

# Macro Microscope

## Country Rotation in Financial Markets

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**Indrani De**

Head of Global Investment  
Research  
FTSE Russell, LSEG



**John Dioufas**

Director, Datastream and  
Macroeconomics  
LSEG



**LSEG**

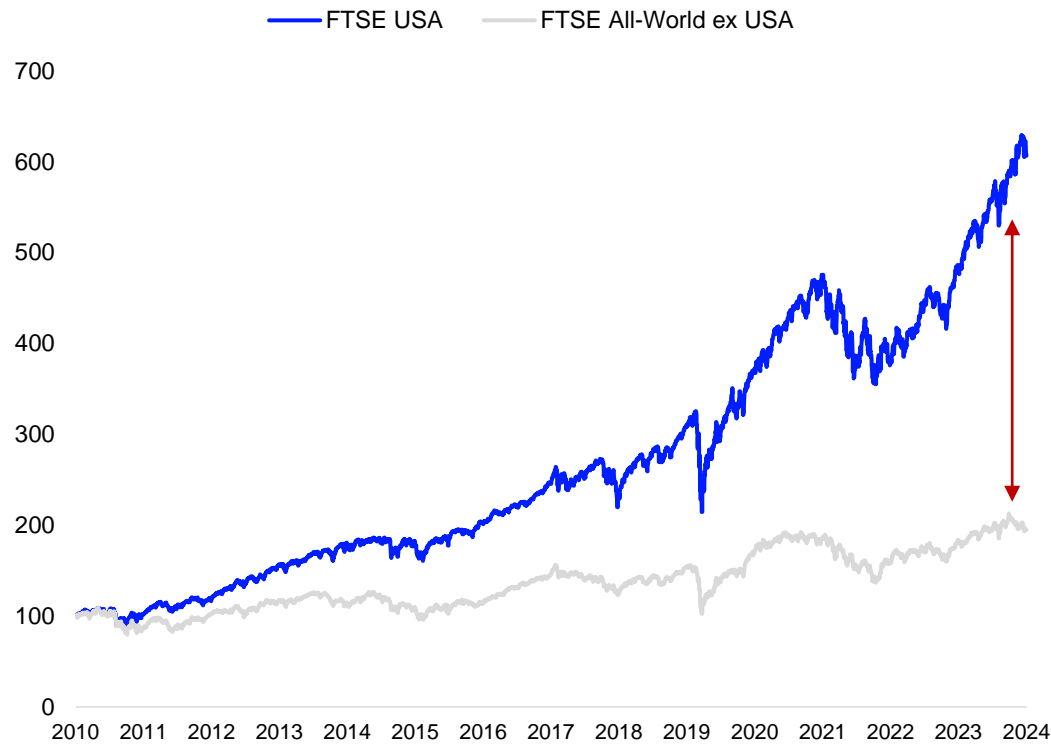
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## US equities' exceptional performance in the post-2010 period

- US equities outpaced global peers post-2010; during 2011-24, **FTSE USA returned 3.1x FTSE All-World ex USA.**
- Equity returns are driven by three main components—earnings growth, valuation changes and dividend yield. We examined their contribution to US returns during the 2003-24\* period.

FTSE USA and FTSE All-World ex USA performance (TR, Rebased, 31 Dec 2010 = 100)



FTSE USA vs FTSE All-World ex USA relative performance (TR, Rebased, 31 Dec 2010 = 100)

