Global Equity Insights

USD EDITION

QUARTERLY REPORT | **FEBRUARY 2026**

Global equities lack decisive leadership. Multiple market drivers may sustain shifts in regional and industry leadership.

Ranked monthly returns shows lack of leadership
Plotting ranked returns over 12M looks like a patchwork quilt, highlighting the shifting nature of leadership & making high conviction tactical timing tough(er). This dynamic favours a broad basket of strategic positions with diversified underlying drivers.

Macro has been surprisingly strong
Geopolitical risks have risen, as has equity volatility. This may settle, and the underlying macro looks reasonable, if not spectacular, and data has been surprising to the upside.

Who is paying the tariff?
Research points to the US importer footing most of the bill for tariffs. If this is true, corporates have two choices: absorb the cost, reducing their margins and hence earnings, or pass-through to the consumer which risks spiking goods inflation.

Does 2026 hold the key to the Japanese shareholder value unlock?
Circa. 12.4% of the market cap of the FTSE Japan index ex Financials is in deposits, 5x that of the US. The TSE is applying pressure to firms with low price to book ratios, leading to record numbers of shareholder proposals to improve capital efficiency.

Unwind of the Yen carry trade could destabilise more than Japan
Japanese bond yields have risen, reducing interest rate differentials and making the Yen carry trade less attractive. An unwind would shock global liquidity, potentially leading to de-risking, with Japanese equity, US tech & growth stocks worst affected.

Wind still in the sails for Developed Asia Pacific ex Japan
Despite being the top performing region in 2025, returns were mostly driven by earnings growth, and valuations still aren't stretched. The region is exposed to tech through South Korea and energy transition commodities via Australian miners.

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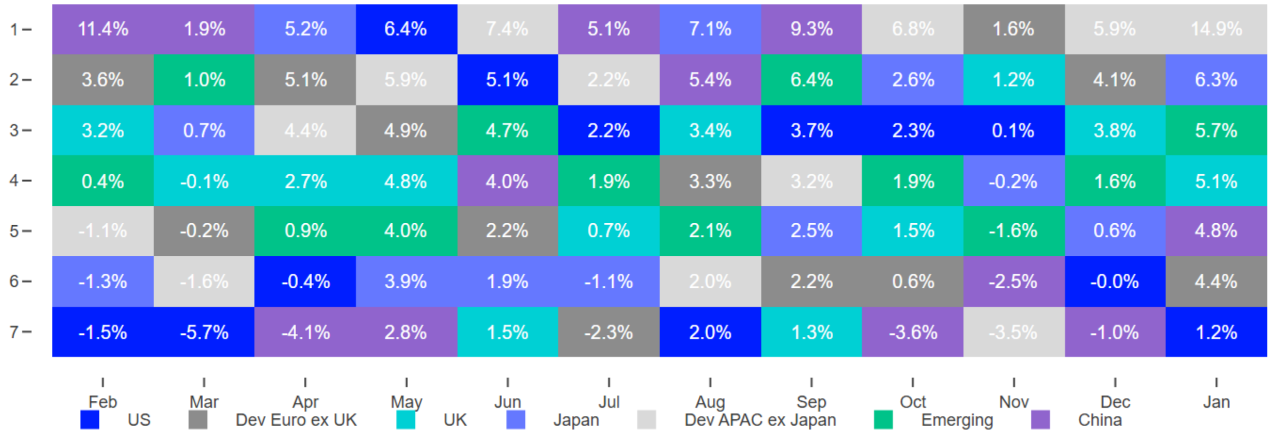
Ranked monthly returns: Key FTSE GEIS indices



Source: FTSE Russell and LSEG. Data as of January 31, 2026. All returns in USD. Past performance is no guarantee of future results.

Key macro drivers – Surprisingly positive, despite the red flags

Geopolitical risk has spiked coming into 2026, injecting volatility into equity markets. Despite this, headline economic growth is reasonable, with forecast real GDP for the world in 2026 at 3.0%. Economic surprises have also broadly beat expectations; typically, a tailwind for equities. Generally, the widest beats over 3M to the end of Jan came from Japan & APAC ex Japan, although these narrowed as analysts revised up their forecasts. The UK was the opposite – undershooting expectations, and the US saw mild beats until a spike at the end of January.

US tariff receipts were running at $29 billion per month in December, but Kiel Institut research, using harmonized container level data, estimates 96% is paid by the importer. If correct, corporates have two choices: absorb the cost, lowering margins and thus earnings, or pass the cost to the consumer – which risks raising goods inflation in the US.

Headline CPI in the US has been moderated by disinflation from flexible inflation components (mostly goods), so a pass-through risks an inflation spike in the US in 2026. By extension this exacerbates the Fed's unique dilemma, creating uncertainty in US monetary policy and potentially a source of higher volatility.

