

# Canadians reducing home bias, eh?

## Vanguard research finds that investors are increasingly going global

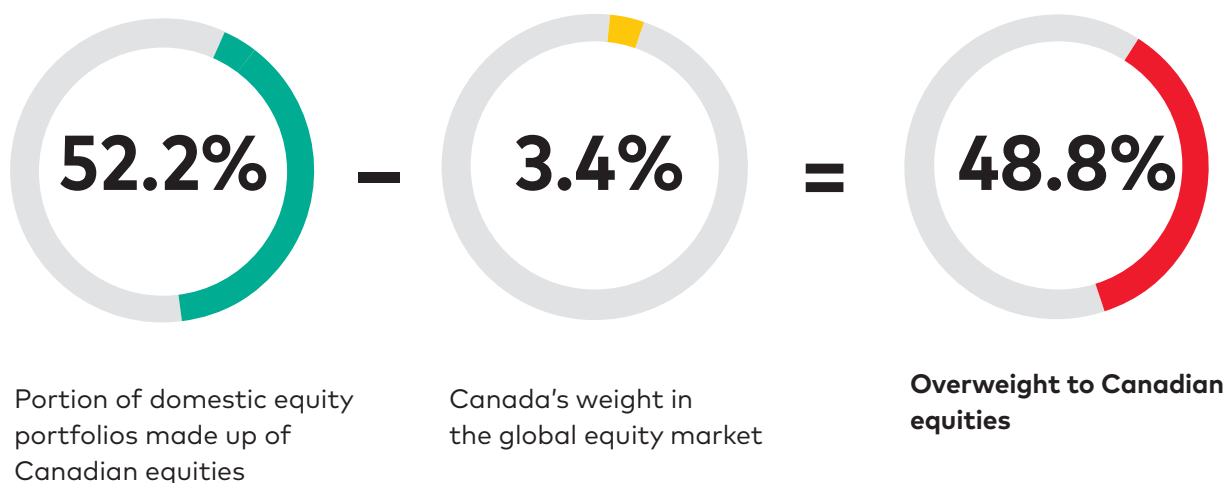
Canada has a reputation for being one of the most economically stable countries in the world, with a well-regulated financial system, strong governance, and political stability. This economic stability can lead to an over reliance on Canadian securities within our investment portfolios – what’s known 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.<sup>1</sup>



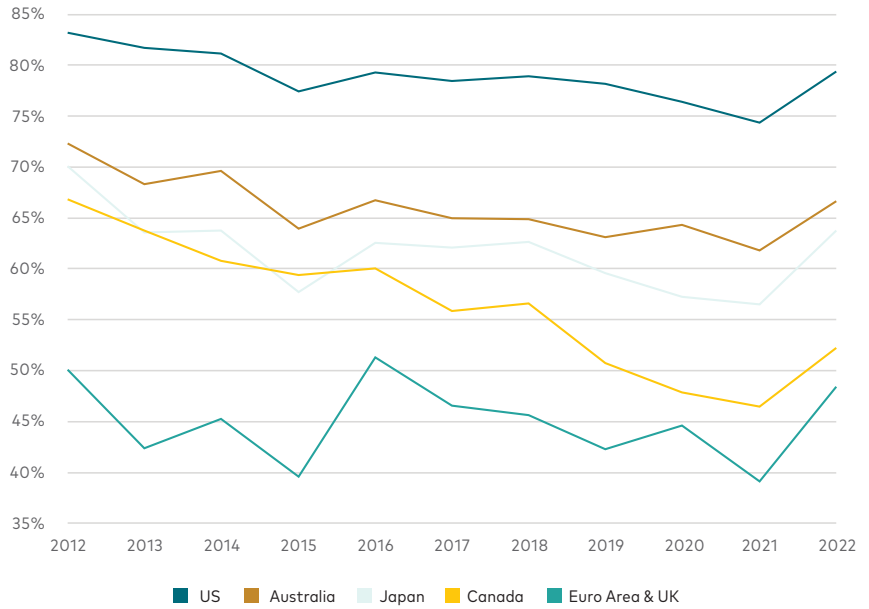
<sup>1</sup> Sources: Vanguard calculations using International Monetary Fund's Coordinated Portfolio Investment Survey and Bloomberg. Market cap and holdings data as of June 30, 2022.

**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, 2012-2022



**Notes:** Data as of June 30, 2022 (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 (2022).

**Security concentration**



Portion of Canada's equity market represented by **Canada's 10 largest equity names**.<sup>2</sup>

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

**Portfolios overweighted in Canadian equity can be more volatile**

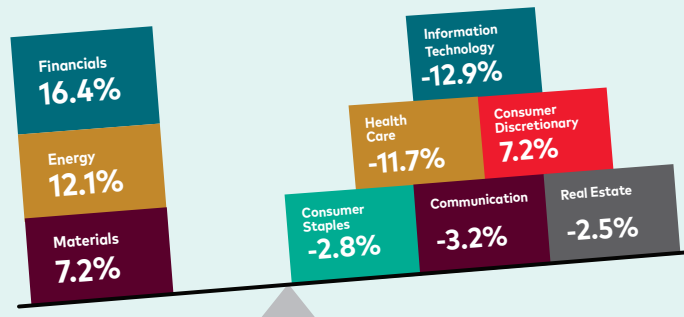
Relative to the global market, Canada's market is concentrated within a few large names. It is also significantly overweight in the energy, financials and materials sectors, and significantly underweight in others.<sup>2</sup>

