LORD ABBETT®

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Investment Perspectives

Non-U.S. Equities: Why It's About Companies, Not Countries

As global opportunities broaden, active investing means looking beyond geography to seek companies with durable competitive advantages.

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KEY TAKEAWAYS

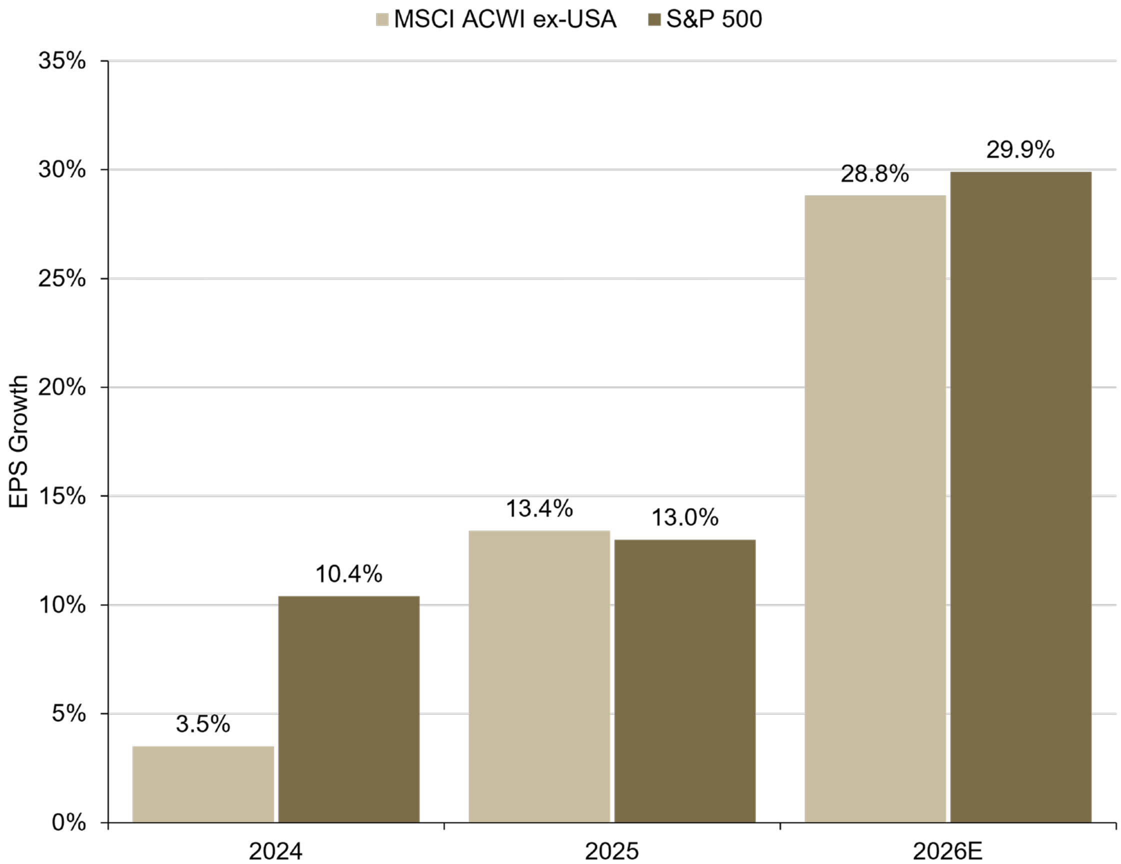
- The global equity opportunity set is broadening, supported by improving earnings and secular investment cycles in artificial intelligence (AI), power, industrial capacity, aerospace, and defense—but not every company will benefit equally.
- Sustainable competitive advantages, whether consumer, producer, or network, can help companies defend attractive return potential on capital, reinvest for growth, and compound value over time.
- As AI and other innovations reshape industries, competitive advantages are evolving, strengthening some business models, weakening others, and creating new earnings opportunities.
- Active global investing means looking beyond countries and themes to identify the businesses with durable competitive advantages to capture those opportunities.

