news was an example that AI innovation is not limited to US technology firms with resources and expertise, especially as the AI revolution moves from the capex phase to applications development.

- Many industries—such as **luxury** and **mobility**—have been unevenly impacted by recent macroeconomic and consumer shifts, creating selective investment opportunities. In the luxury sector, the direct-to-consumer (DTC) format is now well-established, and it provides brands with control over distribution, pricing, and customer experience. This structural advantage—supported by investments in owned retail, digital platforms, and customer analytics—has strengthened brand equity and expanded margins. Moreover, brands catering to the high-end consumer, who is typically more insulated from economic slowdowns, have continued to demonstrate resilience in the face of regional volatility and shifting demand patterns.

- The **mobility sector** is undergoing a significant transformation, driven by electrification, autonomous technologies, and evolving usage models—opening long-duration growth opportunities for innovative companies leading the transition. China, in particular, stands out as a leader in EV adoption and next-generation mobility innovation, offering long-duration growth opportunities for companies at the forefront of this global transition.

- In emerging markets, **fintech** and **e-commerce** expansion represents a compelling secular growth opportunity. Rising smartphone adoption, favorable demographic trends, and large underbanked populations are accelerating the shift toward digital financial services and online consumption. Consumers are increasingly gaining access not just to basic banking, but to a broad suite of financial products—including digital wallets, credit, insurance, and investment platforms. As they leapfrog traditional financial infrastructure, companies enabling digital payments, mobile banking, last-mile logistics, and e-commerce marketplaces are well-positioned to capture share. Over time, these businesses stand to benefit from the formalization of informal economies, broader financial inclusion, and a growing middle class driving sustained consumption across regions such as Southeast Asia, Latin America, and parts of Africa.

- **Europe**, led by Germany, has made long-term commitments to higher defense spending, representing a structural change. In Germany's case, the shift entails increased government spending overall and especially on the defense sector, with potential spillover effects throughout the German and European economy. Companies in cyclical industries may see a secular increase in their prospects.

Conclusion

Investors in international growth equities have had many reasons to reconsider their positions over the past year. Tariffs and conflicts have caused geopolitical upheaval, while accelerating technological breakthroughs promise to transform the global economy. Long-held assumptions about the world—especially in trade and security—have been upended.

We believe, however, that this is no time for investors to pull back from international equities. Historically, well-run and innovative international companies have been a potential source of long-term returns for portfolios. In fact, we believe the uncertainty and volatility in global markets offers potential opportunities for investors with the skill, perspective, and acumen to exploit them.

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The cover art was produced with the help of Artificial Intelligence. Made up of several elements—such as a lens that is viewing the world—the illustration shows a chart of market price fluctuations, and an exhibit of trading volume. Together, they invoke the perspective of the global investor.

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