Global Investment Research
Market Maps

FTSE RUSSELL
An LSEG Business

Global Equity Insights

USD EDITION

QUARTERLY REPORT | **MAY 2026**

AI tailwinds pushes markets to new highs, but on narrow leadership. Cracks appear in global macro, but de-rating leaves equity better valued.

Positive returns YTD, but narrow market breadth may lead to fragility
YTD the FTSE All-World is in positive territory, but breadth is extremely narrow. During the April rebound, nearly 50% of the All-World return was generated by only 13 stocks (of 4,250) and all related to the AI theme.

During the March drawdown "new defensives" emerged
In the first month of the Middle East conflict, traditional defensive industries had mixed returns. Mega-cap tech benefited from quality balance sheets and the AI theme, whereas Energy, Utilities and Listed Infrastructure acted defensively.

Macro data showing cracks around the seams
Inflation expectations have risen, driving more hawkish expectations from central banks and in turn collapsing consumer confidence; in the United States, the U-Mich consumer sentiment survey is the lowest it has ever been, dating back to 1959.

Valuation multiples more reasonable and earnings expectations still strong
Forward P/E multiples have declined across the board. Developed APAC ex Japan is as cheap as it has been in the last 10 years, and the US & EM have pulled back from extremely rich levels – although the US remains expensive in absolute terms.

Latin America: value, commodities and resilience
LATAM showed resilience during the March drawdown. The region combines attractive valuations, positive momentum and broad commodities exposure, including energy transition commodities, as well as a diversified industry mix.

Could "*Made in Europe*" be the start of a manufacturing renaissance
Procurement-led reshoring aims to redirect €2 trillion of annual EU spending toward domestic industry. Beneficiaries span energy-intensive materials, automotive and net-zero technologies, with capital goods capturing the second-order capex cycle.

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Chart 1: Brent crude futures tell us a lot about the energy market's expectations for the Middle East conflict. In late-April, the market began pricing a more protracted supply disruption.

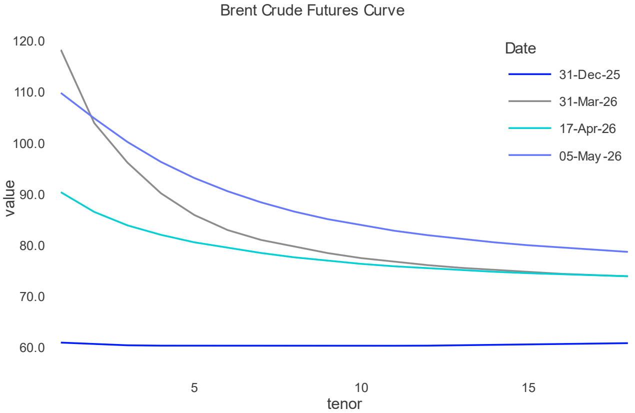
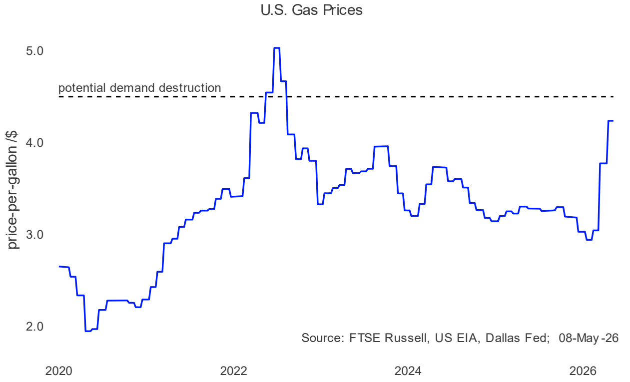


Chart 2: US gas prices have spiked to $4.45 per gallon. The Dallas Fed (2022) highlighted $4.50 as the level where demand destruction may kick in from changing consumer demand.



Source: FTSE Russell and LSEG. Data as of April 30, 2026 unless otherwise stated. All returns in USD. Past performance is no guarantee of future results.

Key macro drivers – Feeling the pinch

For most of the Middle East conflict period the [Brent futures curve has implied a relatively swift normalisation] of oil supply but followed by a wider risk premium. In the second half of April, energy markets began to price a more gradual normalisation with an average oil price of $96 per barrel for the remainer of 2026 vs $60 dollars pre-conflict – in the absence of a resolution this could lead to another leg higher in inflation expectations.

Effects are materializing in macro data. Since Dec '25, 2Y inflation swaps show US implied inflation rising by c.1% to c. 3%. European dependence on imported energy has driven expectations for UK & Europe up by 1.2% & 1.7%.

