

Kernel World ex-US Fund:

Global Diversification Beyond the U.S.

Executive Summary

Over the past decade, US equities have set the pace for global markets. The S&P 500 has delivered an impressive average 12-month rolling return of 15.17% over the ten years to July 2025—well ahead of the 7–11% range seen in the UK, Europe ex-UK, Japan, and Canada (in local currency terms). This outperformance has been underpinned by several key factors.

First, innovative technology and highly scalable, efficient business models enabled US firms to retain a larger portion of their revenue as profit. Second, US companies maintained stronger balance sheets, reducing debt more rapidly and keeping leverage at healthier levels than their international counterparts. Their global footprint also expanded, with the share of profits generated overseas rising from about 30% before 2010 to approximately 40% in recent years¹—further enhancing the US market’s appeal to investors.

Complementing these corporate strengths, the US—through the NYSE and Nasdaq—offers the largest and most liquid listing venues in the world. These exchanges attract not only investors and analysts but also a diverse range of issuers and participants from around the globe, including companies such as New Zealand’s Rocketlab and Allbirds. This international breadth deepens market liquidity and draws even greater capital flows to US equities.

Finally, a supportive policy environment—characterized by low interest rates, business-friendly regulations, and tax incentives—allowed US companies to access inexpensive capital, invest in growth, and return more value to shareholders. These combined strengths made the US equity market a magnet for global capital and a consistent leader in performance in recent years. Together, this has come to be considered part of U.S. Exceptionalism.

However, the factors that fuelled US dominance may not persist indefinitely. US equity valuations now sit at historically high levels², and continued outperformance would require even greater capital inflows to maintain the US’s growing share of global market capitalization. Any slowdown in earnings growth, or unforeseen shocks – whether from policy missteps, deglobalization pressures, stricter antitrust enforcement, persistent inflation, challenges in monetizing AI investments or mounting debt concerns could all erode the earnings power and global leadership of US firms. Added to this, shifting trade policies, rising geopolitical tensions, and

1. According to [FactSet Insight](#), in Q3 2024, 41% of the S&P 500 companies’ total geographic revenue exposure originated from foreign markets, a notable increase from the 29% reported as of December 29, 2017.

2. The trailing P/E ratio of the S&P500 as at 31 July 2025 is almost 30, implying a strong belief in increasing future earnings. <https://www.multpl.com/s-p-500-pe-ratio>.

regulatory uncertainty under the Trump administration are collectively disrupting global supply chains and creating a more challenging operating environment.

Meanwhile, many non-US markets have capitalized on these shifts. Improved corporate governance, renewed focus on innovation, and more stable policy environments in regions such as Europe, Japan, and parts of emerging Asia have helped companies outside the US close the performance gap.

Recent trends already show a shift: while the US remains a major force, equity returns outside the US have begun to catch up, with several international markets outperforming in 2025. From 31 December 2024 to 31 July 2025, in local currency terms, the UK (+13.4%), Europe ex-UK (+10.4%), and Canada (+11.8%) have all outperformed the US (+8.6%)³.

Against this backdrop, the Kernel World ex-US Fund offers New Zealand investors a timely way to diversify. With exposure to approximately 1,000 leading companies across developed markets outside the United States—available in both NZD-hedged and unhedged options—the fund enables investors to choose their exposure level to the rest of the developed world.

In combination with the S&P500 Fund, investors can choose their balance rather than have it based primarily on market capitalisation in a total world fund. Furthermore, for investors already holding a total world fund, the World ex-US fund offers a simple way to reduce an overweight US position by replacing a slice of their existing allocation. As the world's economic leadership becomes more balanced, the Kernel World ex-US Fund offers a compelling way to participate in the evolving global investment landscape.

Fund Overview

As global markets evolve and new sources of growth emerge outside the United States, it is important to recognise the risks of concentration. Market-capitalisation-weighted indices such as the MSCI World or S&P World index naturally result in a heavy US allocation, with the United States often representing more than 70% of these benchmarks.

The Kernel World ex-US Fund is designed to address these challenges by providing straightforward access to developed markets outside the U.S. The fund invests in thousands of large- and mid-cap companies across advanced economies—including Japan, the UK, Canada, and Europe—while purposefully excluding US stocks.

