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## **Portfolio Perspectives: Putting Global Diversification to Work in Today's Market**

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Most individual investors think they're diversified, but it may not always be the case.

They may own a mix of stocks and bonds, and their portfolio may look balanced on paper. However, when you break it down, a different story emerges.

Many investors are heavily tilted toward U.S. equities without knowing it. Specifically, ownership is often concentrated in a relatively small group of well-known, mega-cap growth stocks, known as the "Magnificent 7," that have driven most returns over the last few years. Those companies include: Nvidia (NVDA), Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (META) and Tesla (TSLA).

As those companies grew with the artificial intelligence (AI) boom, so did their weight in portfolios. As of April 2026, the Magnificent 7 represented nearly 34% of the S&P 500's total market capitalization, up from less than 13% in 2016. In 2025 alone, that same group drove approximately 42% of the index's total return, that doesn't leave much room for the other 493 stocks.

An investor who owns an S&P 500 index fund may be far more concentrated in these seven companies than they realize. To make things worse, investors have often made separate investments in some of these seven companies alongside their balanced portfolios, further exacerbating the issue.

Concurrently, "well diversified" portfolios have sneakily drifted toward:

- U.S. markets
- Large-cap growth companies
- Lower international allocations

As a result, what looks like a balanced portfolio is increasingly a concentrated bet on a single country, a single sector and a single investing style. If U.S. Mega-Cap growth experiences a meaningful correction, or simply a prolonged period of underperformance, investors who are

unknowingly overexposed could see deeper drawdowns than their risk tolerance would suggest. The very thing they thought protected them — diversification — has quietly eroded.

### **What is diversification, really?**

Diversification isn't just about owning more assets; it's about owning different catalysts (or avenues) of return. Global exposure adds different catalysts such as:

- Economic cycles
- Sector mixes
- Policy environments
- Currencies

Each of these catalysts moves on its own timeline. Economies grow at different rates and respond to different demand and demographic cycles. International indexes carry meaningfully different sector weights — financials, industrials, energy and materials all play a larger role overseas than they do in the heavily, tech-tilted U.S. market. Policy environments such as interest rates, fiscal spending and regulation vary by region and rarely move in lockstep. Currency movements can either amplify or offset the returns of foreign investments, adding another independent source of return.

True diversification means owning assets that respond to fundamentally different drivers — not simply owning more of what you already have. There's a saying that if everything in your portfolio is moving up together, you're not truly diversified — and you certainly don't want everything moving together on the way down.

### **Why does looking beyond domestic borders matter?**

It feels like international markets have lagged domestic in recent memory, so why consider them when the U.S. is “winning”? The answer is simple: because markets don't move in one direction forever.

It may be a distant memory, but international markets beat the U.S. from 2002 to 2009 in seven out of eight years. And there were other strings of similar outperformance throughout history. Ultimately, it comes down to cyclicalities within markets.

Looking at the current environment, compared to the U.S., international developed and emerging markets offer:

- Lower valuations for underlying companies
- Less concentration (broader sector exposure)
- Higher income potential (generally higher yields)

Trying to time rotations from domestic to international is often a losing battle. It's optimal to ensure investors are positioned globally for when leadership changes occur to capture those diversification premiums.

### **What can you do for your portfolio?**

Regular portfolio reviews with your advisor are one of the most important, and most overlooked, responsibilities. While there is no single industry standard, the most common practice is an in-depth review at least once a year, supplemented by quarterly or semi-annual check-ins during periods of market volatility. These touchpoints are how drift gets caught, allocations get rebalanced, and decisions about changing goals and risk tolerance actually happen.

### **Here are a few questions to ask every time you review portfolios:**

- How much of the portfolio is truly international?
- Have the international vs. domestic allocations drifted over time?
- Does the portfolio rely too heavily on one market?
- Is the portfolio overweight a single sector, size or style (particularly Mega-Cap technology in today's environment) relative to your risk tolerance?
- When was the last formal rebalance and does the current asset mix still match the goals, risk tolerance and time horizon?

Global diversification isn't about predicting which market is best or betting on the downfall of a specific market. It's about being prepared for more than one outcome.

Recently, many portfolios seem to be designed for U.S. dominance. But let's remember that in 2025, international markets almost doubled domestic markets with a return of over 33% vs. more than 17% respectively. Furthermore, in the first quarter 2026, international markets have maintained their rally, outperforming by more than 3%. Could this outperformance continue? No one can predict the future, but history is clear: When international markets pull ahead by margins like these, they tend to stay ahead for years.

It's not always comfortable to allocate outside of home borders. But during times when the U.S. market lags, investors will be rewarded for their prudence. Global diversification isn't about being defensive or bearish on the U.S. — it's about being prepared.

### *Invest with intention*

*Tyler Corbett serves wealth advisors as a Portfolio Specialist on the Dynamic Asset Management team.*

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