Geopolitical uncertainty and inflation expectations have driven hawkish tilts around expectations for monetary policy. Fed Funds futures have moved from pricing 2 cuts in 2026 to no change; the UK is more extreme pricing 2 hikes by Dec '26.

Economic surprises have been mixed. Europe has fared particularly poorly, with realized macro prints being significantly weaker than economists' forecasts. Meanwhile the UK has been surprising to the upside, a function of economists having been overly bearish and realized data outperforming low estimates. US has managed marginal beats, although that is primarily a function of capex spend rather than the consumer sector.

Consumer confidence on both sides of the Atlantic has fallen materially, with the U-Mich consumer sentiment the lowest it has ever been, dating back to 1959; however, it is incorrect to attribute this entirely to the Middle East conflict as there are spillover effects from tariff policy. US consumers are particularly important now with feedback loops into the US mid-terms in November.

Gasoline prices in the US are at $4.45 which is near the $4.50 level highlighted by the Dallas Fed (looking at the 2022 inflation spike) as being the point at which demand destruction may happen.

Chart 1: Euro 2Y implied inflation expectations have jumped from 1.7% in Dec 2025 to 3.4% at the end of April reflecting the risk of rising energy prices from the Middle East conflict.

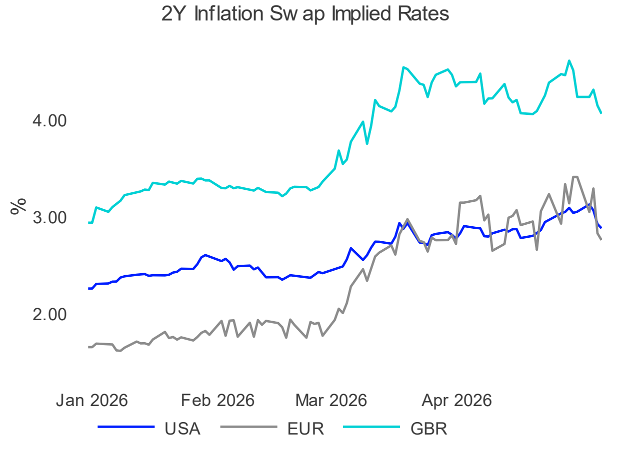


Chart 2: The fall in European economic surprises was not one data point but several, including PMIs, consumer confidence, and revisions to GDP. Source: Citibank, data to 05-May-2026.

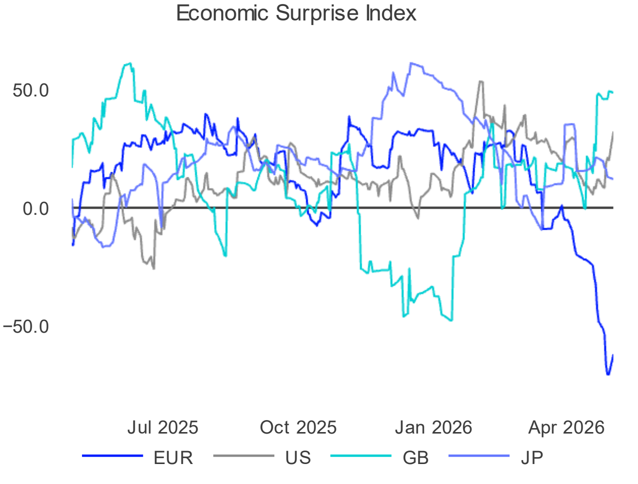


Chart 3: The U-Mich consumer sentiment survey hit an all-time low dating back to the survey inception in 1959. Similarly,, Eurozone sentiment collapsed in April on energy supply risks.

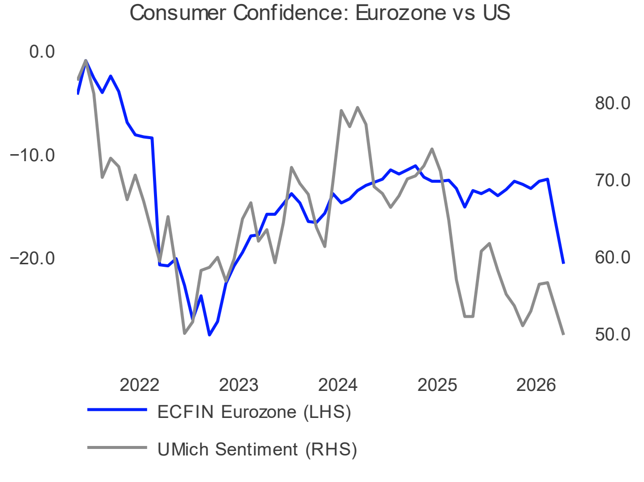
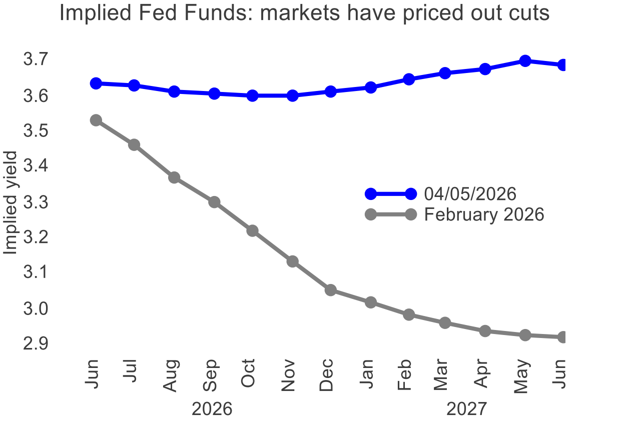


