

The Next Big Rotation: Why Global Markets Deserve a Fresh Look

By Paul Ehrlichman



FLEXTION It's about *time*.

At Flexion, we help investors navigate change, not chase momentum. We don't claim to predict the future. What we do is position portfolios on the right side of long-term trends—and right now, the setup for international markets is too compelling to ignore. Our approach blends humility, fundamentals, diversification and a margin of safety—favoring what's undervalued with upside and trimming what's overpriced and overhyped.

In short, buy tomorrow's winners, sell yesterday's heroes.



Investing internationally may offer more than just diversification—it could be the key to capturing a generational shift in market leadership. After decades of relative underperformance, international stocks are now positioned for a potential renaissance—driven by improving valuations, earnings growth and supportive macro trends.

Right now, one of the most dominant—and potentially overextended—trends is the outperformance of U.S. equities. Over the last 50 years, the MSCI EAFE Index has lagged the S&P 500 by over 300 basis points annually. U.S. stocks now trade at a record 200% of GDP (Buffett Indicator), while the global average is closer to 100%—Europe and China sit at just 54% and 53%, respectively. That's the deepest valuation discount for international equities in modern history.



And it's not just about valuation. Earnings expectations are shifting too.

U.S. companies are seeing peak profits and downward revisions in early 2025, while Europe is experiencing upward earnings momentum. For 2025, international developed markets are expected to nearly double earnings growth compared to a slight improvement in the U.S., while Emerging Markets are forecasted to outpace U.S. profits with over 15% growth. International dividends are also more compelling—twice the 1.3% yield of the S&P 500®.

Macroeconomic and policy dynamics further support the case. As the U.S. urges allies to shoulder more responsibility for security and economic development, countries like China, Japan and those across Europe are ramping up stimulus. Markets are responding. International value stocks are outperforming growth by nearly 1,500 basis points, and the MSCI EAFE Small Cap Index gained 3.7% in Q1 2025. Chinese equities surged 15% last quarter and over 40% year-on-year.

Meanwhile, in the U.S., the S&P SmallCap 600® Value Index is down nearly 10% year-to-date—an indication that domestic conditions may not be as supportive going forward. At the same time, a weakening U.S. dollar adds an additional tailwind for foreign holdings, offering both potential return and a hedge.

For investors willing to look beyond the familiar, this could mark the beginning of a long-overdue rotation—and a rare window to rebalance portfolios toward global opportunity.

At Flextion, we highlight a selection of strategies and funds that stand out using our proprietary process. The world is changing. Your portfolio should too.

Recommended Strategies:

- ▶ AB Sustainable International Thematic Fund
- ▶ BNY Mellon International Stock Fund
- ▶ Calvert International Opportunities Fund
- ▶ Gabelli International Growth
- ▶ MFS Research International Fund
- ▶ Oakmark International Value
- ▶ T. Rowe Price Overseas Stock Fund
- ▶ Transamerica International Focus
- ▶ Wasatch Emerging Markets Small Cap
- ▶ WisdomTree Europe Quality Dividend Growth Fund

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About the Author

Paul Ehrlichman, Flextion's CEO and CIO, has over four decades of experience in portfolio management, leveraging fundamental and quantitative research to develop investment processes and strategies that enhance client returns and manage risks in volatile markets. He has led equity teams focused on global and international value strategies, serving a diverse client base that includes individuals, pension funds, and endowments at several leading global asset managers.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between “clock time” and “market time,” empowering investors to unlock long-term value and uncover hidden performance potential.

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