Concerns resurfaced about an unwind of the Yen carry trade, a risk we've previously highlighted. Bank of Japan (BoJ) Governor Ueda reiterated their view that Japanese inflation is wage driven, rather than being imported, and the BoJ stands ready to hike rates further. Absent yield curve control, JGB yields are higher, pricing in inflation expectations and fiscal policy; wider JGB yields narrows the interest rate differential to offshore assets, reducing the attractiveness of the carry trade. An unwind would be a shock to global liquidity; typically it would signal a broader de-risking: Japanese equity, US Technology, high-growth stocks and cyclicals being most at risk.

Chart 1: The JGB yield curve steepened over 3M & 12M as investors price in sustained inflation & looser fiscal policy to the long end, reducing the attractiveness of the Yen carry trade.

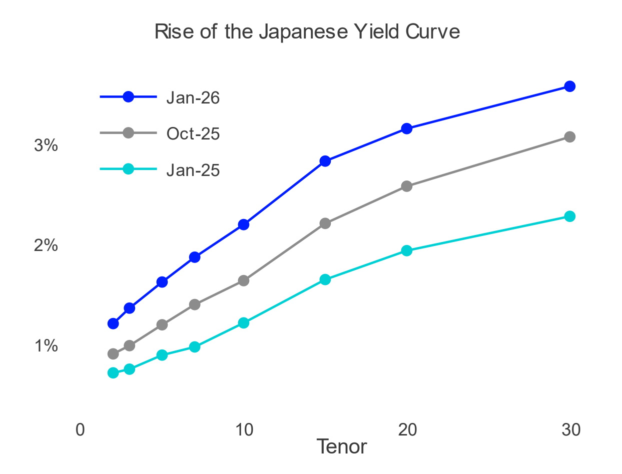


Chart 2: Macro data is beating expectations. Over 3M, LATAM has been steadily improving; the US spiked in Jan after positive durable goods prints & Q3 GDP revision. Source: Citibank.

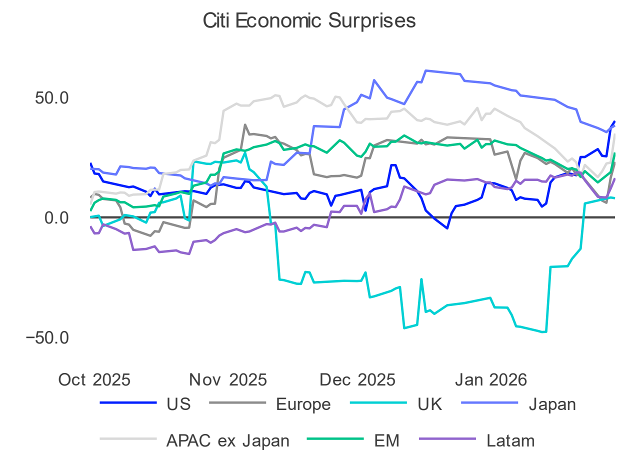


Chart 3: US customs receipts hit $29-billion per month. Research shows circa. 96% is paid by the US buyer, leaving corporates the options of reducing margins or passing through to consumers.

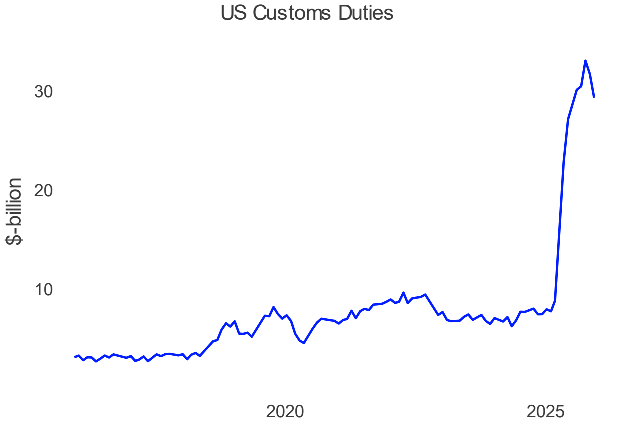
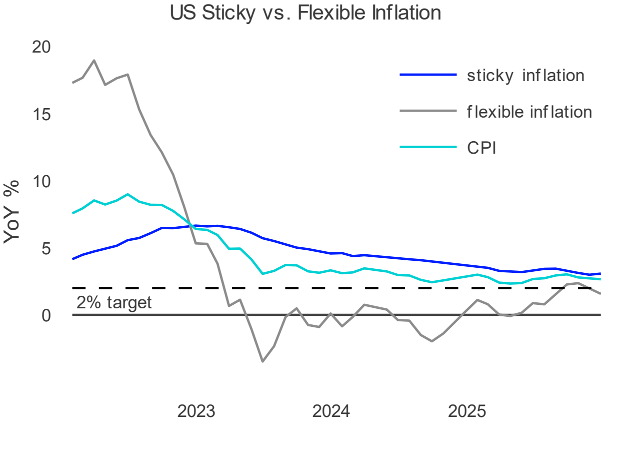


Chart 4: Sticky inflation components (like shelter & insurance) are stubbornly above 3% in the US, with disinflation in flexible components (mostly goods) keeping headline inflation contained.



