

Canadians reducing home bias, eh?

Vanguard research finds that investors are increasingly going global

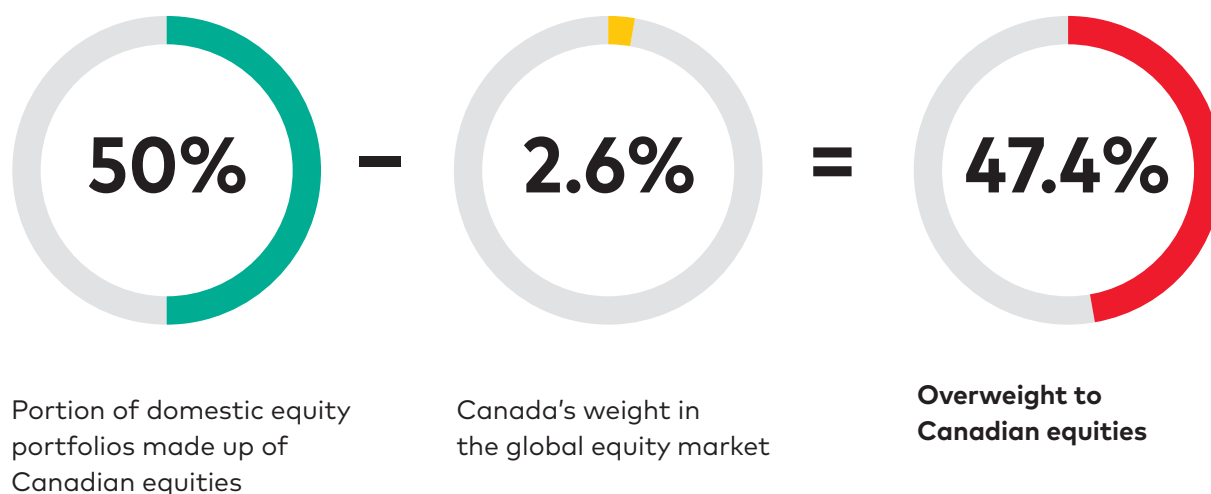
Canada has a reputation for being one of the most economically stable countries in the world, with a well-regulated financial system, strong governance, and political stability. This economic stability can lead to an over reliance on Canadian securities within our investment portfolios – what’s known as “home bias”.

What is Canadian home bias? 🍁

The tendency of Canadian investors to allocate a significant portion of their investment portfolio to domestic assets, such as Canadian stocks and bonds, while underweighting or neglecting international investments.

CANADIANS FAVOUR CANADIAN EQUITY

But our preference for Canadian equity is out of proportion to our country’s weight in the global equity market.¹



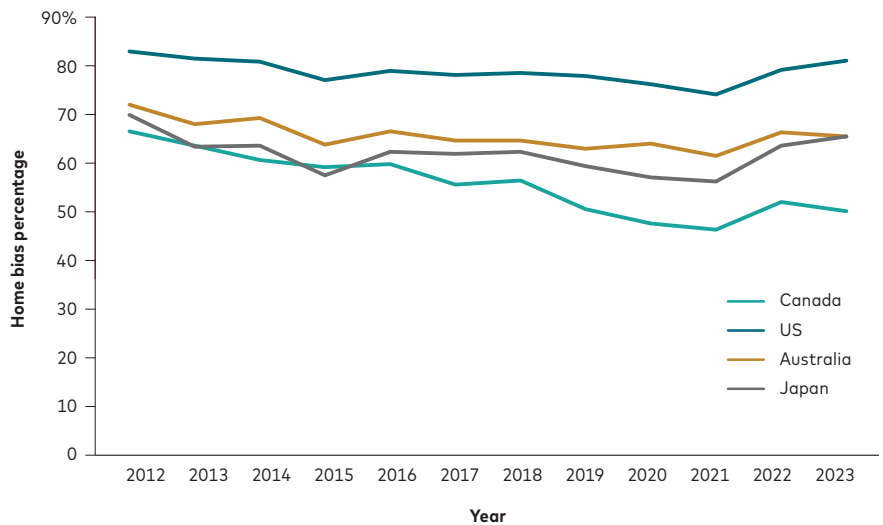
¹ Sources: International Monetary Fund's Coordinated Portfolio Investment Survey (2023). Market cap data and holdings data as of April 30, 2024.

Home bias is a global trend not unique to Canadians – but home bias in Canada and globally is on the decline

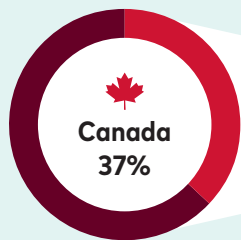
Overall, Canadians and investors in other developed countries are trending towards a greater appetite for diversification through global equities.

This is an encouraging trend. But, what's wrong with home bias?

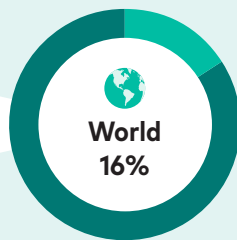
DEVELOPED MARKETS HOME BIAS TRENDS, 2012-2023



Security concentration



Portion of Canada's equity market represented by **Canada's 10 largest equity names**.²



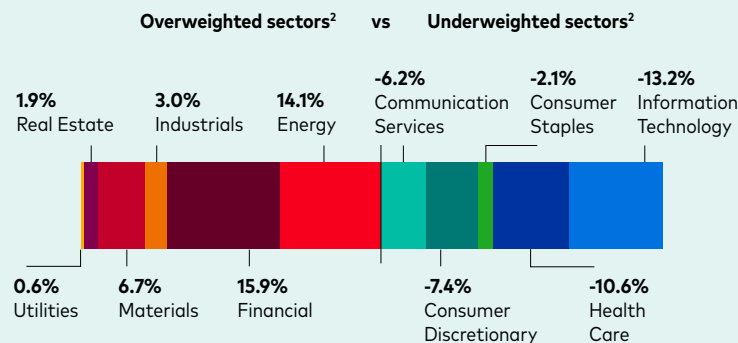
Portion of the world equity market represented by **the world's 10 largest equity names**.²