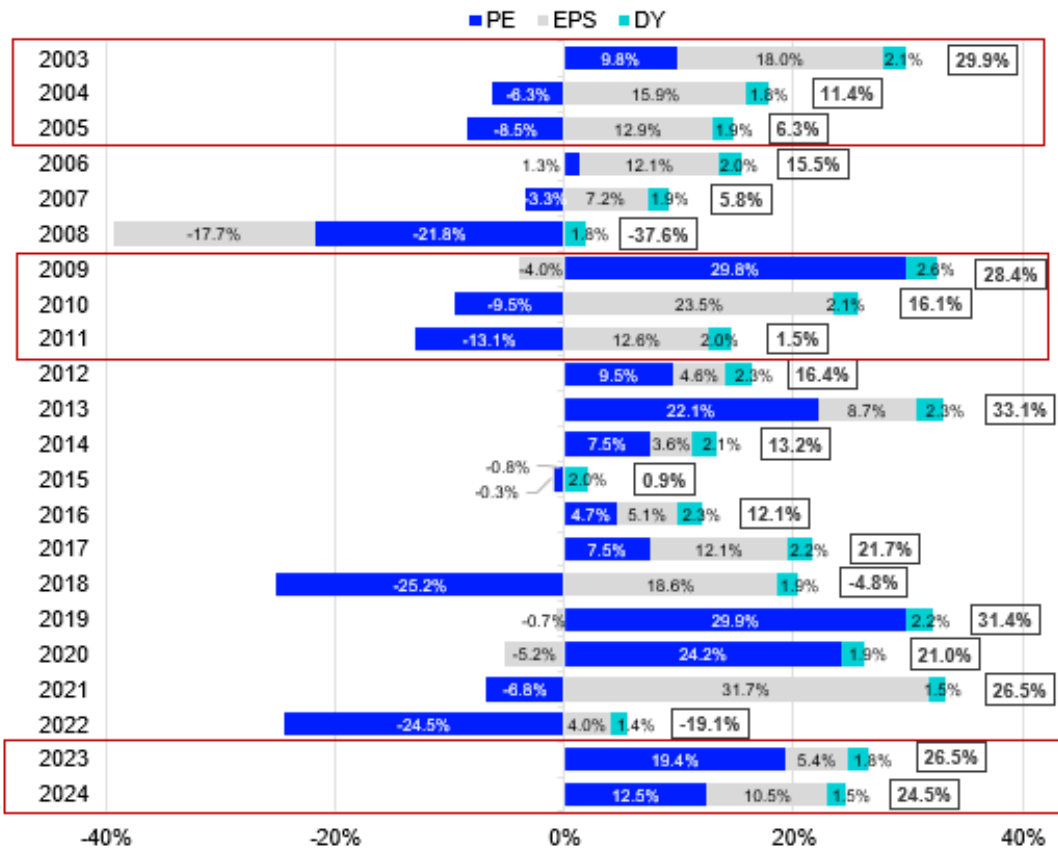


Source: FTSE Russell and LSEG. Data as of December 31, 2024. Past performance is no guarantee of future results. Notes: \* We start our analysis in 2003 due to the availability of component data for FTSE Russell's equity indices. From FTSE Russell Research [Decomposition of US equity returns over time – is it different this time?](#)

## US equities' 2023-24 performance was driven more by valuation expansion than in previous cycles

- In 2023 & 2024 (following the market pullback in 2022), valuation expansion accounted for around three-fourths to half, respectively, of Russell 1000 total return.
- During the recoveries of 2003-05 and 2009-11, valuation multiples bounced initially to be replaced by earnings growth as the main driver of Russell 1000 returns. In the post-2022 market recovery, valuation expansion continued to play the major role. What are the possible implications?

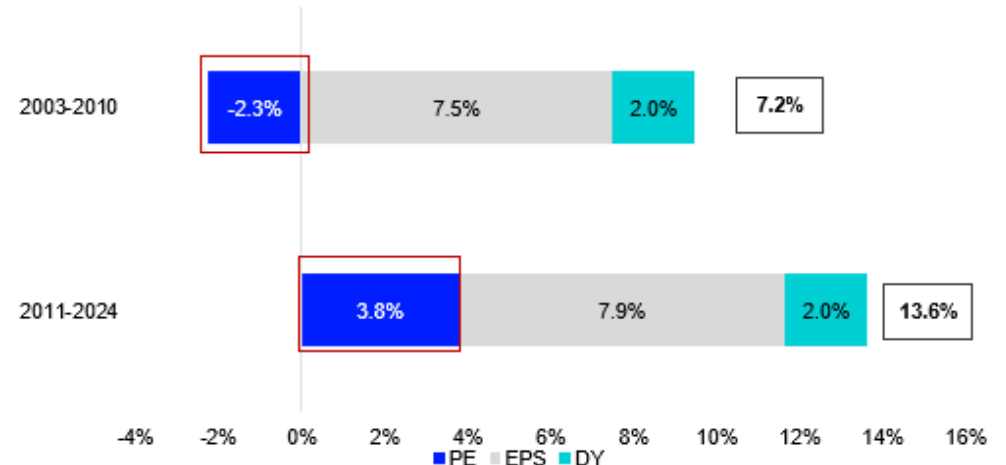
Russell 1000 total return decomposition, 12M, Percent



### Role of valuation expansion in US equity outperformance over the last 14 years.

- 2011-24, annualized total return of Russell 1000 was nearly double that during 2003-10 (13.6% vs 7.2% earlier).
- Annualized earnings growth was only marginally higher during 2011-24 (7.9% pts) relative to 2003-10 (7.5% pts).
- Valuation expansion contributed 3.8% pts to Russell 1000 total return during 2011-24, while valuations contracted on an annualized basis during 2003-10.