A Broader Opportunity Set Beyond the U.S.

After a long period of U.S. equity market leadership, the global opportunity set is broadening. For much of the past two decades, earnings growth outside the U.S. lagged meaningfully. That dynamic has begun to shift. Since the start of 2025, non-U.S. earnings have kept pace with the U.S., supported by healthy economic growth and powerful investment cycles in AI infrastructure, power, industrial capacity, aerospace, and defense (see Figure 1). That improving earnings backdrop has helped drive recent non-U.S. outperformance (year-to-date through August 11, 2026, the MSCI ACWI ex-USA Index total net return is 16.0%, and the S&P 500® Index total return is 13.7%) after a prolonged period of relative underperformance. With earnings leadership broadening and these secular trends still unfolding, we believe the fundamental backdrop remains supportive. Note: past performance is not indicative of future results.

Figure 1. Earnings Leadership Is Broadening Beyond the U.S.

Earnings per share (EPS) growth for non-U.S. and U.S. indices by year

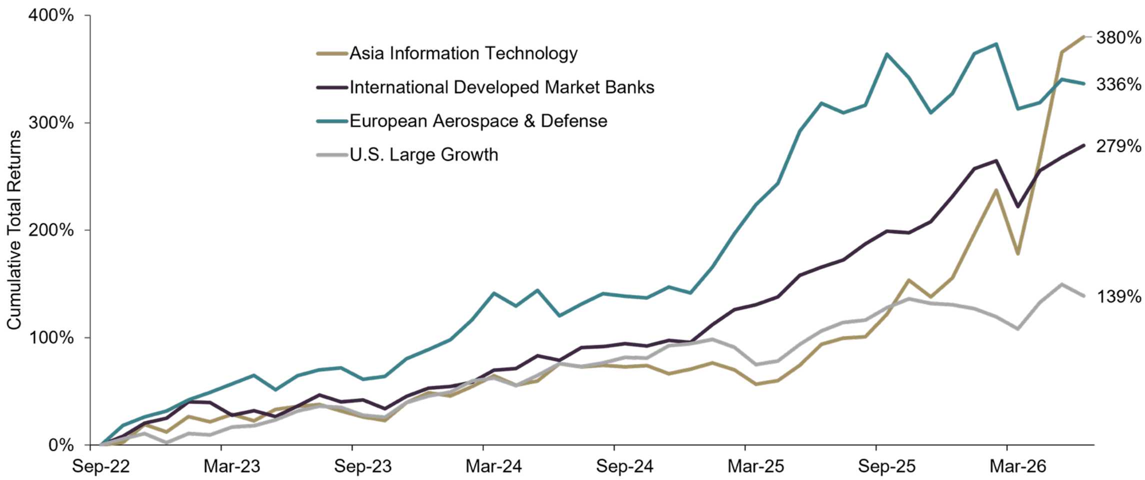


Source: FactSet. Data as of August 11, 2026. MSCI ACWI ex-USA Index is a widely used benchmark that measures the performance of large- and mid-cap stocks across developed and emerging markets outside the United States. ACWI stands for All Country World Index. S&P 500® Index is a widely used benchmark that measures the performance of 500 leading large-cap U.S. companies and represents a broad cross-section of the U.S. equity market. E=estimate. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

The opportunities are diverse. In Asia, select businesses have been benefiting from AI demand across semiconductors and memory. In Europe, industrial and technology companies have been benefiting from investment in infrastructure, automation, power, and defense. Across global markets, opportunities also extend to digital platforms, consumer businesses, and other market leaders benefiting from long-term shifts in technology, consumer demand, and economic development (see Figure 2).