Chart 4: Prior to the Middle Eastern conflict, Fed Funds futures were pricing a rate of 3.1% (2 cuts) by Dec '26. Currently markets are expecting 3.6%; with a 50% chance of a hike in 1H27.



Source: LSEG Datastream

Source: FTSE Russell and LSEG. Data as of April 30, 2026. All returns in USD. Past performance is no guarantee of future results.

Performance and Drivers – Running out of breadth

Considering YTD returns one could be forgiven for thinking equities have been unaffected by the Middle East conflict. The FTSE All-World is up 6.8%; Dev APAC ex Japan remains the top performing region (28.2%), driven by Korea, and China continues to lag. Decomposing 12M returns, >100% of Dev APAC ex Japan total returns came from improved earnings expectations, with multiples contracting slightly. Conversely, Japanese returns have primarily been multiple expansion with markets anticipating supportive fiscal policy from PM Takaichi; other major regions were mostly tilted towards earnings with a modest multiple expansion.

Since the start of the conflict the market has moved in two broad phases: (1) March was risk-off across equity markets. Critically, traditional defensive industries had mixed returns, with market participants preferring what we have described as "*new defensives*": energy, mega-cap tech, utilities and listed infrastructure. (2) April was driven by de-escalation rhetoric, which was a resumption of pre-Iran themes and a resumption of Technology leadership.

Tech earnings calls in April were largely big beats to EPS estimates, but a key development was how markets reacted to AI capex – rather than broad approval, as in previous quarters, markets sold off announcements where there were concerns about tangible links between AI capex and revenue growth. This may lead to even less homogeneity within the Tech industry going forward.

With Tech leading markets, primarily AI-linked hardware names, breadth has deteriorated across a variety of measures, reducing resilience in the equity market through dependence on a smaller number of names.

Chart 1: YTD and over 12M, Developed APAC ex Japan has been the top performer, and China the worst. Despite this Emerging has still outperformed Developed over both periods.

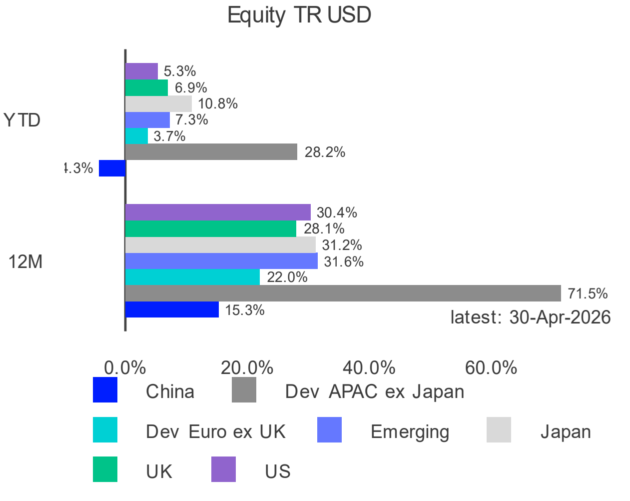


Chart 2: 12M returns for Dev APAC ex Japan were entirely expected earnings, with multiple expansion a drag; conversely, Japan has primarily been driven by multiple expansion.