3. Equity market returns for the UK, EU ex UK, Canada, and the US from 31 December 2024 to 31 July 2025 were represented by the FTSE All Share TR Index, STOXX Developed Europe ex-UK TR Index, MSCI Canada TR Index, and S&P 500 TR Index, respectively.

This approach gives investors exposure to the performance of leading international businesses, without the heavy US bias that dominates many global funds. For those seeking to manage currency risk, the fund is also available in an NZD-hedged share class, allowing returns to reflect the true performance of global equities.

With its broad market reach and intentional diversification, the Kernel World ex-US Fund allows investors to move beyond the US-centric allocation. This positions portfolios to benefit from a wider set of opportunities and to build greater resilience—especially important in a world where the relationships between major equity markets are shifting, and the benefits of diversification are increasingly driven by differences in regional and sector performance.

Correlation of stock markets

Understanding how different markets move in relation to one another is central to building a well-diversified portfolio. While the Kernel World ex-US Fund broadens, the real benefit comes from how international equities interact with US stocks over time. Historically, these relationships have been moderately correlated, meaning that movements in one market are not perfectly mirrored by changes in another.

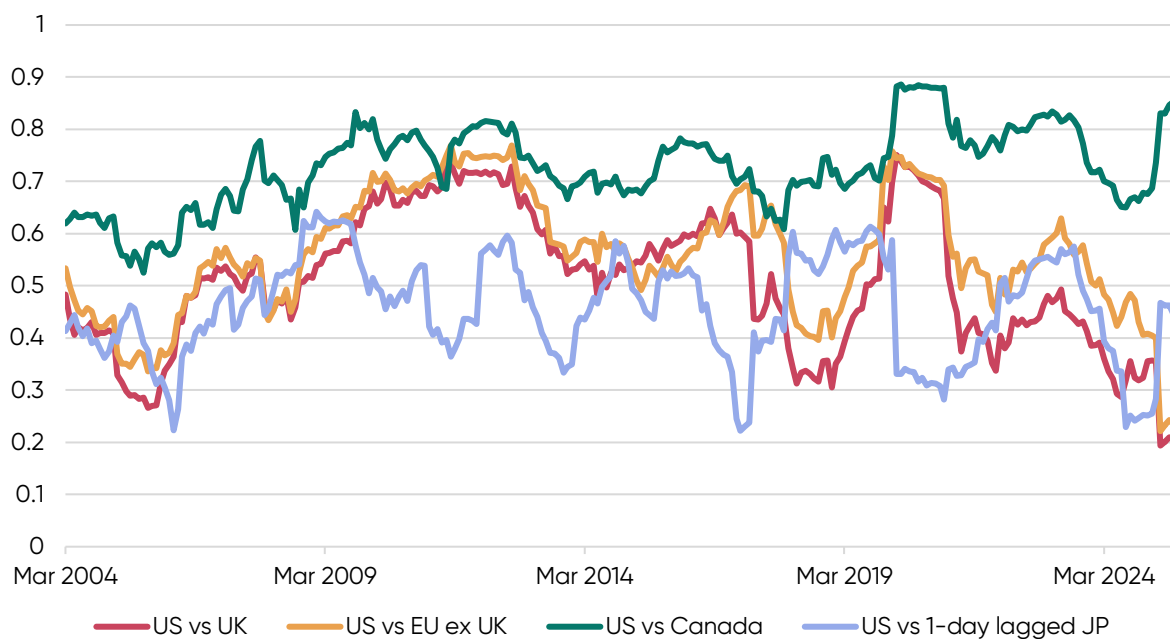
In other words, this imperfect correlation can provide meaningful diversification benefits. By including the Kernel World ex-US Fund, investors can reduce concentration risk and improve risk-adjusted returns—particularly as the dynamics between major equity markets continue to evolve.

Figure 1 illustrates the rolling 12-month correlations between the S&P 500 and other major global equity indices—specifically, the FTSE All Share (UK), STOXX Developed Europe ex UK, MSCI Canada, and the 1-day lagged TOPIX (Japan)—all measured in local currency terms. For Europe/UK and US, same-day correlations are typically used because the overlap of trading hours is substantial and captures most of the shared information flow.

For Japan/US, 1-day lagged returns are needed for Japan as the Tokyo Stock Exchange closes before the US markets open. This means that any news or market movements in the US on a given day can only be reflected in Japanese stock prices on the following trading day.