Notes: Data as of April 30, 2023 (the latest available from the International Monetary Fund, or IMF) in U.S. dollars. Domestic investment is calculated by subtracting total foreign investment (as reported by the IMF) in a given country from its market capitalization in the MSCI All Country World Index. Given that the IMF data is voluntary, there may be some discrepancies between the market values in the survey and the MSCI ACWI. Sources: Vanguard calculations, based on data from the IMF's Coordinated Portfolio Investment Survey (2023).

Portfolios overweighted in Canadian equity can be more volatile

Relative to the global market, Canada's market is concentrated within a few large names. It is also significantly overweight in the energy, financials and materials sectors, and significantly underweight in others.²

Sector concentration

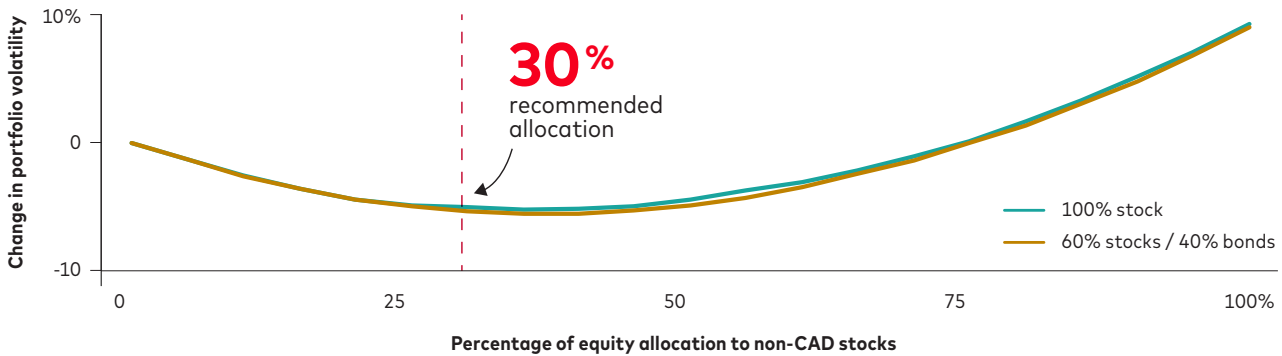


² Canada equities represented by FTSE Canada All Cap Index; global equities represented by FTSE Global All Cap Index. Data as of April 30, 2024. Sources: Vanguard calculations, using data from Bloomberg.

In part due to security and sector concentration, an all-Canada stock portfolio has historically been more volatile than portfolios with international equity diversification.³ In fact, the Canadian stock market has historically been more volatile than the global market, but without a proportionate increase in return.

OVERWEIGHT TO CANADIAN EQUITIES

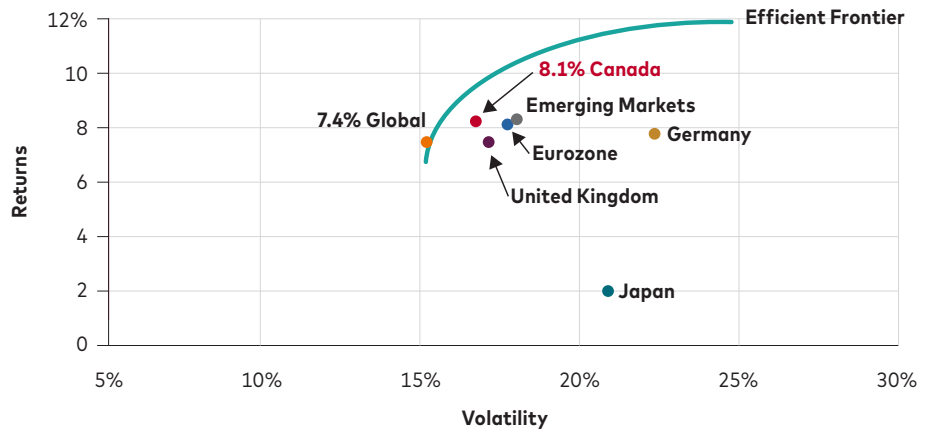
A reasonable asset allocation for Canadian investors to minimize the long-term volatility of their portfolio is a 30% allocation to Canadian equities and a 70% allocation to international equities.



Portfolios concentrated in any single country are inefficient

Equity portfolios made up of a single country may deliver expected returns too low for the level of risk they take.⁵

GLOBAL AND COUNTRY SPECIFIC RISKS VS RETURNS



THE BOTTOM LINE

What's the ideal long-term asset allocation for Canadian investors?

Vanguard believes 30% represent a reasonable tradeoff between the benefits of global diversification and the advantages Canadian residents derive from investing in Canadian securities.

³ Shows the results of a minimum-variance analysis since 1999. Canadian equities are represented by the MSCI Canada Index; global equities are represented by MSCI All Country World Index thereafter. All data are through April 30, 2024. Note that this analysis is backward looking and dependent on the time period examined. Sources: Vanguard calculations, using data from Thomson Reuters Datastream and Bloomberg.

⁴ Specifically, the volatility impact from each degree of overweight to Canadian equity.

⁵ Index returns reflect the MSCI World Index and the respective MSCI indexes for each country in the World index. The efficient frontier does not reflect actual data or returns and is theoretical in nature. Returns data are from January 2, 1989 to April 30, 2024.

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