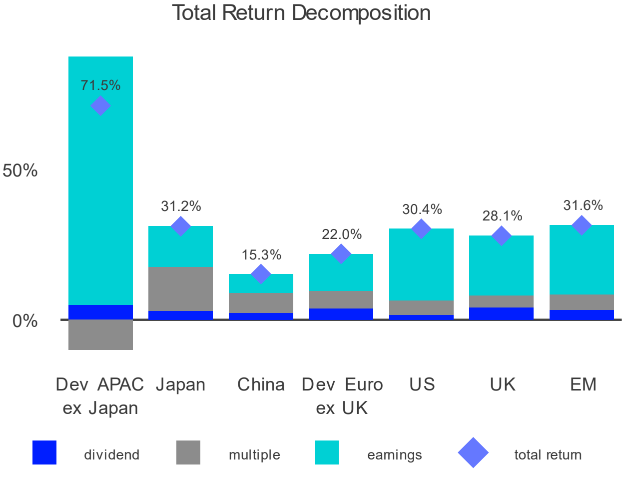


Chart 3: Tech stocks have exhibited asymmetrical returns through the Middle East crisis, showing defensive characteristics in the downturn and leading in the recovery.

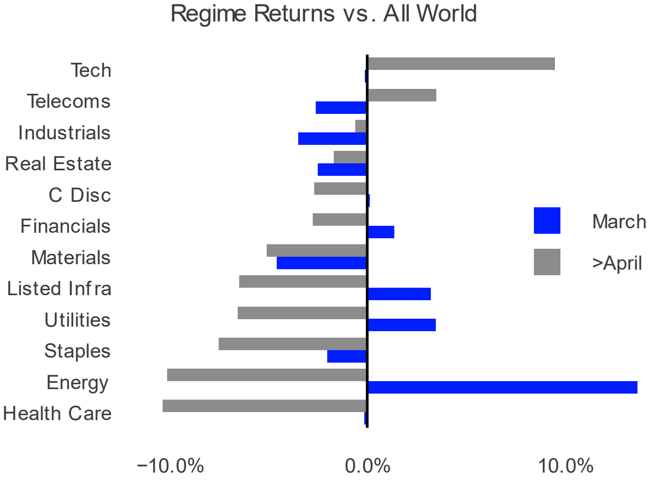
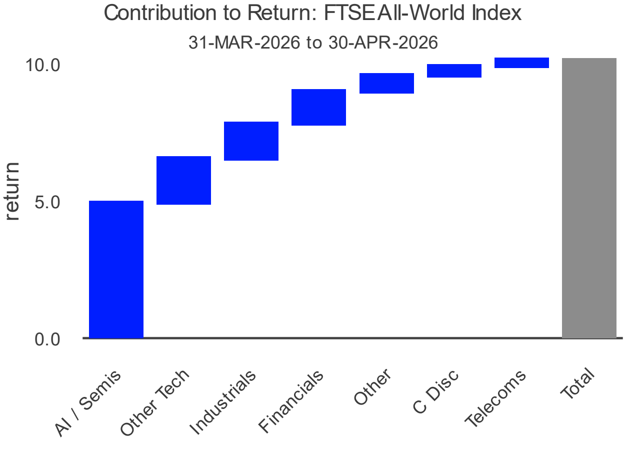


Chart 4: In April circa. 50% of the gains in the FTSE All-World Index came from 13 AI-related stocks. For context that is fewer that 0.25% of the names in the index. Source: Factset



Source: FTSE Russell and LSEG. Data as of April 30, 2026. All returns in USD. Past performance is no guarantee of future results.

Fundamentals – Looking at quality as well as value

YTD forward P/E multiples have derated across the board, meaning equities are, on average, looking more reasonably valued. Developed Asia Pacific ex Japan is, once again, a standout where strong expected EPS growth has led to a 10.7x multiple, which is comfortably in the cheapest decile of its own 10Y history. The US, which was extremely rich, has moved from the 99th percentile over 10Y in Q4 2025 to the 68th now (below +1 SD), although at 21.5x it is still expensive in absolute terms. Emerging Markets have also notably cheapened from 14.7x to 13.1x driven by a meaningful de-rating in China (11.4x) and India (20.5x).

Forward EPS estimates have increased notably. IBES estimates for the FTSE Developed index 12M forward EPS have grown c. 6% over 3M; Developed APAC ex Japan, was the key driver, up c. 35%, but the US, UK and Japan also received EPS upgrades between 3.0-5.5%. Developed Europe ex UK saw mildly positive (+0.5%) 3M EPS revisions after upgrades in April reversed downward revisions YTD. Elsewhere, Taiwan has seen 3M EPS estimates grown by c. 11% and Brazil by c. 14%.

Since we published the [February edition of Global Equity Insights] the shape of the price-to-book (PB) vs return-on-equity (ROE) fair value lines have changed materially.

Over 3M the developed markets line has broadly had a parallel shift lower reflecting lower P/B levels, but the emerging market line has rotated clockwise opening jaws between DM and EM – this was primarily driven by India and Brazil. Over the period, India cheapened significantly in P/B terms, without a meaningful change in the ROE. Meanwhile, Brazil's ROE has gone from 14.7% to 18.3% without a significant change in valuation; Brazil's P/B moving from 1.8x in January to 1.6x now.

