

Canadians reducing home bias, eh?

Vanguard research finds that investors are increasingly going global

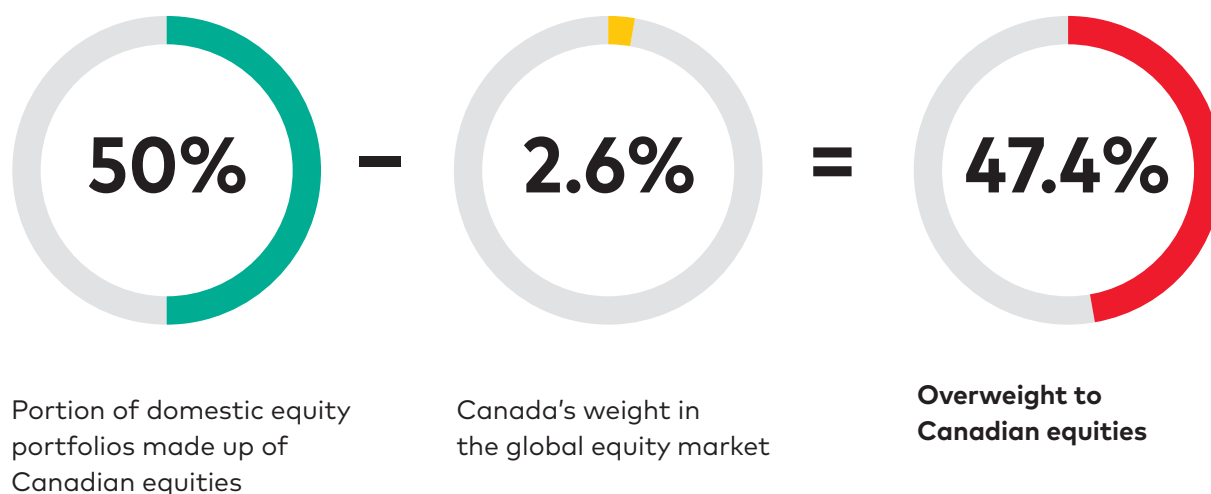
Canada has a reputation for being one of the most economically stable countries in the world, with a well-regulated financial system, strong governance, and political stability. This economic stability can lead to an over reliance on Canadian securities within our investment portfolios – what’s known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



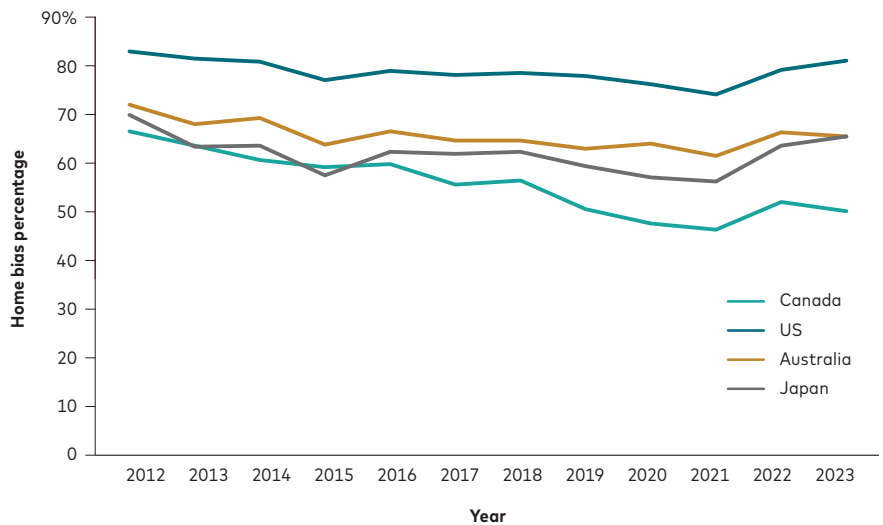
¹ Sources: International Monetary Fund’s Coordinated Portfolio Investment Survey (2023). Market cap data and holdings data as of April 30, 2024.

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

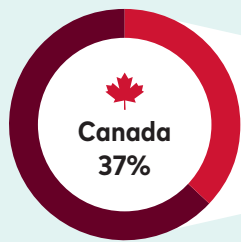
Overall, Canadians and investors in other developed countries are trending towards a greater appetite for diversification through global equities.

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

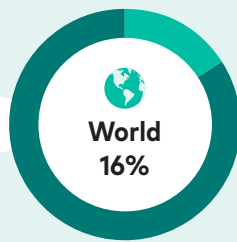
DEVELOPED MARKETS HOME BIAS TRENDS, 2012-2023



Security concentration



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



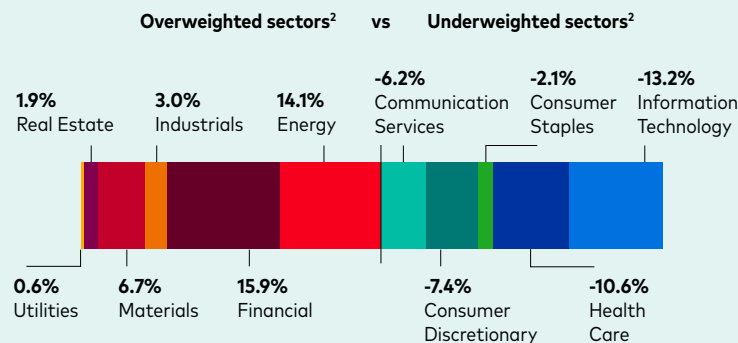
Portion of the world equity market represented by **the world's 10 largest equity names**.²