Figure 2. Global Themes Have Outpaced U.S. Large Cap Growth

Cumulative monthly net total returns of indicated indices, September 30, 2022–June 30, 2026



Source: Morningstar and Bloomberg. Data as of June 30, 2026. U.S. Large Growth represented by the Russell 1000 Growth Index; European Aerospace & Defense represented by the MSCI Europe Aerospace & Defense Index; International Developed Market Banks represented by the MSCI EAFE Banks Industry Index; Asia Information Technology represented by MSCI AC Asia Information Technology Index. **Past performance is not an indication of future results.** For the MSCI indices, net total return includes reinvested dividends after applicable withholding taxes. EAFE=Europe, Australasia, and the Far East. Cap=capitalization. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

But these tailwinds will not benefit every company equally. We believe what matters is whether a business has the competitive strengths to translate growth into sustained attractive returns. That is why we believe global investing ultimately comes down to companies, not countries—and to one important question: What makes this business difficult to compete with?

Strong Results Are the Outcome, Not the Explanation

Strong financial results can signal a quality business, but they do not explain why that strength can endure. Sustainable competitive advantages can allow a company to earn attractive returns on capital and reinvest at similarly attractive rates—supporting future growth and compounding value over time. Profit margins, capital efficiency, and free cash flow can provide evidence of that strength, but they describe what a company has achieved, not why those results exist or whether they can endure.

Consider two companies with similarly attractive results. One faces easy competition; the other is protected by brand, scale, technology, or network effects. The numbers may be similar, but their durability may not. The key is understanding what protects those returns—and for how long.

Three Key Forms of Competitive Advantage

Strong brands or differentiated products can be powerful, but they are only part of the picture. We seek companies with sustainable competitive advantages that we believe fall into three areas: consumer, producer, and network advantages

1. Consumer Advantage

A consumer advantage exists when a company offers something customers value that competitors have difficulty replicating. A powerful luxury brand, for example, can command a premium because its reputation, heritage, or scarcity cannot easily be recreated. The advantage can also be less obvious. With a mission-critical product such as an aircraft engine, the high cost of failure makes technical expertise, safety performance, certifications, and customer trust particularly valuable. In both cases, differentiation can support customer loyalty and pricing power.

2. Producer Advantage

A producer advantage comes from how efficiently or effectively a company operates. A large retailer may buy at volumes that allow it to negotiate better terms than smaller competitors and spread costs across a larger sales base. The product may not be unique; the advantage lies in the economics of how it reaches the customer. In advanced semiconductor manufacturing, enormous research investment, complex production capabilities, and specialized know-how can create a reinforcing cycle: leadership can support market share and cash generation, which can fund further investment to extend the lead. Basic industries could also benefit. Construction aggregates are expensive to transport over long distances, so control of strategically located resources can limit local competition. The common thread is not necessarily high margins, but an operating model that allows the business to use capital more efficiently than competitors.

3. Network Advantage

A network advantage arises when a product or service becomes more valuable as more people use it. In ride-sharing, more riders can attract drivers, while more drivers can improve availability for riders. As participation grows, the service can become more useful to both—creating a self-reinforcing advantage that may be difficult for a smaller competitor to replicate.

Across all three forms, the principle is the same: there is a structural reason competitors may struggle to reproduce the company's economics.

Why That Matters Even More Today

The same forces creating new opportunities are also reshaping competitive advantages—and the earnings potential of industries investors may have overlooked.

For example, the first wave of AI data-center investment was concentrated around advanced processors and the systems directly supporting them. As spending has grown and suppliers have approached capacity, demand has spread further through the supply chain, from memory and cooling systems to electrical components, power equipment, and optical connectivity. Some of these businesses have traditionally been viewed as cyclical suppliers rather than long-term growth companies. However, tightening capacity, rising utilization, and stronger demand are improving pricing and earnings potential in parts of the supply chain. In some cases, AI investment has been giving "new life to old tech," creating a new earnings cycle for businesses that historically received far less investor attention.

A powerful secular tailwind does not automatically create a sustainable competitive advantage. The key is determining which companies have something that allows them to capture and retain those improved economics—whether through scale, scarce capacity, specialized expertise, process complexity, or another structural advantage.