Source: FTSE Russell and LSEG. Data as of January 31, 2026. All returns in USD. Past performance is no guarantee of future results.

Performance and Drivers – Flows around the world

Over 3M & 12M, the top and bottom equity markets were Developed APAC ex Japan and the US, respectively. Near term performance provides continued momentum to the Developed ex US theme. Over 3M, Developed Europe ex UK & the UK both posted circa. 10.5%, partially boosted by USD weakness. Dev ex US outperformed EM which was dragged down by China, which lagged due to stimulus measures undershooting expectations and deteriorating macro conditions. Other parts of EM were strong, like LATAM which returned 23.4%.

Performance is consistent with observations from fund flows. During the 12M period to December, US equity funds saw significant redemptions – continuing a trend starting in late-2024. Europe, EM and Global funds were beneficiaries of significant subscriptions. Considering the *random-walk* like nature of ranked returns (Page 1) fund flows are consistent with investors positioning for broader diversification and a lack of decisive market leadership.

Decomposing returns into dividends, trailing EPS growth and multiple expansion, the US and Developed APAC ex Japan derived most of their returns from earnings growth. For the US this is more intuitive given high valuation multiples, but for Developed APAC ex Japan it highlighted that strong performance was driven by improved earnings and not sentiment; otherwise, the rest-of-world was closer to a 50:50 mix of earnings and multiple expansion.

Over 3M Developed APAC ex Japan has and Japan have seen large upgrades to 12M forward earnings estimates. The US has also saw a pickup on expectations from Q4 which was validated by strong earnings announcements.

Chart 1: Over 3M, Developed APAC ex Japan is the top performing region, followed by Dev Europe and the UK continuing the momentum of ex-US stocks from 2025.

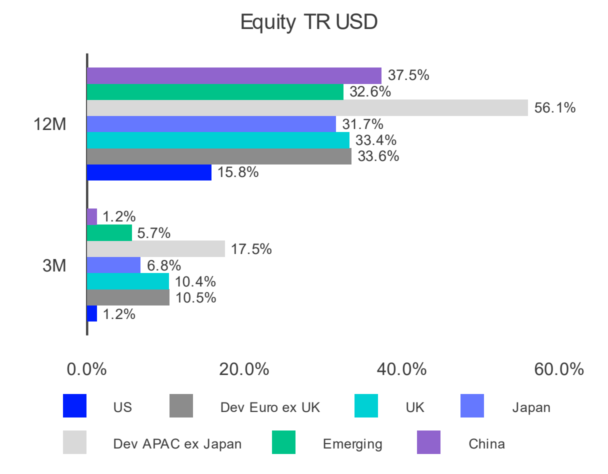


Chart 2: 12M returns from the US & Dev APAC ex Japan were primarily driven by better earnings, with the rest-of-world more balanced between earnings & multiple expansion.

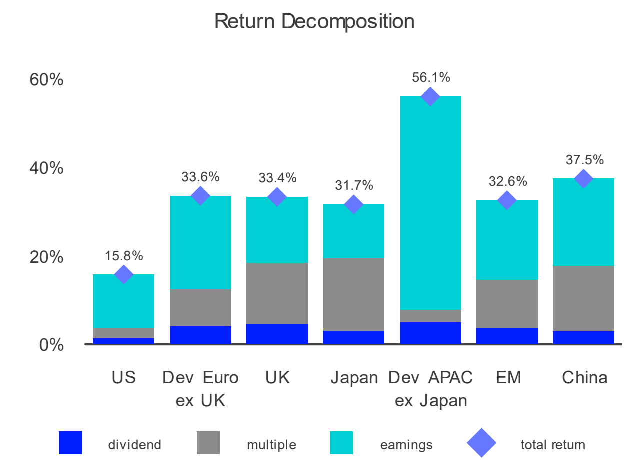


Chart 3: US equity funds saw significant redemptions over 12M to year end, with proceeds reinvested into European, EM & Global funds. Source: LSEG Lipper; data to 31 Dec 2025

