

The case for global shares in investor portfolios

A far larger opportunity set outside Australia

Australian shares are a part of many investors' portfolios.

However, an Australia-only approach means missing out on the opportunity set that's available outside the local share market. After all, the Australian share market accounts for only around 1.9% of the market capitalisation of the global share market¹ (**Chart 1**).

Ignoring around 98% of the market capitalisation of the global share market entails leaving a lot of return potential and diversification benefits on the table.

Diversification benefits

A quick glance at the S&P/ASX 200's sector composition confirms what generations of investors have known — the Australian share market is weighted towards Financials and Materials (resources companies). The two sectors combined represent 51.5% of the broad Australian share market by market capitalisation.²

We believe that what all this distils down to is that a potentially large portion of many investors' equity market returns are effectively tied to two factors typically impacting the Financials and Materials sectors — the credit cycle, in the case of Financials, and commodity price cycles, in the case of Materials.

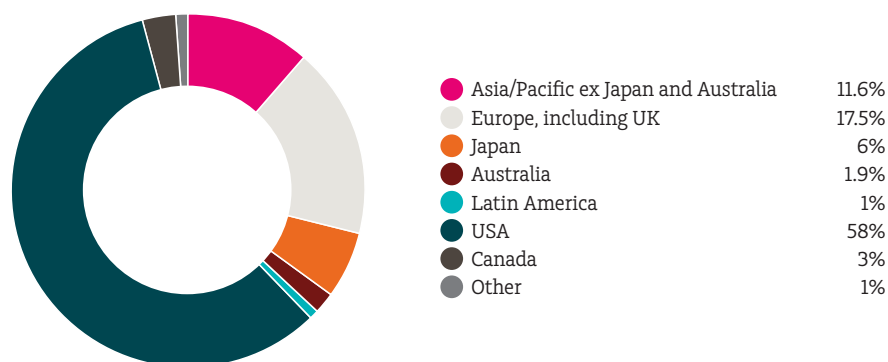
Investing globally may help to dampen these two risks through geographic as well as sector diversification (**Chart**), while also providing exposure to industries and companies that are potentially far larger and more established offshore.

¹ As of 31 May 2021. This figure represents the market value of the Australian exposure, in percentage terms, in the global share market represented by MSCI ACWI Index. Data sourced from FactSet.

² As of 31 May 2021. This figure represents the combined market capitalisation, in percentage terms, of the Financials and Materials sectors within the S&P/ASX 200 Accumulation Index. Data sourced from FactSet.

Chart 1: The Australian share market is a small part of the global share market

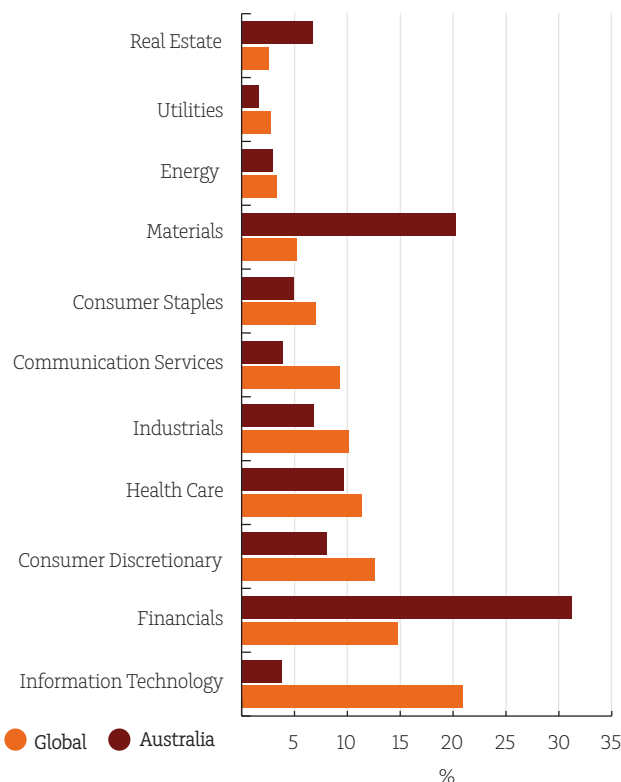
Market capitalisation of the global share market (%)



As of 31 May 2021
Data is for the MSCI All Country World Index in AUD
Source: FactSet

Chart 2: The global share market offers greater exposures to sectors and industries like Information Technology

Comparison of Australian and global share markets by sector (%):



As of 31 May 2021
Sectors weights for the global share market is for the MSCI All Country World Index in AUD
Australian sector weights are for the S&P/ASX 200 Accumulation Index
Source: FactSet

Scale of global industries and brand names

Think of the size of the global Information Technology sector compared to the Australian Information Technology sector. Think of the products and services of household technology names offered by global companies like Amazon, Apple, Facebook, Google, Microsoft and Samsung, to name just a few, used by Australians every day.

Investing in such companies means potentially benefiting from their business success, and not just being a user of their products.

Think of the fact that Australia doesn't have any listed car makers, yet the automotive industry is one of the world's largest industries.

Ford, Hyundai, Toyota, Honda, BMW, General Motors, Stellantis (parent company of brands including Alfa Romeo, Chrysler, Citroën, Dodge, and Fiat), and industry newcomer Tesla, are all renowned brands, and all offshore.

An investor wanting automotive industry exposure as a way of participating in technology, consumer and economic trends would typically invest globally.

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The same is arguably true for other industries including aircraft manufacturing and aerospace, and sophisticated consumer products and brands. The opportunity set beyond Australia is, in simple terms, arguably greater.

In our view, the earnings power stemming from global industries and global companies helps to explain the strong long-term returns from the global share market (**Chart 3**).

All up, we believe that a mix of Australian and global share exposure can help to mute overall portfolio volatility while potentially enhancing long-term returns.

Chart 3: Investing in global share markets can enhance long-term returns

Returns for \$10,000 invested in the global share market index vs Australian share market index: 1 June 2011 – 31 May 2021



Return for the global share market is for the MSCI All Country World Index in AUD
Return for the Australian share market is for the S&P/ASX 200 Accumulation Index
Source: FactSet