**Sector concentration**

OVERWEIGHTED SECTORS<sup>2</sup>

VS

UNDERWEIGHTED SECTORS<sup>2</sup>



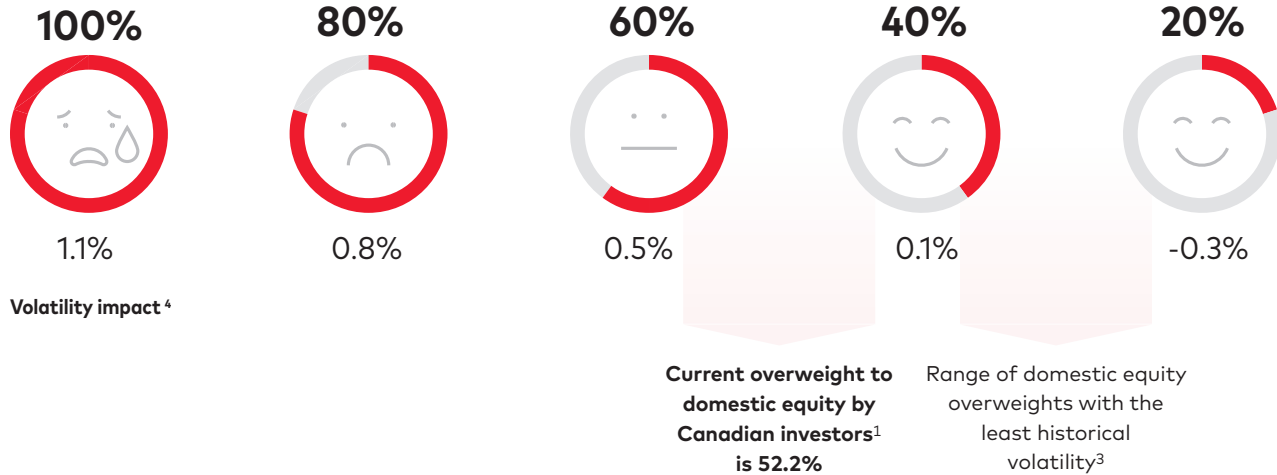
<sup>2</sup> Canada equities represented by FTSE Canada All Cap Index; global equities represented by FTSE Global All Cap Index. Data as of May 31, 2023. Sources: Vanguard calculations, using data from Bloomberg.

In part due to security and sector concentration, an all-Canada stock portfolio has historically been more volatile than

portfolios with international equity diversification.<sup>3</sup> In fact, the Canadian stock market has historically been more volatile

than the global market, but without a proportionate increase in return.

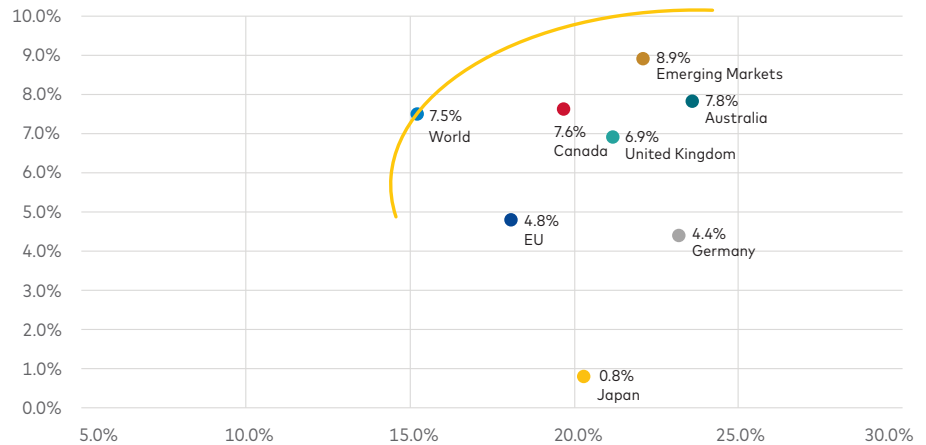
#### OVERWEIGHT TO CANADIAN EQUITIES



### 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.<sup>5</sup>

#### GLOBAL AND COUNTRY-WISE RISKS VS RETURNS



#### THE BOTTOM LINE

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

Vanguard believes the best long-term the optimal asset allocation for Canadian investors is a 30% allocation to Canadian equities and a 70% allocation to international equities.

<sup>3</sup> 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 World Index through 1987 and MSCI All Country World Index thereafter. All data are through May 31, 2023. 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.

<sup>4</sup> Specifically, the volatility impact from each degree of overweight to Canadian equity.

<sup>5</sup> 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 through May 31, 2023, more details on the data timeseries can be found in the footnote. Sources: Vanguard calculations, using data from Bloomberg. Global return data covers the period January 29, 1988 through May 31, 2023; Canada return data covers the period January 30, 2004 through May 31, 2023; Germany return data covers the period February 26, 1999 through May 31, 2023; Japan return data covers the period February 26, 1971 through May 31, 2023; United Kingdom return data covers the period February 26, 1971 through May 31, 2023; Australia return data covers the period February 26, 1971 through May 31, 2023; EU return data covers the period February 26, 1999 through May 31, 2023; and Emerging Markets return data covers the period January 29, 1988 through May 31, 2023. The return points are historical, while the curve is purely theoretical and forward looking.

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