Russell 1000 annualized total return decomposition (%)



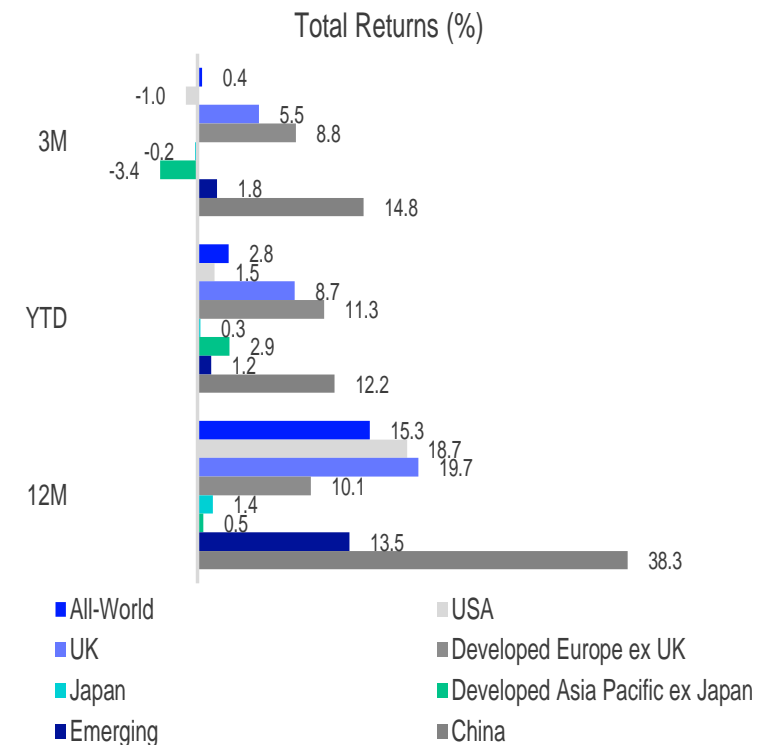
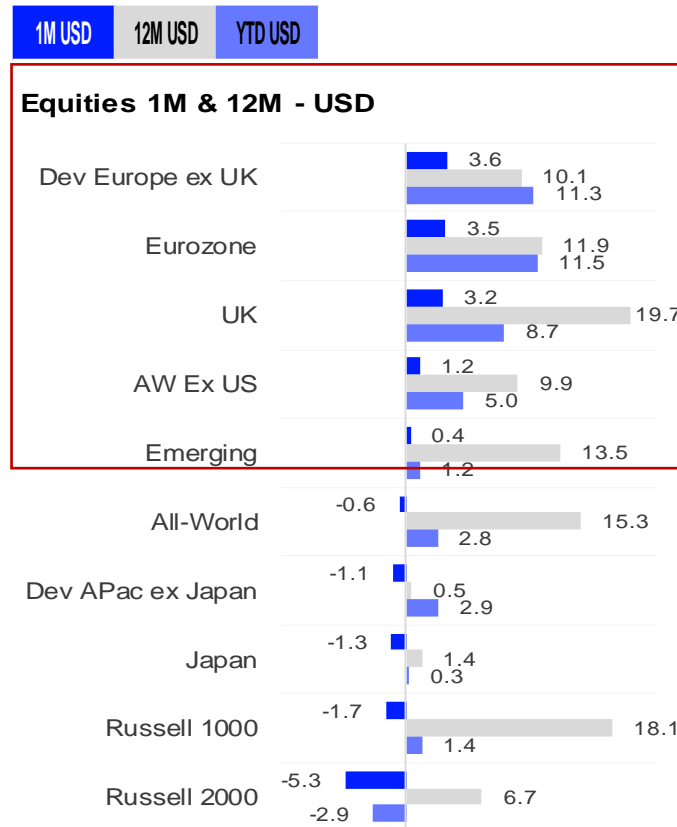
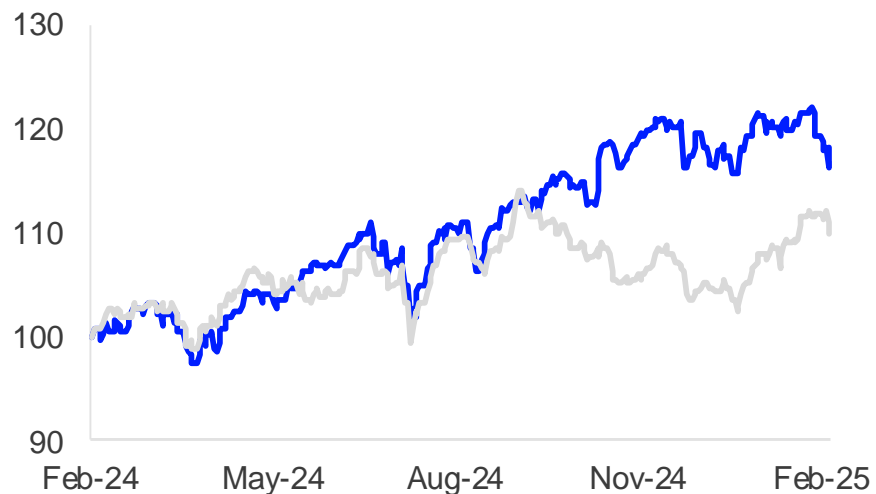
Source: FTSE Russell and LSEG. Data as of December 31, 2024. Past performance is no guarantee of future results. Note: The total return for each year is indicated in the box. PE, EPS and DY show the valuation expansion, earnings growth and dividend yield components of total return, respectively. From FTSE Russell research [Decomposition of US equity returns over time – is it different this time?](#)