Several key patterns emerge from the data. First, the correlation between the US and Canadian equity markets (green line) is consistently the highest among the group, often exceeding 0.7 and at times approaching 0.9. This reflects their close economic ties, integrated financial systems, and similar sector compositions.

Figure 1: Rolling 12-month correlations between the S&P 500 and other major global equity indices (in local currency)



Note: Correlations are calculated using daily total return indices in local currency. For the US–UK, US–Europe ex UK, and US–Canada pairs, correlations reflect the relationship between the daily returns of the S&P 500 TR Index (USD) and, respectively, the FTSE All Share TR Index (GBP), the STOXX Developed Europe ex UK TR Index (EUR), and the MSCI Canada Index (CAD). For the US–Japan pair, the correlation is based on the daily return of the S&P 500 TR Index (USD) and the 1-day lagged return of the TOPIX TR Index (JPY), to account for non-overlapping trading hours.

In comparison, correlations between the S&P 500 and both the UK (blue line) and Europe ex UK (orange line) are generally lower, fluctuating mostly between 0.4 and 0.7. These relationships are still significant, reflecting the global integration of developed markets and overlapping trading hours, but they are less tight than the US–Canada link.

Notably, these correlations tend to rise during periods of global market stress—such as the 2008 financial crisis and the COVID-19 pandemic—highlighting the tendency for markets to move together during episodes of heightened uncertainty.

The correlation between the S&P 500 and Japanese equities (light blue line), calculated using a 1-day lag for Japan⁴, is the lowest and most volatile of the group, often ranging between 0.2 and 0.5. This lower correlation is due to fundamental differences in economic structure—such as the US’s tech-driven, consumer-focused

4. The correlation between US equity market returns and the previous day’s Japanese (JP) equity returns is consistently higher—typically ranging from 0.2 to 0.5—than the correlation with same-day JP returns, which generally fluctuates between 0 and 0.3. This pattern reflects the time zone difference: the Japanese market opens after the US market closes, allowing JP equities to incorporate information from the prior US trading session. Given the close integration of the US and Japanese economies and capital markets, this stronger lagged correlation is both expected and intuitive.

economy versus Japan's export-oriented, aging society—as well as divergent monetary policies. While the US Federal Reserve adjusts policy in response to domestic inflation and employment, the Bank of Japan has, for much of the past two decades, maintained an ultra-loose stance to combat deflation, though not always in direct contrast to the Fed.

Overall, the figure highlights the varying degrees of interconnectedness between the US and other major equity markets. North American markets exhibit strong return co-movement, transatlantic correlations are moderate, and the correlation between US and Japanese equities is generally weak. For investors, these differences are crucial as exposure to markets with lower correlations to the US, such as Japan and, to a lesser extent, Europe and the UK, can enhance portfolio diversification and help mitigate overall risk.

Post-COVID Decline in Correlations

Building on these differences in market interconnectedness, it is important to note that in recent years, there has been a marked decline in correlations between the US and other major global equity markets. At the onset of the COVID-19 pandemic in early 2020, correlations between the US and both European and UK markets spiked, reflecting the global scope of the crisis and the highly coordinated policy responses that followed.

However, this surge was not observed in the US–Japan relationship, where correlation dropped sharply—reflecting Japan's distinct approach to policy responses during the initial shock. As the immediate impact of the pandemic subsided, correlations between the US and these markets weakened, reaching their lowest levels in decades by 2025.

This divergence points to a fundamental shift in the forces driving global equity markets, with regional economic paths, divergent policy approaches, and rising geopolitical tensions increasingly shaping how markets move relative to one another. To gain deeper insight into the factors influencing these changing relationships, it is helpful to examine the period-by-period shifts in correlation, as presented in Table 1.

Feb 2019 – Dec 2019: Late-cycle expansion, stable global growth

During this period, correlations between the US and other major markets were moderately high, reflecting a mature but stable phase of the global economic cycle. The US, UK, and European economies were experiencing steady, if unspectacular, growth, supported by accommodative central bank policies and relatively calm geopolitical conditions.

Canada's high correlation with the US (75.26%) was driven by deep economic integration and similar sector exposures, while Japan's lower correlation (52.50%) reflected its unique economic structure and less synchronized monetary policy. Overall, global markets were moving together, but regional differences and sectoral composition still allowed for some diversification.

