Going global to diversify

Why invest abroad?

As investors prepare for the future, economic uncertainty, inflation and interest rates are common themes of concern. In this economic environment, global diversification remains an important tool to help support portfolio returns and manage volatility.

What is global diversification and why does it make sense?

Many Canadian investors diversify their portfolios by holding securities across different asset classes and sectors. However, it's also important to diversify globally – which means investing in both stock and bond markets outside of Canada.

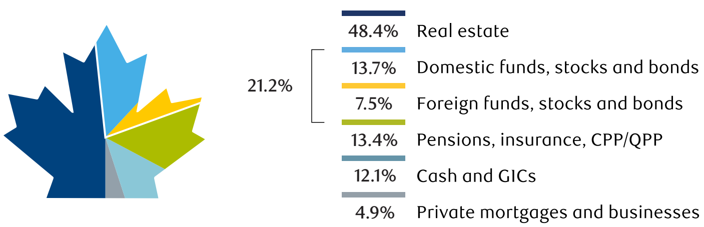
Adding global exposure to your portfolio can:

- Help harness the economic growth and innovation that's occurring outside our borders
- Reduce country-specific and sector concentration risk
- Provide a smoother investment experience

Benefit from a world of opportunity

Canadians tend to hold the majority of their assets within their own domestic market (an investing tendency referred to as home country bias), with the average Canadian allocating 92% of their assets inside Canada. However, Canadian financial markets make up less than 3% of global markets[1], meaning many Canadians are not benefitting from a good portion of global opportunities.

The average Canadian has 92% of their assets tied to Canada



Source: RBC Global Asset Management, Investor Economics Household Balance Sheet Report 2023, data as of December 2022

Harness global innovation

Health care, information technology, industrial and consumer discretionary companies tend to be leaders in innovation, yet they only make up 26% of Canada's stock market[2]. While Canada's research and development spending ranked a solid 11th globally in 2020, the dollar amount represented less than 2% of the $3.4 trillion global total[3]. By investing globally, you can gain exposure to sectors under-represented in Canada and the growth opportunities arising from global innovations and ground-breaking research.

Mind the concentration risk

A single-country portfolio comes with two very specific risks. First, it will be heavily tied to the ups and downs and risks associated with just the one economy. Second, many single-country markets are not well-diversified across industries. In Canada, our markets are heavily weighted to financial companies and the highly cyclical energy and material sectors. Our country-specific and outsized sector risks can lead to big ups and downs in the value of a Canada-only portfolio. On the other hand, going global significantly lowers these concentration risks and can smooth your investment experience by spreading your dollars across a much wider opportunity set.

How can investors achieve global diversification?

Global diversification offers Canadian investors the opportunity to reduce their reliance on Canadian markets. This can help clients achieve their investment goals and lower their portfolio risk at the same time. Regardless of risk profile, investors should review their asset mix to ensure they are effectively positioned to benefit from the growth opportunities and diversification benefits of global investing.

1. Source: SIFMA. 2023 Capital Markets Factbook, 2022 data, www.sifma.org/resources/research/fact-book/
2. Source: S&P Global, as of June 28, 2024, https://www.spglobal.com/spdji/en/indices/equity/sp-tsx-composite-index/#overview
3. Source: Congressional Research Service, https://crsreports.congress.gov/product/pdf/R/R44283

For more information about the benefits of global diversification, talk to your financial advisor.

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