## Shifts in equity market leadership & high valuations have raised questions about the sustainability of US outperformance US equities' January underperformance of global peers continued into February; European equities shone

- US equities' have lagged the All-World ex US YTD. YTD, China, Developed Europe ex UK and UK outperformed FTSE All World, and US underperformed.
- Over 3M, US equities saw the first negative 3M return since October 2023 and over 12M China and UK equities outperformed the US.
- Multiple factors: US policy uncertainty, a challenge from DeepSeek to the narrative around US AI capital investment, growth concerns... German election outcome removed a small element of uncertainty in Europe; stimulus plans boosted specific sectors. Chinese equities rallied

|                      | Russell 1000 | All-World ex US |
|----------------------|--------------|-----------------|
| 1M Total Return (%)  | -1.7         | 1.2             |
| 12M Total Return (%) | 18.1         | 9.9             |

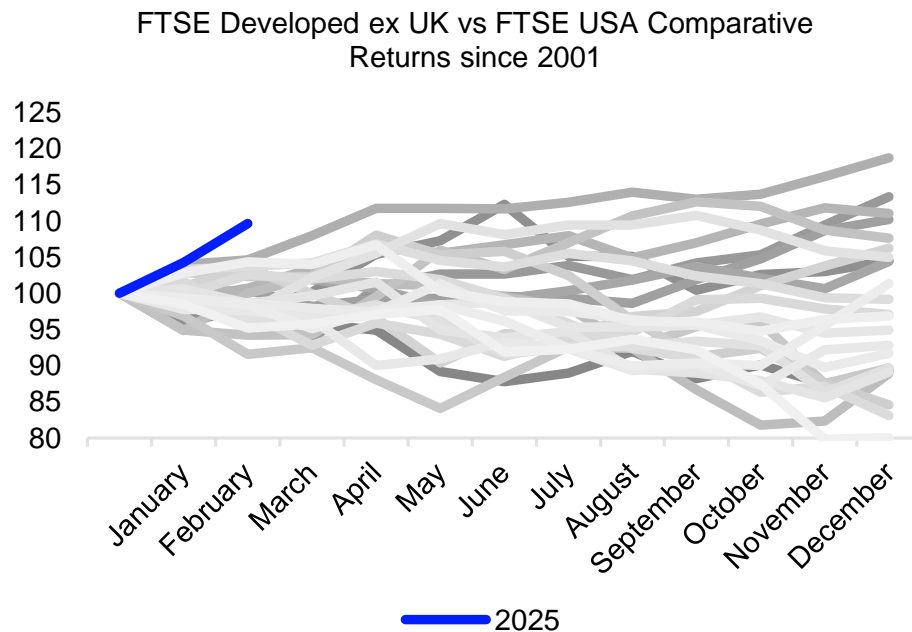
Russell 1000 vs All-World ex US Indexes (USD, TR, Rebased)