Table 1: Correlation between the S&P 500 and other major international equity indices

Key Global Theme			US vs UK	US vs EU ex UK	US vs Canada	US vs 1-day lagged JP
Feb-2019	Dec-2019	Late-cycle expansion, stable global growth	64.68%	72.17%	75.26%	52.50%
Dec-2019	Feb-2020	Pre-pandemic risk-on, synchronized optimism	78.23%	81.69%	84.97%	70.50%
Feb-2020	Mar-2020	COVID-19 shock, global market selloff	71.24%	72.09%	88.10%	32.37%
Mar-2020	Mar-2021	Uneven recovery and Policy divergence	51.90%	59.71%	81.11%	34.02%
Mar-2021	Jun-2021	Divergent economic trajectories and sector rotation	39.50%	51.31%	76.71%	39.29%
Jun-2021	Jun-2023	Global Inflation, Rate hikes and Geopolitical shocks	45.09%	56.40%	81.57%	53.33%
Jun-2023	Mar-2025	Policy fragmentation and regional divergence	32.90%	43.41%	67.42%	26.85%
Mar-2025	Apr-2025	Trade war escalation and Deglobalization	20.34%	23.29%	84.01%	45.91%
Apr-2025	Jul-2025	Persistent Trade tensions and Realignment	20.86%	23.51%	85.30%	44.48%

Note: Correlations are calculated using daily total return indices in local currency. For the US–UK, US–Europe ex UK, and US–Canada pairs, correlations reflect the relationship between the daily returns of the S&P 500 TR Index (USD) and, respectively, the FTSE All Share TR Index (GBP), the STOXX Developed Europe ex UK TR Index (EUR), and the MSCI Canada Index (CAD). For the US–Japan pair, the correlation is based on the daily return of the S&P 500 TR Index (USD) and the 1-day lagged return of the TOPIX TR Index (JPY), to account for non-overlapping trading hours.

Dec 2019 – Feb 2020: Pre-pandemic risk-on, synchronized optimism

In the months leading up to the COVID-19 pandemic, global equity markets rallied together, pushing correlations to very high levels (over 80% for US–EU ex UK and US–Canada, 78% for US–UK and 70.5% for US–Japan). This surge was fuelled by optimism around the US–China Phase One trade deal, strong labour markets, and continued central bank support.

Investors were in a “risk-on” mode, with capital flowing into equities worldwide. The synchronized optimism left little room for regional differentiation, resulting in unusually high cross-market correlations.

Feb 2020 – Mar 2020: COVID-19 shock, global market selloff

The onset of the pandemic triggered a historic, highly correlated selloff across most developed markets, as investors responded to a sudden, systemic shock. Correlations between the US and UK, EU ex UK, and Canada all spiked, with US–Canada reaching an exceptional 88.10%.

However, the US–Japan correlation dropped sharply to 32.37%, reflecting Japan’s different market response, possibly due to differences in the timing of the outbreak, local investor behaviour, and the yen’s safe-haven status. The global flight to safety and synchronized policy responses drove most markets together, but Japan’s distinct dynamics stood out.

Mar 2020 – Mar 2021: Uneven recovery, US/Canada outperformance

As the initial shock faded, recoveries diverged. The US and Canada rebounded strongly, supported by aggressive fiscal stimulus and rapid vaccine rollouts, while Europe and Japan lagged due to slower policy responses and ongoing restrictions.

This “uneven recovery” led to a sharp drop in correlations between the US and Europe/Japan, while US–Canada remained high (81.11%) due to similar economic momentum and sectoral drivers. Regional policy differences and varying pandemic impacts became the dominant forces shaping market returns.

Mar 2021 – June 2021: Divergent recoveries, sector rotation

This period saw further decoupling, with correlations between the US and UK/EU ex UK falling to 39.50% and 51.31%, respectively. The US economy was propelled by tech and growth stocks, while Europe and the UK faced renewed COVID waves and slower vaccine rollouts, and lingering Brexit uncertainties. At the same time, global investors began shifting from growth stocks into value and cyclical sectors, widening regional performance gaps.