The change in shape of the fair value lines exacerbate the structural discount applied to emerging vs. developed markets, especially for higher ROE emerging markets.

Chart 1: Forward P/E multiples de-rated across the board. Dev APAC ex Japan is the cheapest it has been in the last 10Y, mostly driven by material upgrades to earnings estimates.

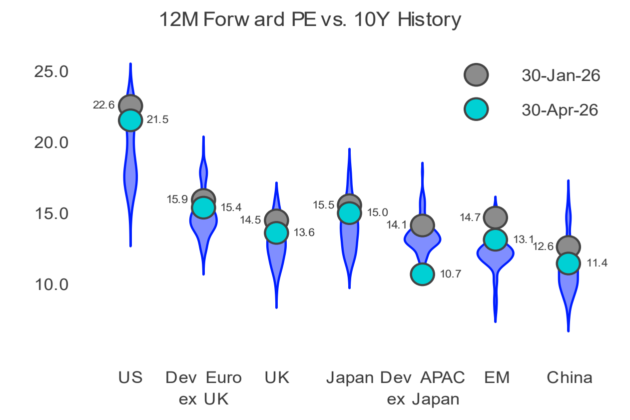


Chart 2: FTSE Dev APAC ex Japan has seen a circa. 35% increase in 12M forward EPS estimates over the last 3M; Korea alone growing by 86%. Source: LSEG I/BE/S Estimates

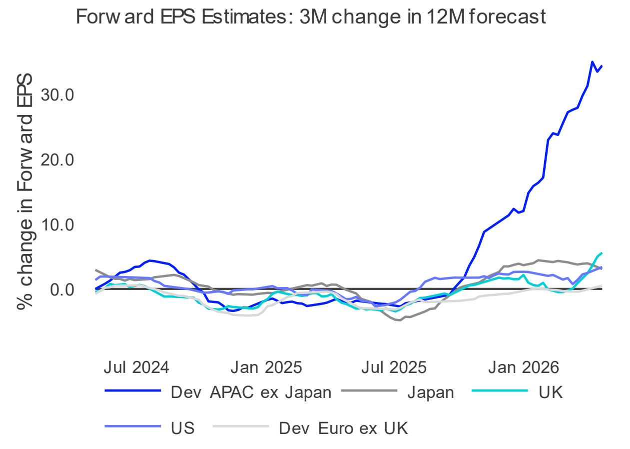
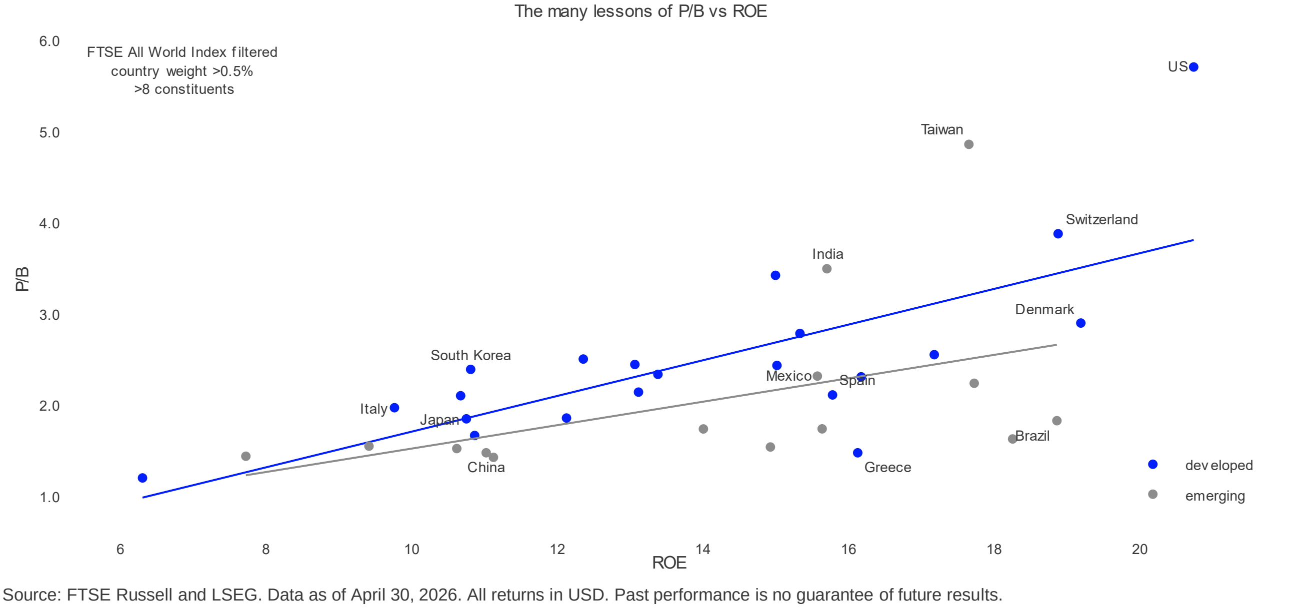