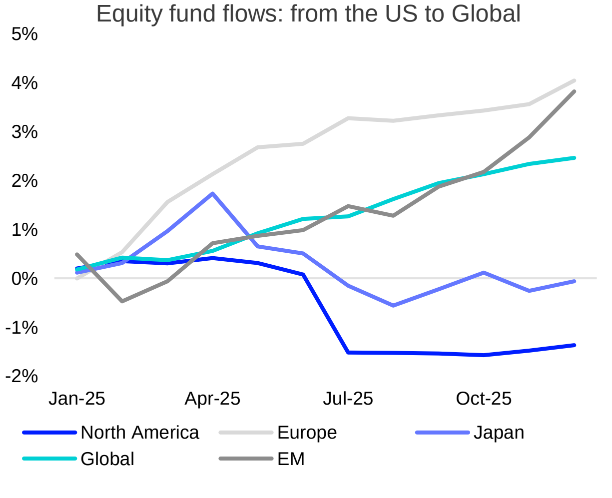
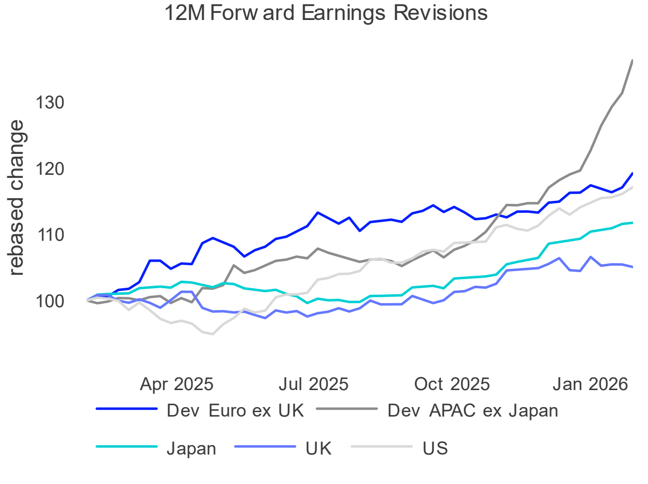


Chart 4: Over 12M earnings revisions have been strongest in Developed APAC ex Japan, then Developed Europe ex UK. With the UK lagging. Source: LSEG I/B/E/S Estimates



Source: FTSE Russell and LSEG. Data as of January 31, 2026. All returns in USD. Past performance is no guarantee of future results.

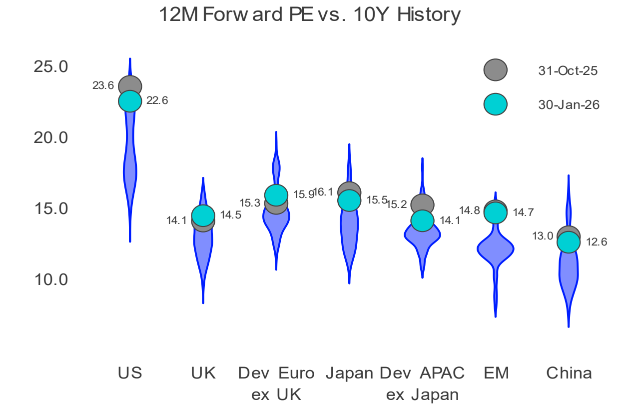
Fundamentals – Looking at quality as well as value

Forward P/E multiples in the US have derated over 3M to 22.6x, but that is coming from extremes, where the US was in the 99th percentile over 10Y in Q4 2025. Forward P/E multiples in the US are still stretched in absolute or relative terms. 3M changes across other key markets were varied: Developed APAC ex Japan cheapened notably from 15.2x to 14.1x, whilst UK & Developed Europe ex UK are a bit richer; Emerging was flat with a mild derating in China & India being mostly offset by richer valuations in LATAM.

Broadly, Developed ex US valuations are rich but not extreme. This opens a debate to what is sentiment driven rerating (more likely to mean revert), and where markets have structurally improved fundamentals – justifying higher multiples with better earnings quality.

This is important because rich valuations make index gains from multiple expansion more challenging, putting a greater onus on earnings delivery.