Diverging monetary policies also played a role: the Federal Reserve signalled a move toward tightening, whereas the European Central Bank and Bank of England remained more cautious, resulting in differing interest rate paths and capital flows. Japan’s correlation with the US during this period remained subdued.

June 2021 – June 2023: Global inflation, rate hikes, geopolitical shocks

Correlations rebounded somewhat as global inflation surged and central banks worldwide began tightening monetary policy. The war in Ukraine and the resulting energy crisis created new global shocks, increasing market co-movement, especially between the US and Japan (53.33%).

Canada's correlation with the US remained high (81.57%) due to shared exposure to commodities and similar policy responses. The renewed global uncertainty and synchronized rate hikes temporarily increased cross-market correlations.

June 2023 – March 2025: Regional divergence, policy fragmentation

After mid-2023, correlations trended downward again, with US–UK and US–EU ex UK falling to 32.90% and 43.41%, respectively, and US–Japan dropping to 26.85%. This reflects growing economic and policy fragmentation.

While the US economy demonstrated relative resilience—bolstered in part by a surge in investment and optimism around artificial intelligence and related technologies—Europe and the UK grappled with stagflation, energy shortages, and heightened political uncertainty, and Japan faced its own demographic and monetary policy challenges.

The AI boom, which accelerated in late 2023, further amplified the outperformance of US technology and growth sectors, widening the gap with other regions. Markets became more sensitive to regional factors, reducing the influence of global shocks and lowering correlations.

March 2025 – April 2025: Trade war escalation, deglobalization

Renewed US-led trade wars in early 2025, culminating in the infamous “Liberation Day”, led to a sharp divergence between the US and European/UK markets, with correlations plunging to record lows (around 20%). Protectionist policies and supply chain disruptions weighed heavily on international trade and investment, while US–Canada correlation remained extremely high (84.01%) due to continued North American integration.

Japan's correlation with the US rebounded to 45.91%, likely reflecting its strategic role in new global supply chains and relative insulation from direct US–China trade tensions.

April 2025 – July 2025: Persistent trade tensions, supply chain realignment

Ongoing trade tensions and deglobalisation kept US–UK and US–EU ex UK correlations at historic lows (around 21% and 24%). US–Canada correlation stayed elevated (85.30%), underscoring the strength of North American economic ties. The US–Japan correlation remained moderate (44.48%), as Japan continued to benefit from supply chain realignment and shifting global alliances.

The record-low correlations observed in 2025 suggest that global equity markets are no longer moving in lockstep as they did during the crisis. For investors, this environment may offer renewed opportunities for international diversification, as the benefits of holding non-US equities increase when correlations are low.

However, it also highlights the importance of understanding local market drivers and recognising that regional shocks can have a more pronounced impact on returns. This context sets the stage for a closer look at how diversification—both geographic and sectoral—can help build more resilient portfolios.

Geographic diversification

Table 2 reveals the significant differences in country exposures between the S&P World index and S&P World ex-US index. The S&P World Index is a market-capitalisation-weighted benchmark designed to represent the performance of large- and mid-cap companies across 23 developed markets.

Its composition reflects the relative size of each country's equity market within the developed world, providing a snapshot of global equity leadership.

A closer look at the S&P World Index shows that over 70% of its allocation is to US companies, a direct result of the dominant scale and global influence of the US equity market. The remaining exposure is distributed among other major economies: Europe ex-UK accounts for about 12.6%, Japan 6.8%, the UK 3.8%, and Canada 3.3%. Australia and New Zealand together make up less than 2% of the index, with the rest allocated to other developed Asia Pacific markets.

This market-cap weighting ensures the index mirrors the investable universe, but it also means that the performance of the S&P World Index is largely driven by US market dynamics, with other regions having a more limited impact on overall returns.

Table 2: Country exposures of regional/global equity indices

Region / Country	S&P World ex-US	S&P World Index
United States	0.00%	70.35%
Australia	6.38%	1.89%
New Zealand	0.29%	0.08%
Canada	10.95%	3.25%
Japan	22.77%	6.75%
Great Britain (UK)	12.69%	3.76%
Europe ex-UK	42.39%	12.57%
Asia Pacific ex-Japan/Aus/NZ	4.53%	1.34%

Source: S&P Dow Jones data, as of 30 June 2025.

