

Q3 International Markets Review: Navigating Growth, Reform and Uncertainty

Sep 2025

The third quarter saw international stocks rise once again, with the MSCI ACWI ex USA Index increasing 6.89%, marking a third straight quarter of gains and a year-to-date increase of more than 26%.

Asian markets led during the quarter, with China and Japan contributing meaningfully to the benchmark's return. Chinese equities rallied on growing confidence that the country's domestic producers are becoming less reliant on foreign suppliers, especially in important areas such as artificial intelligence (AI). Japanese stocks advanced as governance reforms accelerated. The Tokyo Stock Exchange has pushed for better capital efficiency, leading to a wave of parent-subsidiary buyouts that has turned policy talk into action. Meanwhile, European stocks saw modest but positive gains. Germany, which had been an outperformer earlier in the year, underperformed in Q3 as positive economic momentum slowed due to weakness in exports and uncertainty tied to new US tariffs on EU exports. Emerging markets generally benefited from China's rebound, with Mexico and Brazil outpacing the benchmark while Indian stocks declined amid tariff headlines, geopolitical headwinds and softer consumption trends.

With one full earnings season behind us post-Liberation Day, three themes stood out.

1. Companies are deferring some capital expenditures due to elevated uncertainty across global markets.
2. Companies are contemplating changes to their production and assembly locations to adapt operations to a less globalized world.
3. Companies are refining pricing, adjusting product sizing and leveraging technology to build resilience. Many businesses, battle-hardened by COVID-19, are now better equipped to navigate today's challenges.

Market outlook

As we look ahead to Q4, global central banks remain broadly accommodative, which has created a supportive backdrop for equities. Inflation risk appears to be moderating around the globe, but concerns around growth continue to build.

China's stimulus continues to support near-term GDP growth, but year-over-year comparisons will become more difficult due to prior one-time purchases and tariff-related demand pull forward. Japanese equities should continue to benefit from corporate governance reform; however, we believe investors will be looking for tangible evidence of change before allocating capital given the country's demographic challenges and a history of unrealized reforms. Europe is attempting to accelerate its own reforms to improve competitiveness, but high debt levels and political uncertainty in some countries raise questions about long-term sustainability.

Despite the uncertainties that exist around the globe, we remain grounded in our intrinsic value discipline, focusing on companies that are using capital to create long-term shareholder value. We continue to look for opportunities created by short-term disruption and for businesses trading at attractive risk/reward levels. This discipline, combined with the ability to be nimble when prices diverge from intrinsic value, remains our north star for long-term value creation.

Index data source: MSCI, Inc. See diamond-hill.com/disclosures for a full copy of the disclaimer.

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