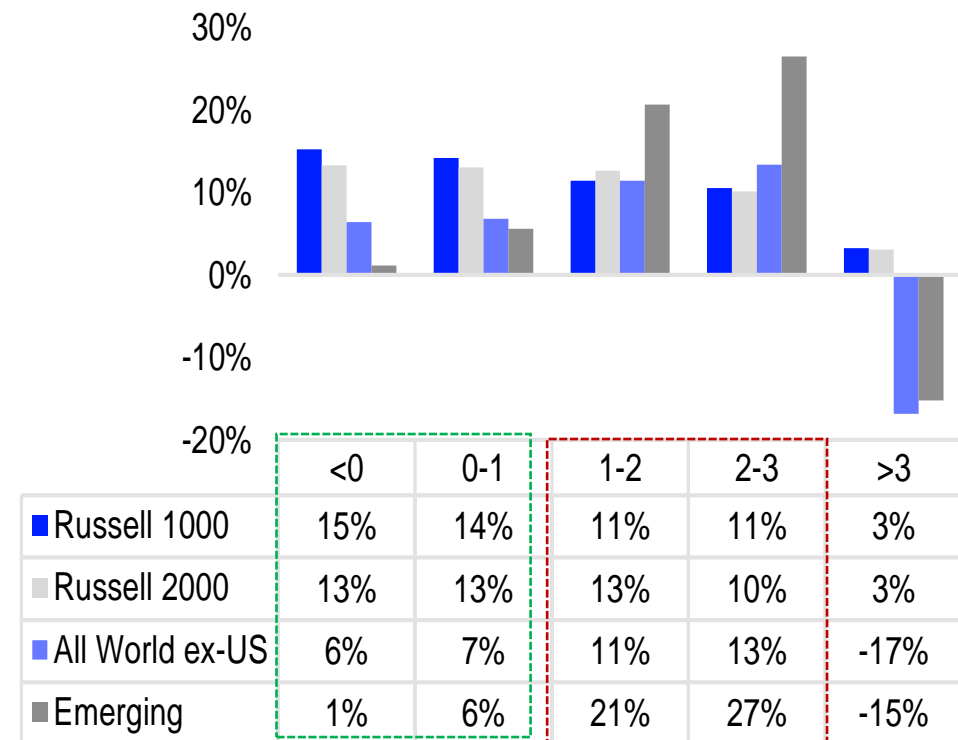
## Global equity returns under varying US Real Yield environments

- Higher US real yields above 1% historically supported non-US equities.
- With real yields near 2%, historical relationships indicate that All-World ex-US and particularly EM equity have the potential to benefit from the real rate environment.
- FTSE Developed Europe ex UK had a strong start to the year; juxtaposed with the returns from the US, it is the most favorable relative performance since 2001.



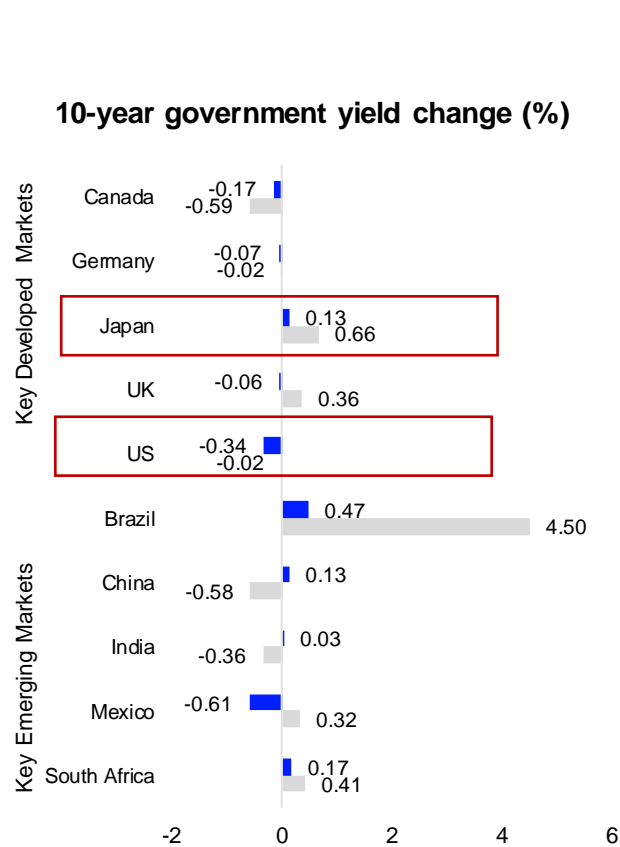
\* Each grey line shows the cumulated comparative return for a year since 2001