Chart 3: Shows the 12M trailing price / book ratio (P/B) vs current return on equity (ROE) for FTSE GEIS country indices – sub-divided into developed and emerging; we filter for a minimum weight in the All-World index and to have a minimum of 8 constituents. Generally, we would expect a relatively strong, linear relationship between a market's valuation and its realised ROE.



Source: FTSE Russell and LSEG. Data as of April 30, 2026. All returns in USD. Past performance is no guarantee of future results.

Spotlight – Latin America: value, commodities and resilience

Latin America remains a relatively undervalued market, combining strong recent momentum with a diversified industry mix and meaningful commodities exposure. The region outperformed the All-World in 2025 (52.0% vs. 23.1%) and has continued the trend year-to-date (20.4% vs. 6.8%), showing resilience amidst the Middle East conflict. It is overweight Basic Materials, Financials and Energy, whilst significantly underweight Technology (-32.1%) relative to the All-World. Brazil is the country with the largest weight (60.5%), followed by Mexico (28.3%), and Chile (8.5%) and Colombia (2.6%) make up the rest.

Brazil is a large and diversified economy, supported by well-developed domestic industries and a sizeable services sector. As a major commodity exporter, with around 5.4% of GDP derived from a basket including crude oil, soybeans and iron ore, Brazil has been relatively insulated from the effects of the Middle East conflict, compared to other EMs that are more dependent on oil imports.

Despite strong recent performance, Brazil's valuations remain attractive and its forward P/E stands at 9.0x, below its 10Y average, against 17.7x for the All-World. Part of this discount reflects index composition, as Financials and Energy account for a large share of the index. By contrast, the FTSE All-World has around 30% of its weight in Technology, where companies are more exposed to the AI build-out and other high-growth global themes, resulting in different valuation dynamics.

Mexico has been one of the top beneficiaries of the nearshoring trend, driven by global supply-chain shifts, and has become the most important US trading partner. Over 80% of its exports go to the US, and supply chains between the two countries are deeply integrated. However, economic growth has been on the slow side, against a backdrop of policy uncertainty, lagging domestic investment and trade tensions. The upcoming United States-Mexico-Canada Agreement (USMCA) review is a key near-term risk that could either unlock delayed investment or create new volatility.

Overall, Latin America is a value-tilted, physical economy with extensive exposure to commodities. Whilst the region has less direct exposure to the AI theme, it still benefits from the green energy transition and AI infrastructure build-out through key basic materials. Ongoing fiscal initiatives and credible monetary policy could help further support a broader re-rating.

Chart 1: A vulnerability for many EMs is their dependence on oil imports. Brazil, Mexico and Colombia comprise 91% of the LATAM Index. **Negative values mean a net exporter*

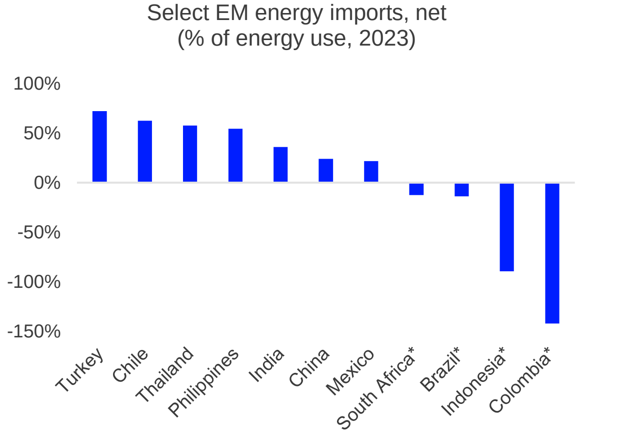


Chart 2: Being a net oil exporting country, Brazil differs from most EMs. During the initial shock, BRL proved more resilient against the USD amidst the broader EM FX sell-off.