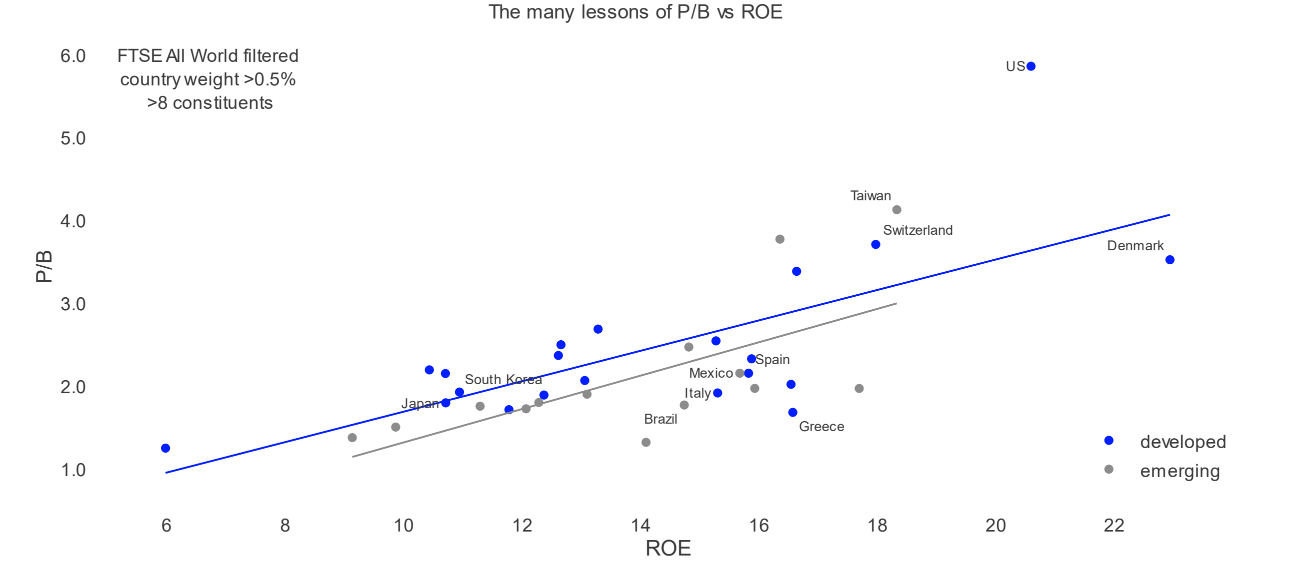
Chart 1: Valuations are rich across the world. Lower valuation multiples in the US and Developed Asia Pacific ex Japan were a function of upgraded earnings, primarily from AI related tech.



Considering price-to-book (PB) vs return-on-equity (ROE) allows us to compare valuation against earnings; it's currently highly informative for several reasons:

1. Linear regression gives us 'fair value' lines for developed and emerging markets. We observe that the trendlines are close to parallel, with the EM line below the DM line. ROE is imperfect, but it represents the dollar earnings – so this observation highlights how EM is cheap relative to DM adjusted for earnings.
2. An argument made to justify the very high valuation multiples in the US is the quality of earnings and we can observe the US in the top-right of the chart (high PB; high ROE) – but on this measure the US looks very rich accounting for the superior ROE. Currently Denmark has an ROE of 23.0% but trades on a PB multiple of 3.5x; ROE in the US is 20.6% with a PB more than 1.5x of Denmark at 5.9x. The next nearest comparator is Switzerland with an ROE of 18.0% on a PB of 3.7x.
3. Despite being the best performing country index in the world in 2025, South Korea is considered "fair value" in PB / ROE terms – sitting on the DM regression line. Similarly, Japan is also on the trend line, sitting down and to the left of South Korea. By construction, our chart shows current PB against trailing ROE. As covered in the spotlights, Japan and South Korea are pushing for improved corporate governance, which may augur improved ROE. If that is the case, then both markets should look cheap relative to prospective ROE.
4. As a screen: several Southern European markets show as relatively undervalued, a topic we discussed in November. Latin America also screens well with the largest markets, Brazil and Mexico, looking undervalued. Markets are anticipating cuts from the Brazilian central bank, which may support Brazilian stocks, and Mexican miners have become key commodities producers for inputs to the green energy transition.

Chart 2: Shows the 12M trailing price / book ratio (PB) vs current return on equity (ROE) for FTSE GEIS country indices – sub-divided into developed and emerging; we filter for a minimum weight in the All-World index and to have a minimum of 8 constituents. Generally, we would expect a relatively strong, linear relationship between a market's valuation and it's realised ROE.



Source: FTSE Russell and LSEG. Data as of January 31, 2026. All returns in USD. Past performance is no guarantee of future results.

Spotlight – Japan, the key to shareholder value unlock

Improving corporate governance in Japan isn't new; ROE has doubled from 5.3%, at the start of Abenomics in 2013, to 10.7% now. But 2026 may have a confluence of factors, catalysed by PM Takaichi, which could increase the rate of change. After calling a snap election, a clear mandate for Takaichi reinforces investors confidence that fiscal support, exchange rate management, and governance reforms remain aligned. These factors may unlock significant shareholder value, boosting ROE and justifying a rerating of valuation multiples.

In 2023, the Tokyo Stock Exchange (TSE) "*requested*" companies with price-to-book ratios below one to provide a capital efficiency plan. Improvement has been significant, although circa. 17% of FTSE Japan constituents still trade with a PB < 1.0. However, in 2025 Institutional Shareholder Services (ISS) linked this strategy to a pickup in shareholder proposals regarding capital efficiency, including a surge in activist shareholder activity.

This is rational – Japanese corporates sit on a pile of cash with an estimated ¥356 trillion held by private non-financial corporations (BoJ Flow of Funds, Q3 25). Conservative cash management never used to matter because the yield curve was flat and Japan was experiencing deflation; holding cash cost nothing in nominal terms and was profitable in real terms. With inflation positive and the yield curve steepening – cash earns less than the cost of capital and is a drag on real & nominal returns, leading to demands for better use of capital via investment, dividends or share buybacks.