In contrast, the S&P World ex-US Index deliberately excludes US equities, redistributing weight across other developed markets. Here, Europe ex-UK takes the largest share at 42.4%, followed by Japan at 22.8%, the UK at 12.7%, and Canada at 11%.

This distinction is particularly relevant in today's environment, where global trade policy uncertainty is a defining feature of the macroeconomic landscape. Ongoing tensions—such as those between the US and China, evolving EU trade agreements, and the rise of regional economic blocs—have introduced both new risks and fresh opportunities for global investors.

The S&P World ex-US Index, in this context, offers a powerful tool for navigating this uncertainty. Each region within the index is responding differently to shifting trade dynamics:

- **Europe** is actively responding to global trade uncertainty by diversifying its economic partnerships and strengthening domestic industries. Recent trade agreements with Asia and Latin America, along with ongoing talks with Australia and India, are designed to reduce reliance on any single market. At home, Europe is investing in sectors like semiconductors, green energy, and advanced manufacturing, supported by targeted subsidies and research funding. These efforts, combined with coordinated fiscal stimulus and a stronger euro in early 2025, have helped European equities outperform, even as US markets faced tech sector volatility and policy headwinds.
- **Japan** remains central to Asian supply chains, leveraging its strengths in electronics, automotive, and precision manufacturing. The government is actively diversifying export markets and investing in innovation through initiatives like "Society 5.0" and increased R&D spending. Participation in

regional trade agreements, such as the CPTPP⁵, has further integrated Japan into the broader Asian economy, helping to buffer against global shocks and capitalize on shifting supply chain patterns.

- **Canada** leverages its resource wealth and strong trade ties with both the US and Asia, providing a buffer against single-market disruptions. By expanding agreements with the EU (CETA⁶) and Pacific nations (CPTPP), Canada has reduced its dependence on any single partner. Its stable political environment and commitment to sustainability continue to attract foreign investment, providing resilience against disruptions in global trade.
- **The UK** is adapting post-Brexit, capitalizing on its global financial sector, and forging new trade agreements with countries like Australia and New Zealand and has joined the CPTPP to broaden its export markets.

This region diversity means that when one market is negatively impacted by trade disputes or policy shifts, others may be more resilient or even benefit from the re-routing of global supply chains. For example, while US equities may be vulnerable to direct trade confrontations, European and Asian markets can sometimes gain from redirected investment and trade flows.

Sector diversification

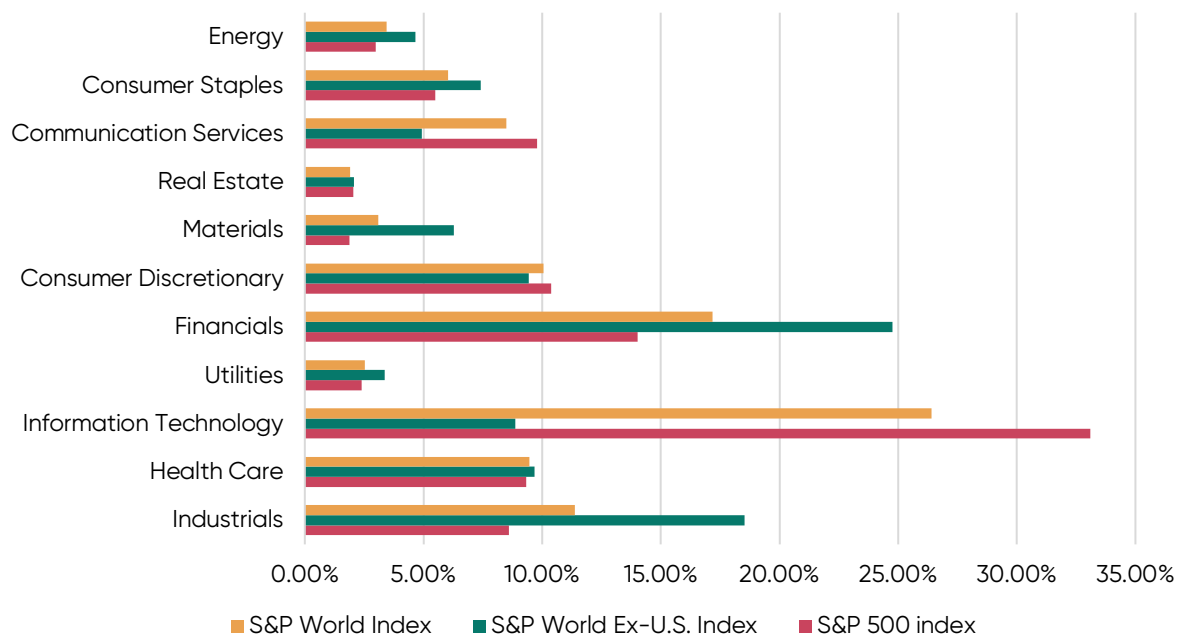
Building on the benefits of geographic diversification, sector diversification is another crucial dimension for constructing resilient global portfolios. While spreading investments across regions can help mitigate the impact of country-specific risks, it is equally important to consider how sector exposures shape overall portfolio risk and return profiles—especially given the pronounced sector imbalances in many major indices.