Equity returns under varying US real yield (7-10Y) levels

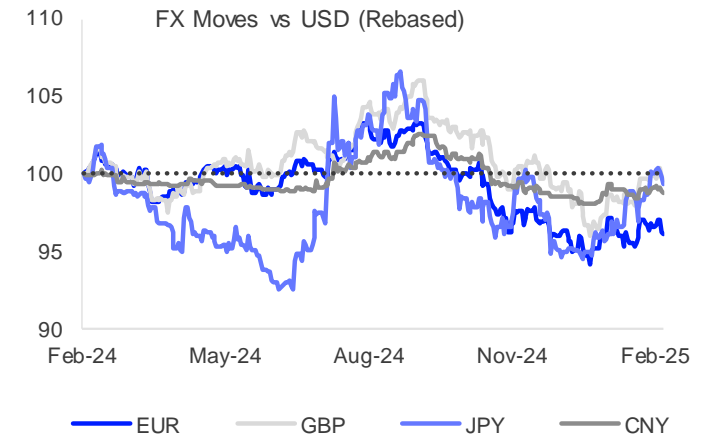
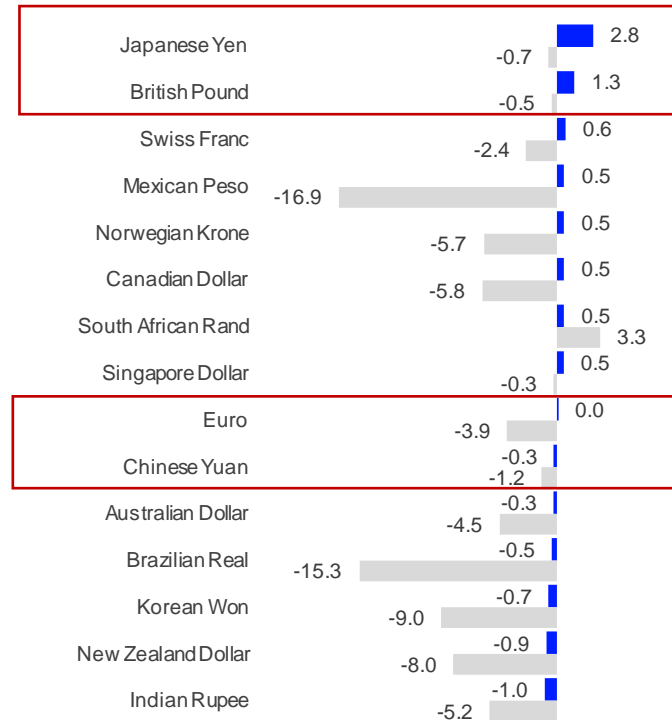