Takaichi's approved FY2026 budget totals a record ¥122.3 trillion and could provide an ongoing tailwind for equity markets. The package nearly quadruples AI & semiconductor spending to ¥1.23 trillion and raises defense spending to ¥9.04 trillion. Combined with ¥1.2 trillion in business tax cuts, these policies align with the Japan index's tilt toward Industrials, Consumer Discretionary, and its smaller Tech Industry (Chart 4), and could improve Japan's ROE. The market's reaction has been to weaken the Yen, reminiscent of the "*Abenomics trade*" (long equity-short JPY); this is despite the BoJ raising rates and interest rate differentials narrowing which would typically lead to strengthening of a currency.

But risks have increased – Japan has exceptionally high debt-to-GDP at 232% (Q4-2025), which was sustainable because the curve was flat and hence debt service costs were contained. Now that the BoJ is tightening, and JGB yields are untethered to find a risk premia. This creates a divergence between expansionary fiscal and contractionary monetary policy.

Chart 1: The percentage of FTSE Japan stocks with a PB < 1.0 has halved from 34% since the TSE capital efficiency reforms began, with a significant drop since PM Takaichi took office.

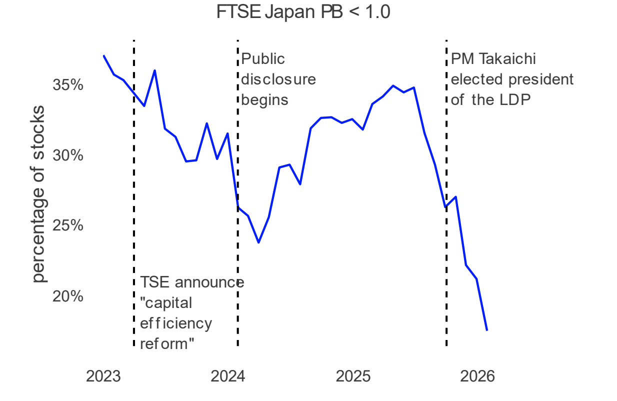


Chart 2: FTSE Japan constituents, ex-Financials, have aggregate cash equal to 12.4% of market cap; that is >2.5x the FTSE All-World average and 5x the average of the US index.

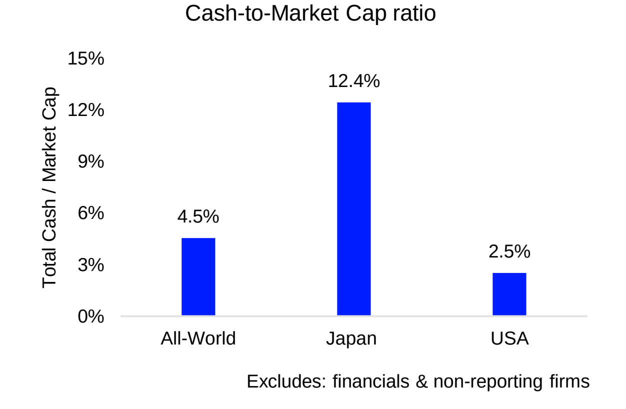
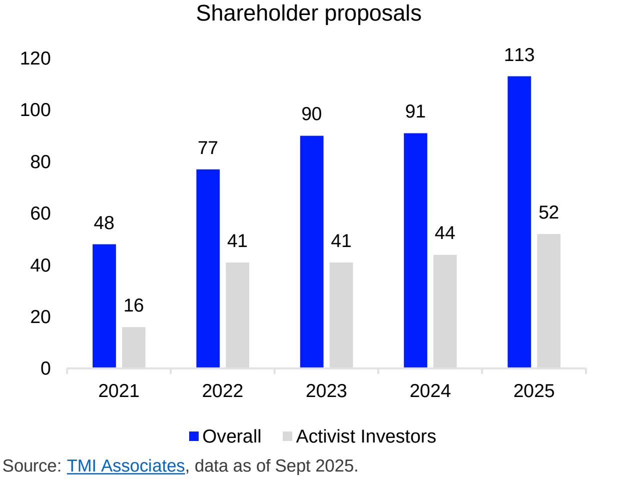
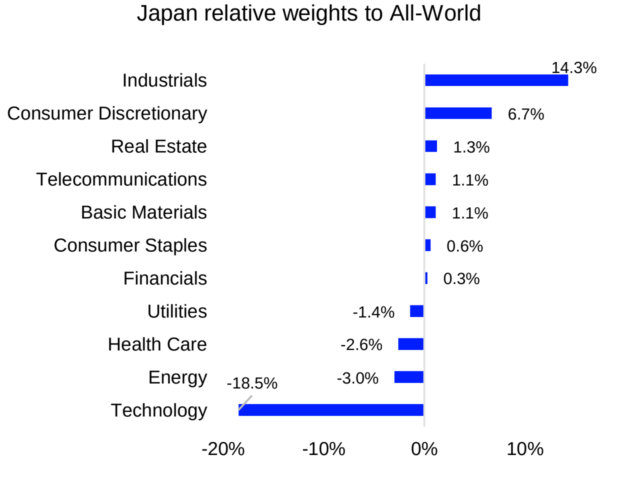


Chart 3: The number of shareholder proposals, including activist proposals has been increasing. Shareholders are demanding better capital efficiency and improved corporate governance.



