

American Exceptionalism

Economic Impact and Stock Market Returns

American Exceptionalism is the belief that the United States is inherently different and superior compared to other nations. This concept is deep rooted and often linked to various aspects of American life, but for our purposes, we will focus on its influence on economic superiority and stock market performance. At Crawford, we have always invested in U.S. companies with the belief that our economic system, while far from perfect, is the best system in the world. This is a characterization of our common sense approach, and we maintain this belief despite the fact that it has been out of favor with conventional wisdom in recent years. Due in part to our preference for fair markets, adequate financial disclosure, and a culture of innovation and growth, we are solely focused on U.S.-centric investments. This longstanding tenet of our investment approach, characterized by our founder in the quote below, has benefitted our investors through the years.

“Why would we invest in an inferior geography or lesser economic system?”
- John H. Crawford, III

First, we will discuss *American Exceptionalism* in the context of economic superiority. This is often attributed to several key factors, listed below.

Innovative Spirit: The U.S. has long been a hub of innovation and entrepreneurship. From the early days of the Industrial Revolution to the tech boom of Silicon Valley, the U.S. has consistently fostered an environment where new ideas can flourish. This innovative spirit has led to the creation of world-changing technologies and industries, both driving economic growth and creating wealth.

Capitalism and Free Market Economy: The U.S. economy is predominantly capitalist, with a strong emphasis on personal liberties and free markets coupled with relatively minimal government intervention. This system encourages competition, efficiency, and private enterprise, which in turn fuels economic expansion and productivity.

Diverse and Skilled Workforce: The U.S. labor force is diverse and highly skilled, thanks in part to a robust education system and the country's ability to attract talent from around the world. This diversity brings a wealth of perspectives and ideas, further fueling innovation and economic growth.

Natural Resources and Infrastructure: The U.S. is also rich in natural resources, from vast agricultural lands to significant deposits of minerals and fossil fuels. These resources, combined with the interstate highway system, air travel, and transit alternatives such as ports and railroads, have historically provided a strong foundation for economic development and have made the country largely self-sufficient in many areas.

American Exceptionalism

Global Influence: As a global superpower, the U.S. plays a significant role in international trade, finance, and geopolitics. The U.S. dollar is the world's primary reserve currency, which gives the country considerable economic leverage on the global stage.

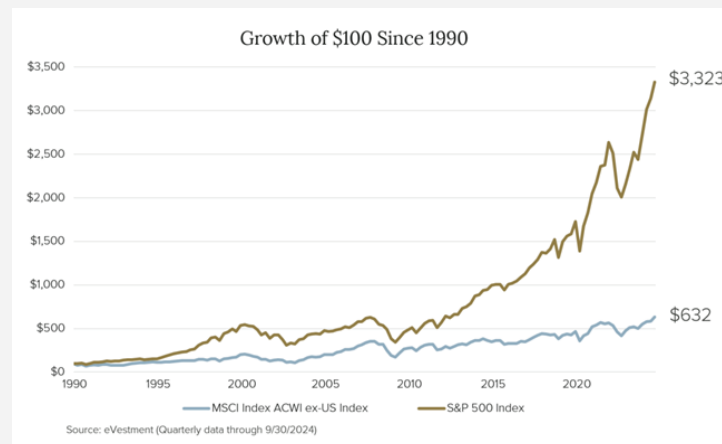
All of this sets the stage to make U.S. companies some of the largest and most influential in the world. The U.S. economy has a track record of resilience and sustained growth. Even in the face of economic downturns and crises, the U.S. has typically rebounded strongly, thanks to its dynamic and flexible economic structure. As a result of this and the factors listed above, the U.S. stock market has historically delivered strong returns. Several other factors contribute to this robust market performance.

Innovation and Technological Advancements: The rapid pace of technological and commercial innovation in the U.S. has led to the growth of high-value sectors like Technology, Healthcare, and Consumer Goods, to name a few. Companies in these sectors often deliver substantial returns, in turn driving overall market performance.

