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US excep-tionalism

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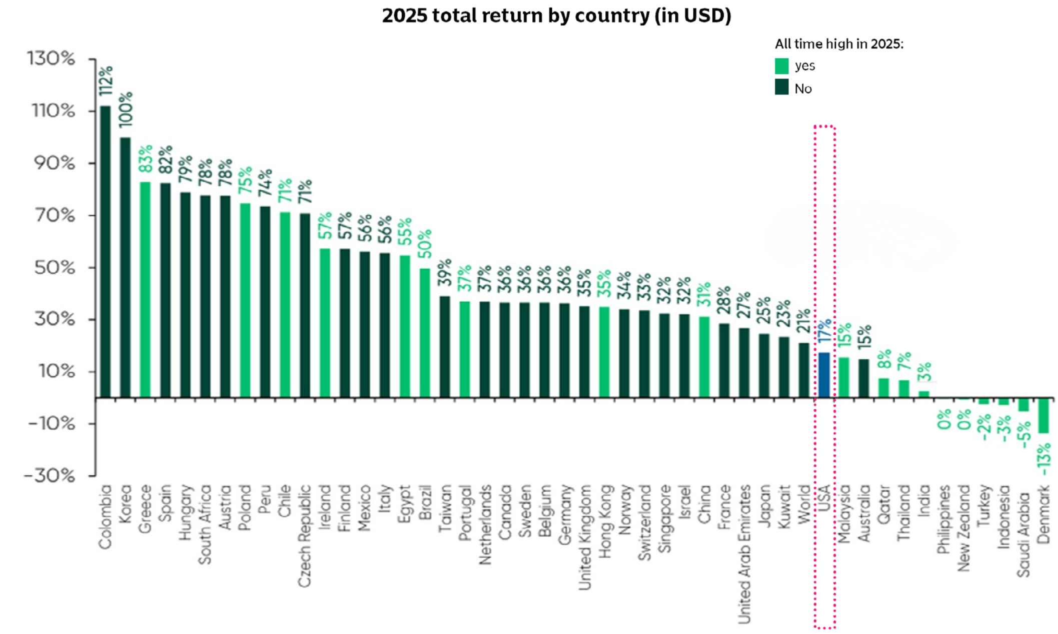

Source: FactSet, as at 20 January 2026. MSCI All Country World Index constituents' index total returns in USD, from 1 January to 31 December 2025.

What this chart shows

Over half of the countries within the MSCI All Country World Index hit all-time-high returns in 2025. The US was not among them—in fact, it fell into the bottom quartile of the 48 countries listed.

A 17% annual return is still strong, but the drop is notable given that US equities outperformed key markets such as Europe, Japan, the UK and Emerging Markets in six of the past seven years (in USD terms). Tumbling to 12th place marks a sharp drop, especially at a time when President Donald Trump continues to promote the "Make America Great Again" narrative. Meanwhile, many regions are demonstrating that they are managing - or even benefiting from - the challenges posed by the United States, such as tariff increases.

Why this is important

One year of underperformance does not signal a structural shift, but it raises two questions:

1. Is US exceptionalism fading?
2. How long can non-US markets continue to outperform?

Of course, no one has the answers, but we can explore some key factors. Since Trump announced major tariff increases, countries outside the US have been making new trade agreements amongst themselves, boosting trade outside of the US. Trade with the US has unsurprisingly declined, putting the region at a relative disadvantage.

Consumer sentiment in the US is poor as the public are concerned about the cost of living due to sticky inflation, job security due to artificial intelligence (AI) displacement, and the general state of the economy. Conversely, investor sentiment remains resilient, and US assets continue to experience healthy inflows. Focusing on technology - where performance has been exceptional, especially among US mega-cap names - sentiment remains broadly positive but is becoming more mixed as investors try to identify long-term AI winners and losers. As a result, this will likely continue to drive volatility across the sector, with top performers like Oracle sliding from elevated levels as questions arise around spending plans and sustained market dominance.

Turning our attention to valuations, the US market sits well-ahead of other regions, predominantly due to its heavy mega-cap tech weighting. Other regions, such as Europe, offer exposure to unloved areas of the market exhibiting solid fundamentals. Banks, for example, have traded at depressed valuations for years but exhibit strong balance sheets following a period of heightened regulation, which has recently been relaxed, and this opens up an opportunity which we have already begun to see reflected in share prices.

As we navigate the course of markets in 2026, we continue to be underweight and selective within US equities, in favour of other regions where we see more upside potential.

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Important notes