Source: TMI Associates, data as of Sept 2025.

Chart 4: Japan's equity market leans towards capital-intensive industries - positioned well to capture semiconductor investment manufacturing and re-industrialization policies, (onshoring).



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Spotlight – FTSE Developed Asia Pacific ex Japan

Developed APAC ex Japan was the top performing region in 2025, driven by Korea, the top performing country; raising the questions: what drove the outperformance? And more importantly, could it continue? [FTSE has classified South Korea as a developed market since 2009](#) and it has the largest weight (41.9%), followed by Australia (37.3%), with Hong Kong, Singapore and New Zealand making up the remainder. By industry, relative to the All-World it is overweight Telecoms, Financials and Basic Materials, and underweight Tech - although this is skewed by Samsung being classified as a Telecoms company.

Over 12M, Korea returned 135.8%, which was primarily driven by improved earnings (less than 15% of the return came from multiple expansion or dividends) and despite a mild rerating, valuations aren't challenging. Korea sits on a 10.7x forward PE ratio, slightly above its 10Y average. Korea plays a critical role in the global semiconductor supply chain, with a circa. 80% market share of High Bandwidth Memory (HBM). HBM chips, which are core components used in AI servers, are projected to face supply gaps through 2027, potentially squeezing prices higher.

Beyond the AI supply chain theme, the Korean government is pursuing its own corporate governance reform program (Value-Up Program), implementing policies to improve corporate governance and boost the stock market. Like Japan, around 40% of FTSE Korea constituents trade with a price-to-book ratio below 1, whilst dividend yields are the lowest in the region. To tackle this, corporate tax credits have been introduced in 2026 incentivising companies to increase their dividend payouts.

Australia has seen a surge in Basic Materials stemming from demand for precious metals and industrial metals. Revenue composition for miners has increased to ~15% from gold and ~30% from copper, lithium, et al., giving Australia access to both precious metals and the green energy transition theme. However, despite a reduction, ~40% of miners, revenue still comes from iron ore, which is almost exclusively exported to China, making a further deterioration in Chinese construction a key risk.

Piecing it all together: Dev APAC ex Japan provides a broad exposure and is a relatively cheap way to play the AI infrastructure theme, it also offers exposure to key basic materials and global financials. The region may have a tailwind from corporate reform in Korea potentially boosting dividend yields & ROE but is also geared into Chinese industrial demand.

Chart 1: FTSE Developed Asia Pacific series treat Korea as a developed market. Korea & Australia make up nearly 80% of the index; with Singapore, HK and New Zealand the remainder.

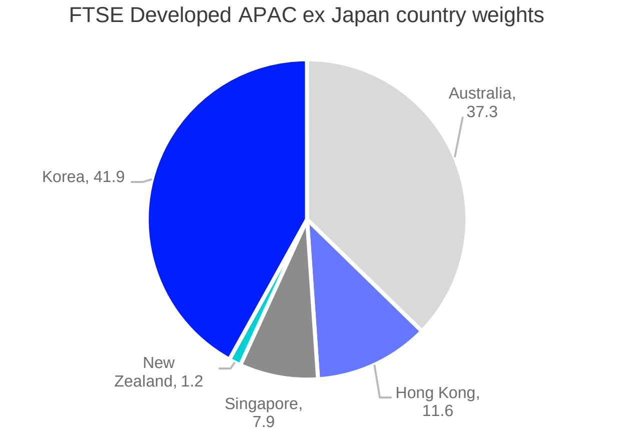


Chart 2: Relative to the FTSE All-World, the region provides a value tilt with cyclicals such as Financials and Basic Materials, whilst still providing exposure to the AI and technology themes

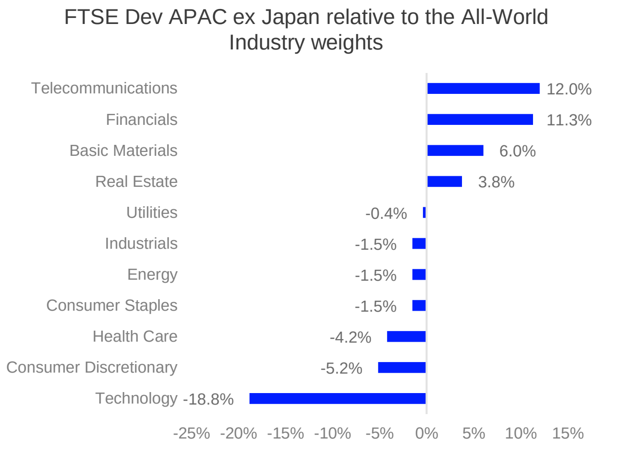


Chart 3: Korea trades on a 12M forward P/E ratio of 10.7x which is unchallenging in absolute terms & close to its own 10Y average. Meanwhile most developed markets look rich.