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

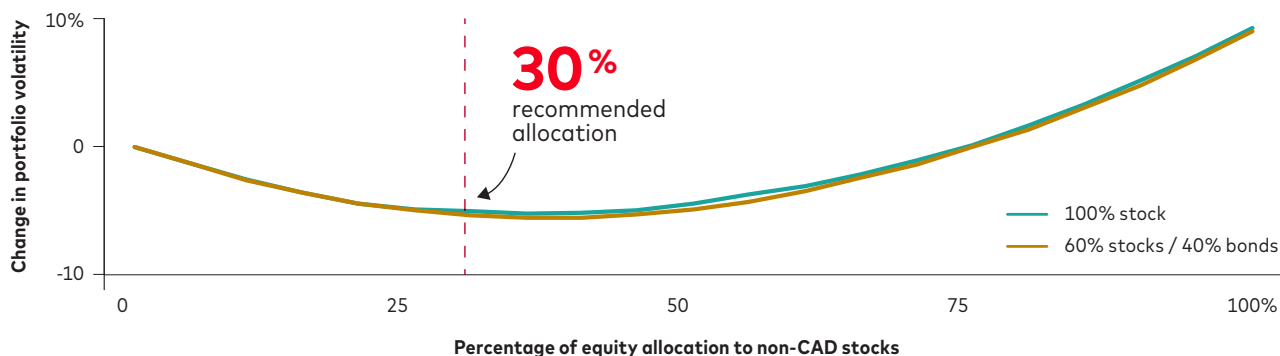


² Canada equities represented by FTSE Canada All Cap Index; global equities represented by FTSE Global All Cap Index. Data as of April 30, 2024. Sources: Vanguard calculations, using data from Bloomberg.

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

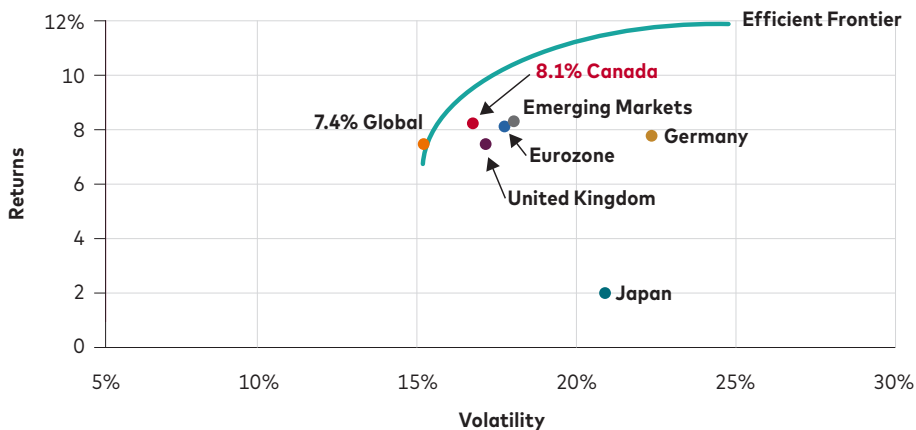
A reasonable asset allocation for Canadian investors to minimize the long-term volatility of their portfolio is a 30% allocation to Canadian equities and a 70% allocation to international equities.



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.

Connect with Vanguard® • vanguard.ca

Publication date: June 2024

The information contained in this material may be subject to change without notice and may not represent the views and/or opinions of Vanguard Investments Canada Inc.

Certain statements contained in this material may be considered “forward-looking information” which may be material, involve risks, uncertainties or other assumptions and there is no guarantee that actual results will not differ significantly from those expressed in or implied by these statements. Factors include, but are not limited to, general global financial market conditions, interest and foreign exchange rates, economic and political factors, competition, legal or regulatory changes and catastrophic events. Any predictions, projections, estimates or forecasts should be construed as general investment or market information and no representation is being made that any investor will, or is likely to, achieve returns similar to those mentioned herein.

This material is not a recommendation, offer or solicitation to buy or sell any security, including any security of any investment fund or any other financial instrument. The information contained in this material is not investment advice and is not tailored to the needs or circumstances of any investor, nor does the information constitute business, financial, tax, legal, regulatory, accounting or any other advice.

The information contained in this material may not be specific to the context of the Canadian capital markets and may contain data and analysis specific to non-Canadian markets and products.

The information contained in this material is for informational purposes only and should not be used as the basis of any investment recommendation. Investors should consult a financial, tax and/or other professional advisor for information applicable to their specific situation.

In this material, references to “Vanguard” are provided for convenience only and may refer to, where applicable, only The Vanguard Group, Inc., and/or may include its subsidiaries or affiliates, including Vanguard Investments Canada Inc.

Vanguard®

© 2024 Vanguard Investments Canada Inc.
All rights reserved.

HOB_I_052024