## Many major currencies gained versus the US dollar during February

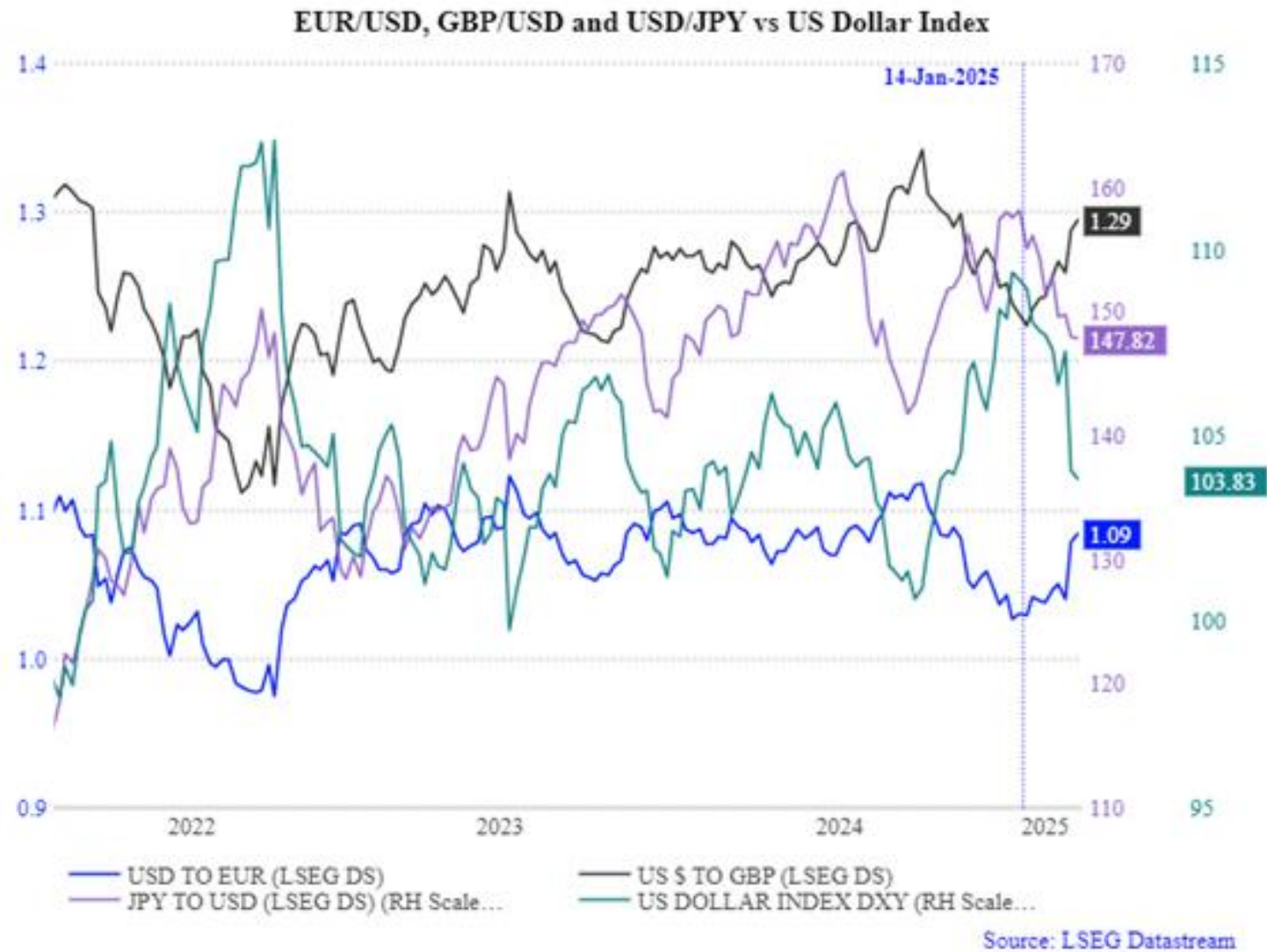
- US, Canadian and Mexican long yields notably lower; Japanese 10-year yields higher. German and UK yields essentially flat.
- Yen gained versus the USD buffering Japanese equity losses for USD-based investors.
- Brazilian long yields have been climbing; CB in monetary tightening stance.