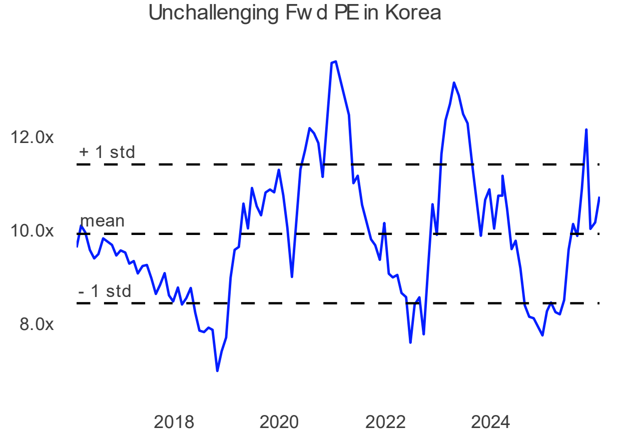
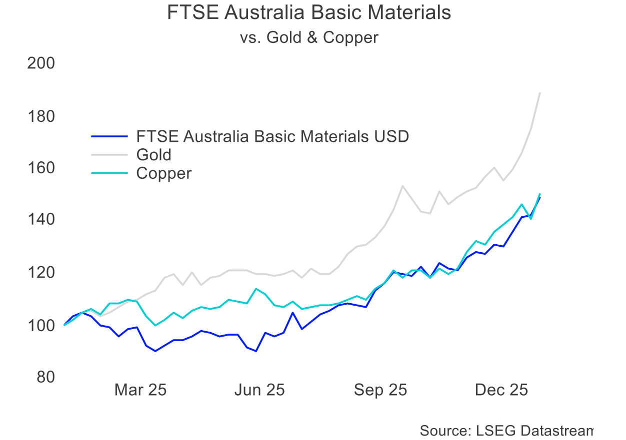


Chart 4: Driven by the commodity rally, FTSE Australia Basic Materials has seen robust returns, however its dependence on Chinese industrial demand could be a potential source of risk



Source: LSEG Datastream

Source: FTSE Russell and LSEG. Data as of January 31, 2026. All returns in USD. Past performance is no guarantee of future results.

Appendix: List of indices used in report

Name	Mnemonic/Code
FTSE All World	AWORLDS
FTSE Developed	AWD
FTSE Emerging	AWALLE
FTSE Developed ex US	AWDXUS
FTSE Developed Europe	AWDEURS
FTSE Dev Europe ex UK	AWDEXUKS
FTSE APAC ex Japan	AWDPACXJ
FTSE North America	AWNAMERS
FTSE AUSTRALIA	WIAUS
FTSE BELGIUM/LUX	WIBEL
FTSE BRAZIL	WIBRA
FTSE CANADA	WICAN
FTSE CHILE	WICHL
FTSE CHINA	WICHN
FTSE COLOMBIA	WICOL
FTSE DENMARK	WIDEN
FTSE FINLAND	WIFIN
FTSE FRANCE	WIFRA
FTSE GERMANY	WIDEU
FTSE GREECE	WIGRC
FTSE HONG KONG	WIHKG
FTSE INDIA	WIIND
FTSE INDONESIA	WIIDN
FTSE ISRAEL	WIISR
FTSE ITALY	WIITA
FTSE JAPAN	WIJPN
FTSE MALAYSIA	WIMAL
FTSE MEXICO	WIMEX
FTSE NETHERLANDS	WINLD
FTSE NEW ZEALAND	WINZL
FTSE NORWAY	WINOR
FTSE POLAND	WIPOL
FTSE SINGAPORE	WISGP
FTSE SOUTH AFRICA	WIZAF
FTSE KOREA	WIKOR
FTSE SPAIN	WIESP
FTSE SWEDEN	WISWE
FTSE SWITZERLAND	WICHE
FTSE TAIWAN	WITWN
FTSE THAILAND	WITHA
FTSE TURKIYE	WITUR
FTSE UK	WIGBR
FTSE UNITED STATES	WIUSA

All the country indices used above are from the FTSE GEIS index family.

For more details regarding Index Construction for these and related FTSE Russell indices, and for ETFs and Mutual Funds linked to these FTSE Russell Indices, please reach out to your FTSE Russell Sales contact.

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