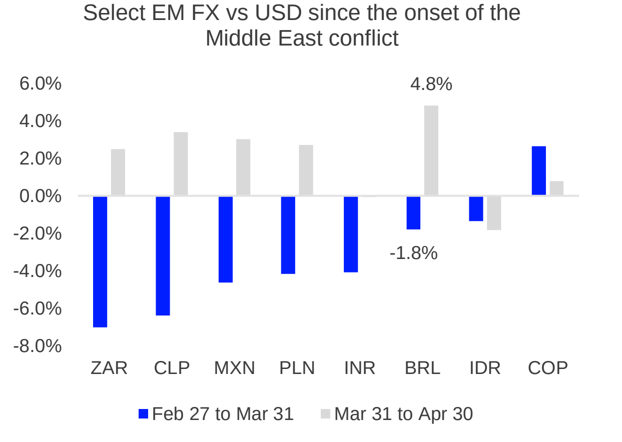


Chart 3: Brazil and Mexico screen attractively relative to global equities, trading at a forward P/E of 9.0x and 12.9x, respectively, compared with 17.7x for the All-World.

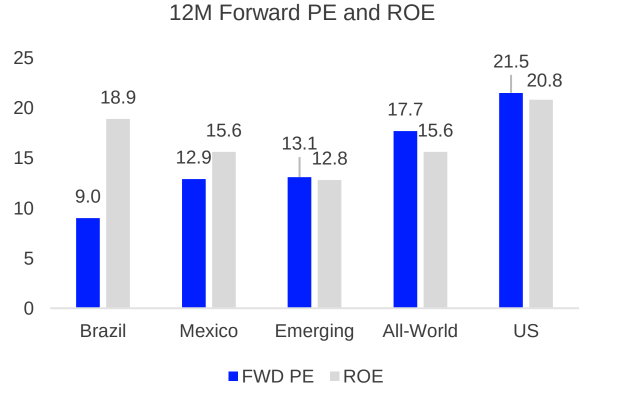
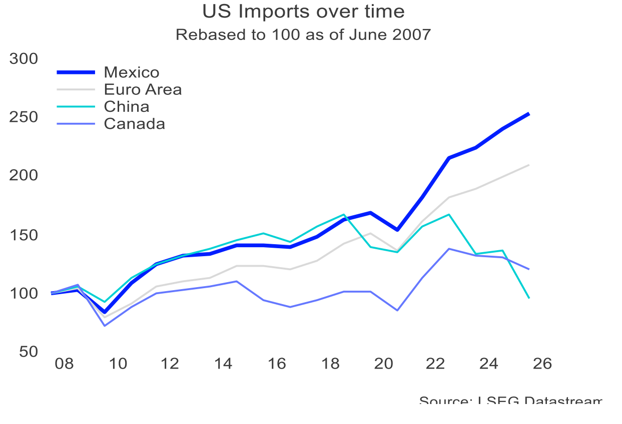


Chart 4: Benefitting from nearshoring and supply chain realignment, Mexico became the most important US trading partner in 2023, accounting for 15.4% of total US imports.



Source: FTSE Russell and LSEG. Data as of April 30, 2026. All returns in USD. Past performance is no guarantee of future results.
Chart 1 source: World Bank, based on International Energy Agency (IEA) data

Spotlight – Could “Made in Europe” be the start of a manufacturing renaissance?

The European share of GDP from manufacturing has declined from 17% in 2000 to 14.3% in 2024, with exports of goods and services falling from 28.8% to 25.2% over the same period. To stem the decline, the European Commission has proposed the Industrial Accelerator Act (IAA), a protectionist measure targeting circa €2 trillion (15% of EU GDP) of public procurement annually toward domestic manufacturers, with the aim of raising manufacturing's share of GDP to 20% by 2035. If successful, it raises the prospect of a European manufacturing renaissance and a structural tailwind to select European industries.

The IAA sits alongside other EU policies including the Critical Raw Materials Act (CRMA), Chips Act, ReArm, and Carbon Border Adjustment Mechanism (CBAM), collectively dubbed "Made in Europe" (MiE). Of the group, the IAA is the most consequential, imposing procurement rules across industries rather than sector-specific subsidies. Proposed in March 2026, it would route €2 trillion in annual public procurement toward EU companies. From January 2029, public buyers would need to source minimum EU-made or low-carbon shares, for example: >25% for steel & aluminium, 70% EU component value for EVs, with phased Union-origin rules for net-zero technologies. In addition, FDI above €100 million in sectors such as batteries, EVs, critical raw materials, and electrification would be conditional on partnerships with EU firms.

Within the legislation, the European Commission seeks to protect strategic industries, including net-zero technologies, automotive, construction, industrials, and chemicals. Currently, sectors which may be exposed to the IAA and other MiE policies constitute roughly 25% of the FTSE Developed Europe ex UK index. Importantly, whilst all MiE policies encourage strategic reshoring, the IAA is not in itself fiscal stimulus. Other policies, such as SAFE/ReArm for defense and the Chips Act for semiconductors, involve direct fiscal support of €150bn and €43bn, respectively.