Corporate Governance and Transparency: U.S. companies are subject to stringent regulations and disclosure requirements, which promote transparency and protect investors. Strong corporate governance practices also help ensure that companies are managed effectively and ethically.

Investment Culture: There is a strong culture of investing in the U.S., both among individual investors and institutional entities like pension funds and mutual funds. This widespread participation in the stock market helps drive demand for equities and contributes to market stability and growth.

International Business: Many U.S.-based companies are doing business globally and expanding sales and addressable markets by serving new geographies. This adds to potential growth for U.S. companies and contributes to higher returns for U.S. stocks. This further underscores our principle of only investing in U.S. businesses, as our ownership of these businesses gives us higher-quality exposure to the global markets where they do their business.



In fact, the U.S. equity market post-GFC has demonstrated remarkable performance relative to global equities. Over the past 15 years, the S&P 500 Index (U.S. stocks) has outperformed the MSCI All Country World Index Excluding the U.S. by 137%. While some may assume this is a result of index composition and the increasing weight of Information Technology in the S&P 500 Index, this is not entirely the case. The S&P 500 Index Excluding Technology still dramatically outperforms the MSCI ACWI

American Exceptionalism

ex-U.S. Index.

In tandem with this outperformance, U.S. stock market valuations have risen dramatically, leading many investors to wonder whether *American Exceptionalism* in the context of stock market performance is sustainable. U.S. stocks are not cheap, and they are highly valued relative to non-U.S. companies. For instance, the Price-to Earnings ratio of the MSCI ACWI ex-U.S. has been discounting rapidly relative to the S&P 500 Index, and the international index is currently trading at a ~40% discount to the S&P 500 Index. Additionally, the S&P 500 Index as a percentage of the global stock market capitalization has risen above 70% this year.

Following a period of outperformance, it is typical for investors to pile in, chasing the winners and betting on the recurrence of past successes. This drives valuations upward, sometimes to unsustainable levels. However, we believe there are reasons to believe *American Exceptionalism* in the context of stock market performance will continue, and the U.S. will continue to be the best place to invest. We believe the U.S. is likely to maintain its leadership in innovation, particularly in cutting-edge fields like Artificial Intelligence and Health Care. Additionally, companies that can consistently grow earnings and dividends should continue to provide attractive investment opportunities. These are the very companies we prefer to invest in at Crawford. U.S. companies tend to have structurally higher ROE (Return on Equity) than their international counterparts due to many of the factors listed above. For example, the ROE of the S&P 500 Index is currently nearly 75% higher than that of the MSCI ACWI ex-U.S. Index. Moving forward, the outlook for investing in the U.S. remains positive, although it is not without challenges and uncertainties.

	Return on Equity
S&P 500 Index	29.70%
MSCI ACWI ex-US Index	17.10%

Source: FactSet; SPDR® MSCI ACWI ex-US ETF data used for MSCI ACWI ex-US Index (Data as of 9/30/2024)

Fiscal stimulus measures, incentives, and tax reforms have a significant impact on the economy and the stock market. Additionally, geopolitical tensions, trade disputes, and shifts in global power dynamics can introduce volatility and uncertainty into the markets. A significant question for stock investors is currently related to the Federal Reserve's ability to bring inflation closer to the 2% annual target. Moving forward, recent and anticipated policy developments need to be monitored closely to gauge their potential effects on individual companies and overall market performance.

In conclusion, *American Exceptionalism* has played a significant role in shaping the country's economic and stock market superiority. This has been a significant success factor in our client portfolios, but additionally, we have focused on what we call *Dividend Exceptionalism*. Not only have we invested in what we believe to be superior geography, but we have an investment philosophy that orients us toward the highest-quality dividend paying companies we can find. This combination has represented a highly successful blend of tailwinds for our clients. While challenges and uncertainties remain, we believe the outlook for investing in *Dividend Exceptionalism* is extremely bright. This will continue to be our focus in what surely will be a dynamic and evolving investment landscape as we move forward.

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