**FX Moves vs USD – 1M & 12M**



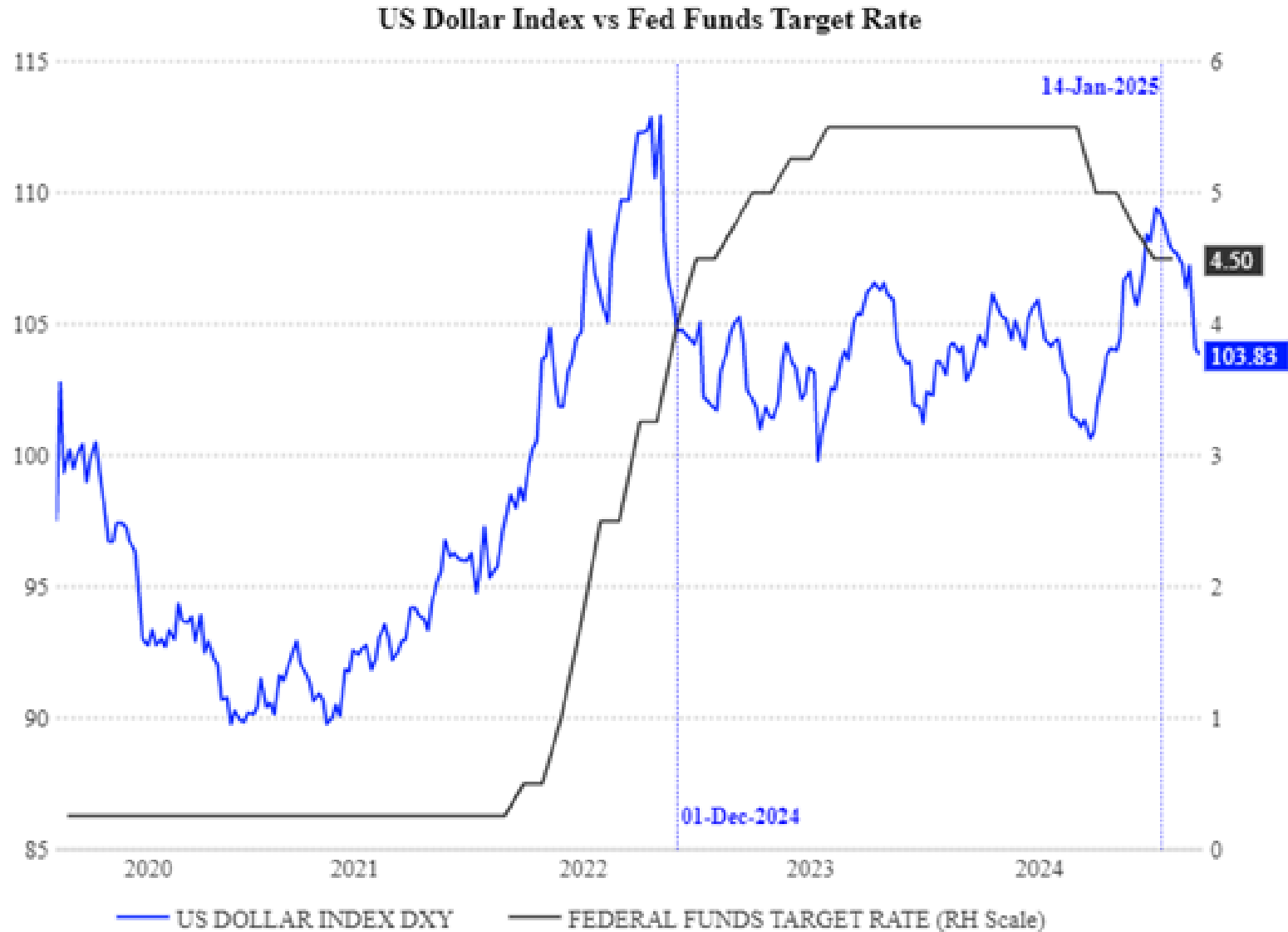
## EUR/USD, GBP/USD and USD/JPY vs US Dollar Index



- EUR/USD, GBP/USD, USD/JPY all outperforming the Dollar.









# US Dollar Index vs Fed Funds Target Rate



Source: LSEG Datastream

## G7 and Switzerland Interest Rate Probabilities

| INTEREST RATE PROBABILITIES   |                       |                       |                   |              |              |                      |           |                 |                       |           |                 |
|---|-----------------------|-----------------------|-------------------|--------------|--------------|----------------------|-----------|-----------------|-----------------------|-----------|-----------------|
|   | Central Bank          | Target Rate           | Next Meeting Date | Current Rate | Implied Rate | Most Probable Action | Change By | Probability (%) | Least Probable Action | Change By | Probability (%) |
|  | Federal Reserve       | Fed Funds Target      | 19-Mar-2025       | +4.375       | 4.323        | NO CHANGE            | -         | 97.0            | CUT                   | -0.25     | 3.0             |
|  | European Central Bank | Deposit Facility Rate | 17-Apr-2025       | +2.50        | 2.268        | CUT                  | -0.25     | 57.9            | NO CHANGE             | -         | 42.1            |
|  | Bank of Japan         | Policy Rate Balance   | 19-Mar-2025       | 0.50         | 0.495        | NO CHANGE            | -         | 93.0            | HIKE                  | 0.25      | 7.0             |
|  | Bank of England       | Bank Rate             | 20-Mar-2025       | +4.50        | 4.435        | NO CHANGE            | -         | 92.1            | CUT                   | -0.25     | 7.9             |
|  | Swiss National Bank   | 3M Target LIBOR Rate  | 20-Mar-2025       | +0.50        | 0.265        | CUT                  | -0.25     | 69.8            | NO CHANGE             | -         | 30.2            |
|  | Bank of Canada        | ON Target Rate        | 16-Apr-2025       | +2.75        | 2.614        | CUT                  | -0.25     | 62.7            | CUT                   | -0.50     | 37.3            |

- An interest rate disconnect?

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### EMEA

+44 (0) 20 7866 1810

### North America

+1 877 503 6437

### Asia-Pacific

Hong Kong: +852 2164 3333

Tokyo: +81 3 6441 1430

Sydney: +61 (0) 2 7228 5659



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