MiE is not universally bullish – many companies have invested heavily in offshore supply chains which are costly and time consuming to reshore. But, if successful, the policies may create a long-term, structural tailwind for European manufacturing. Beneficiaries may include small- and mid-cap manufacturers such as the Lombardy region or the “Mittelstand” and firms with a strong domestic manufacturing focus.

Chart 1: Europe’s manufacturing share of GDP steadily declined since the early 2000s. The IAA initiative seeks to increase this to 20% over the next 10 years.

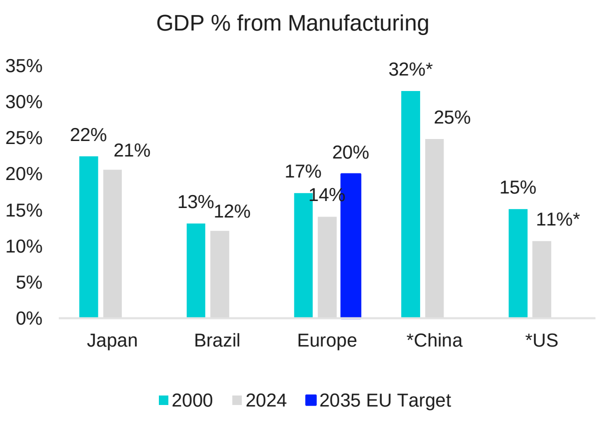


Chart 2: Made in Europe core policies show the breadth of fiscal support for European companies and strategic industries in its member states.

Pillar	Transmission mechanism	Scale	Implementation
IAA (Industrial Accelarator Act)	Procurement preference, investment screening and permitting acceleration	20% of GDP manufacturing target by 2035	Proposed:2026 Starts:2029 Deployed through: 2035
CRMA (Critical Resource MaterialsAct)	Supply-chain security for strategic raw materials	€22.5B total capital investment across 60 projects in 13 member states	Started: 2023
Defence (EDIP + SAFE+ ReArm)	Defence procurement and industrial base expansion	€150B SAFE loans; 1.5% GDP fiscal headroom for 4 years;	Started: 2025
Chips Act	Semiconductor reshoring and fab construction	€43B+ mobilised: Double global market share of semiconductors to 20% by 2030	Deployed through to 2030
CBAM	Carbon Border Adjustment Mechanism	No direct budget but removes import price advantage.	Started: January 2026

Chart 3: MiE prioritises structurally cheap sectors exposed to European procurement, with the policy expected to lift ROE and re-rate valuations across the highlighted industrial cohort.

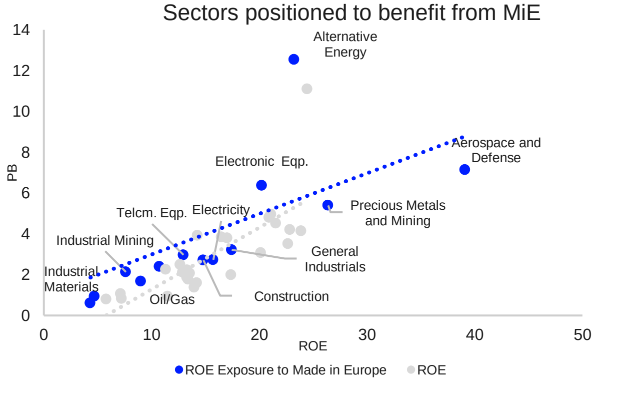
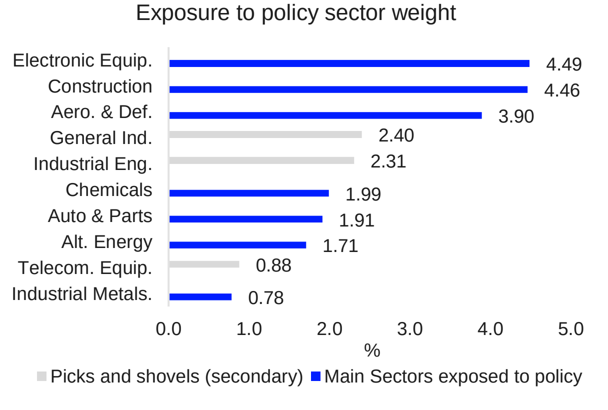


Chart 4: Roughly 25% of Developed Europe is exposed to MiE – direct beneficiaries through procurement, with ‘picks-and-shovels’ sectors capturing the second-order capex cycle.



Source: FTSE Russell and LSEG. Data as of April 30, 2026. All returns in USD. Past performance is no guarantee of future results. *Chart 1: China series starts in 2004; US series ends 2021.

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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