Many broad market indices, such as the S&P 500 and the S&P World Index, are notably concentrated in Information Technology. In these indices, tech stocks account for 33% and 26% of total weight, respectively. This heavy tilt means that portfolio returns are often closely linked to the performance of a handful of large technology companies, increasing vulnerability to sector-specific shocks like regulatory changes or shifts in innovation cycles.

⁵ CPTPP stands for Comprehensive and Progressive Agreement for Trans-Pacific Partnership – a trade agreement between several countries in the Asia-Pacific region, designed to promote economic integration, reduce trade barriers, and enhance cooperation among member nations.

⁶ CETA stands for Comprehensive Economic and Trade Agreement – a free trade agreement between Canada and the European Union (EU), along with its member states. CETA aims to reduce or eliminate barriers to trade and investment, making it easier for goods, services, and investments to flow between Canada and the EU. The agreement covers areas such as tariffs, regulatory cooperation, intellectual property, and sustainable development.

Figure 3: Sector allocations of major global equity indices



Source: S&P Dow Jones data, as of 30 June 2025

The S&P World ex-US Index, by contrast, presents a more balanced sector allocation. With US equities excluded, exposure to global tech giants is significantly reduced—Information Technology represents just 8.9% of the index. Instead, there is greater representation from Industrials (18.5%), Financials (24.8%), and Consumer Discretionary (9.4%), along with meaningful allocations to Health Care, Consumer Staples, and Utilities.

This diversified sector mix means the S&P World ex-US Index is less dependent on the technology sector and more reflective of trends in global manufacturing, finance, and consumer activity. For investors, including the S&P World ex-US Index alongside US or global benchmarks can help reduce concentration risk, smooth out volatility, and capture a broader range of growth opportunities across both regions and industries.

Recent Market Context & Portfolio Rationale

The case for global diversification is stronger than ever. In 2025 year-to-date, US equities have underperformed several major international markets, while the New Zealand equity market has also lagged. In contrast, markets such as the UK, Europe ex-UK, and Canada have demonstrated stronger momentum, reflecting both local

economic resilience and the benefits of improved corporate governance and innovation abroad.

Table 3: Average 12-month rolling returns of major global stock markets in local currency

Period			S&P 500 TR USD	FTSE All Share TR GBP	STOXX Dev Europe exUK TR EUR	TOPIX TR JPY	MSCI Canada TR CAD
Jul- 2020	Jul- 2025	5 years	14.56%	10.50%	10.99%	14.20%	13.89%
Dec- 2024	Jul- 2025	2025 YTD	8.59%	13.41%	10.37%	6.89%	11.81%
Dec- 2024	Apr- 2025	Trade war escalation in April 2025	-4.92%	4.25%	6.22%	-3.29%	1.59%

Source: Bloomberg data

This trend is evident in the latest performance data. From December 2024 to July 2025, the S&P 500 returned 8.6%, trailing the FTSE All Share (UK) at 13.4%, STOXX Developed Europe ex-UK at 10.4%, and MSCI Canada at 11.8%. Japan's TOPIX returned 6.9% over the same period. Looking at the longer term, five-year average annual returns show that while the S&P 500 led with 14.6%, Japan (14.2%) and Canada (13.9%) were close behind, and Europe ex-UK and the UK also delivered solid returns of 11.0% and 10.5%, respectively.