Innovation can also work in opposite directions. In some areas of software, AI may reduce historically high switching costs by making functionality easier to recreate or migrate. For a large distribution business, AI could have the opposite effect. A company with an established network and years of operating data may be able to use AI to improve routing, forecast demand, and lower costs in ways smaller competitors struggle to match. In one case, innovation can weaken an existing advantage. In another, it can make that advantage even stronger. Elsewhere, it can create an entirely new earnings opportunity. For active investors, the challenge is distinguishing between exposure to a powerful secular trend and the competitive advantage needed to turn that opportunity into sustained attractive returns.

Summing Up

Global markets are offering investors a broader set of opportunities, but the strongest businesses are not defined by where they are headquartered. They are defined by what makes them difficult to compete with. As AI, infrastructure investment, industrial expansion, and other secular forces reshape industries, competitive advantages will evolve with them.

That makes active, bottom-up research increasingly important: looking beyond geography and headline growth to identify companies with the pricing power, scale, expertise, networks, or other structural strengths to convert opportunity into durable value.

At Lord Abbett, our approach begins with the individual company: understanding the sources of its competitive advantage, assessing how durable those advantages can be, and determining whether the business can translate them into attractive returns on capital and opportunities to reinvest for future growth.

Glossary & Index Definitions

Artificial Intelligence (AI) is the technology that enables computer systems to perform tasks that typically require human intelligence, such as learning, reasoning, pattern recognition, and decision-making.

Capital efficiency refers to a measure of how effectively a company uses its capital to generate profits, cash flow, or growth.

Competitive advantage is a structural characteristic that allows a company to compete more effectively than its peers and potentially sustain attractive economics over time.

Consumer advantage is the competitive advantage that arises when a company offers a product, service, brand, expertise, or other attribute that customers value and competitors have difficulty replicating.

Earnings Per Share (EPS) is a measure of a company's profitability calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding.

Free cash flow is the cash generated by a business after accounting for operating expenses and capital expenditures. It may be used to reinvest in the business, reduce debt, make acquisitions, or return capital to shareholders.

Network advantage refers to a competitive advantage that arises when a product or service becomes more valuable as more users or participants join its network, potentially making the business more difficult for competitors to replicate.

Non-U.S. equities are stocks of companies headquartered or primarily listed outside the United States, including companies in developed and emerging markets.

Pricing power refers to a company's ability to raise or maintain prices without experiencing a significant decline in demand for its products or services.

Producer advantage refers to a competitive advantage arising from a company's ability to produce or deliver goods and services more efficiently or effectively than competitors, potentially through scale, technology, specialized expertise, processes, or access to scarce resources.

Return on capital is a measure of how effectively a company generates profits from the capital invested in its business.

Secular trend refers to long-term economic, technological, demographic, or industry developments that can influence companies and investment opportunities over many years.

Switching costs are the financial, operational, time, or other costs customers may incur when changing from one product or service provider to another. Higher switching costs can make it more difficult for competitors to attract existing customers.

Network effect is the tendency for a product or service to become more valuable as more people use it, potentially creating a self-reinforcing competitive advantage.

MSCI Europe Aerospace and Defense Index: An MSCI industry index designed to measure the performance of companies in the aerospace and defense industry within European equity markets.

MSCI EAFE Banks Industry Index: An MSCI industry index designed to measure the performance of banking companies within developed markets in Europe, Australasia, and the Far East, excluding the United States and Canada.

MSCI AC Asia Information Technology Index: An MSCI industry index designed to measure the performance of information technology companies across developed and emerging Asian equity markets.

Russell 1000® Growth Index: An index that measures the performance of the growth segment of the U.S. large-cap equity universe, consisting of Russell 1000® Index companies with relatively higher growth characteristics.

MSCI ACWI ex USA Index: A widely used benchmark that measures the performance of large- and mid-cap stocks across developed and emerging markets outside the United States. ACWI stands for All Country World Index.

S&P 500® Index: A widely used benchmark that measures the performance of 500 leading large-cap U.S. companies and represents a broad cross-section of the U.S. equity market.

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