The need to look beyond a US-centric portfolio became even more apparent during the trade war flare-up in early 2025. After riding an AI-fuelled rally from late 2023 through 2024, US equities lost momentum as the new Trump administration introduced sweeping tariffs—some reaching 145% on Chinese imports—sparking market volatility and a sharp sell-off.

Continued instability in global trade relations, persistent inflation concerns, and a restrictive Federal Reserve stance further weighed on the market, making the US market particularly vulnerable.

As a result, between December 2024 and April 2025, the S&P 500 fell by nearly 5%, underperforming most major developed markets. In contrast, the FTSE All Share, STOXX Developed Europe ex-UK and MSCI Canada was up by 4.3%, 6.2%, and 1.6%, respectively.

These divergent outcomes underscore how different markets can respond to global shocks in distinct ways, providing valuable diversification benefits, reinforcing the case for a globally diversified portfolio that balances exposure across both regions and sectors.

Historical Risk/Return Profile of S&P World ex-US index

The historical record of the S&P World ex-US TR NZD index further illustrates the benefits of diversifying across markets and sectors. While the S&P 500 has often delivered higher absolute returns—especially over longer horizons—the S&P World ex-US index has consistently provided a steadier ride, with lower volatility and, at times, superior risk-adjusted returns. For example, over the past year, the S&P World ex-US TR NZD outpaced the S&P 500 TR NZD, returning 15.1% versus 13.3%, and did so with significantly less volatility (11.2% compared to 19.1%).

This pattern holds over longer periods: across three, five, and ten-year horizons, the ex-US index's annualized volatility has remained well below that of the S&P 500. As a result, its risk-adjusted returns (Sharpe ratios) have been particularly strong in recent years—1.62 over three years and 1.30 over five years, both higher than the S&P 500's corresponding figures.

These outcomes underscore the practical value of including the S&P World ex-US in a diversified portfolio. Not only does it offer the potential to outperform during certain market cycles, but it also helps smooth out returns and reduce overall risk—especially valuable during periods of heightened volatility or when US equities face headwinds.

Table 4: Annualised returns and volatility across different time horizon.

From	To	Horizon	S&P World Ex-U.S. TR NZD	S& P 500 TR NZD
Annualized Return				
31/07/2024	31/07/2025	1y	15.14%	13.26%
31/07/2022	31/07/2025	3y	16.36%	18.15%
31/07/2020	31/07/2025	5y	13.91%	17.78%
31/07/2015	31/07/2025	10y	8.21%	14.52%
Annualized Volatility				
31/07/2024	31/07/2025	1y	11.18%	19.08%
31/07/2022	31/07/2025	3y	10.09%	15.70%
31/07/2020	31/07/2025	5y	10.66%	15.68%
31/07/2015	31/07/2025	10y	12.31%	17.39%
Risk Adjusted Return				
31/07/2024	31/07/2025	1y	1.35	0.69
31/07/2022	31/07/2025	3y	1.62	1.16
31/07/2020	31/07/2025	5y	1.30	1.13
31/07/2015	31/07/2025	10y	0.67	0.84

Source: S&P Dow Jones data

Conclusion

The Kernel World ex-US Fund, alongside other global equity funds that track the S&P 500 index or other global broad market indices, forms a robust foundation for New Zealand investors seeking a truly diversified portfolio. This low-cost, transparent index fund fills a critical gap by providing exposure to developed markets outside both New Zealand and the US—regions that are often underrepresented in NZ-based investors' portfolios. By design, it reduces US concentration risk and broadens diversification across countries and sectors, all with minimal added complexity.

- For those **building a portfolio from scratch**, it can be paired with an S&P 500 allocation to create a custom balance between the US and the rest of the world.
- For investors who already hold a market-cap-weighted global fund, it offers a simple way to **strategically reduce US concentration risk** by replacing a slice of that existing allocation.

In a world where trade policies are increasingly unpredictable, relying on a single market or region exposes investors to concentrated risks. A globally diversified ex-US allocation not only captures a wider set of growth opportunities but also provides essential resilience against the shocks and swings that come with today's evolving trade landscape. For New Zealand investors, this approach is not just prudent—it's essential for building a robust, future-proof portfolio.

The Kernel World ex-US Fund offers a timely opportunity to rebalance, access a broader set of global leaders, and achieve long-term investment goals with greater diversification.

