Global Investment Research | Equities

Global equities in 2026: Same, same… but different

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AUTHORS

Indrani De, CFA, PRM
Head of Global Investment Research
Indrani.De@lseg.com

David McNay, CFA
Director, Global Investment Research
David.McNay@lseg.com

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Key insights

- The FTSE All-World Index returned 23.1% in USD for 2025, its 4th best year in the post-GFC period. The US returned 18.0%; good in isolation, but its worst relative performance vs. the All-World in 16 years.
- Broadening of the global equity rally was the key theme of 2025, and may be set to continue in 2026. Broadening of the rally has led to frequent shifts in leadership – making market timing even harder and favouring broad diversification.
- Global equity broadening was in stark contrast to the US where Technology remained the top performing industry, leading to higher concentration risk in US equities. The weight of the top 10 companies in the FTSE USA Index is now[1] nearly 40%; Nvidia and Apple weigh more than all of the Energy, Utilities, Real Estate, Telecommunications and Basic Materials industries combined.
- The weight of the US in the FTSE All-World is currently 62.3% highlighting US dominance in global indices; at the end of the GFC the weight was 41.0%[2].
- Equity valuations in the US are very rich, considered in absolute terms or relative to their own history. Outside of the US, markets rerated, going from broadly average to rich – but mostly not extreme levels.
- Higher starting valuations make index gains from multiple expansion harder, putting a greater focus on earnings delivery to move indices higher. Conversely, very rich valuations can make markets more vulnerable to shocks, with potential derating exacerbating drawdowns; the US with very high valuations could be particularly vulnerable.
- EPS growth forecasts are much stronger outside of the US. On a 2Y forward basis EPS growth in the US is 5.1% annualised, but the UK and Japan are nearly 2x that and Developed Asia Pacific ex Japan and the Emerging Markets (EMs) are more than 3x.
- Eyes on Japan in 2026. On the positive side, PM Takaichi may catalyse a faster pace of corporate reform, unlocking shareholder value. Simultaneously, the risk of a Yen carry trade unwind poses a wider risk to global liquidity conditions.
- In many ways, 2026 looks like a continuation of 2025, rather than a reset. Several factors which supported Developed ex US and EM are likely to persist in 2026 providing tailwinds to ex-US assets. Absent decisive leadership, frequent shifts may make short-term, tactical trading, difficult. Diversification benefits may smooth returns across more medium- and long-term strategic positions.

[1] Source: FTSE Russell, with data as of 31-Dec-2025 unless stated otherwise.

[2] Weight in the FTSE All-World Index as of 31-Dec-2009.

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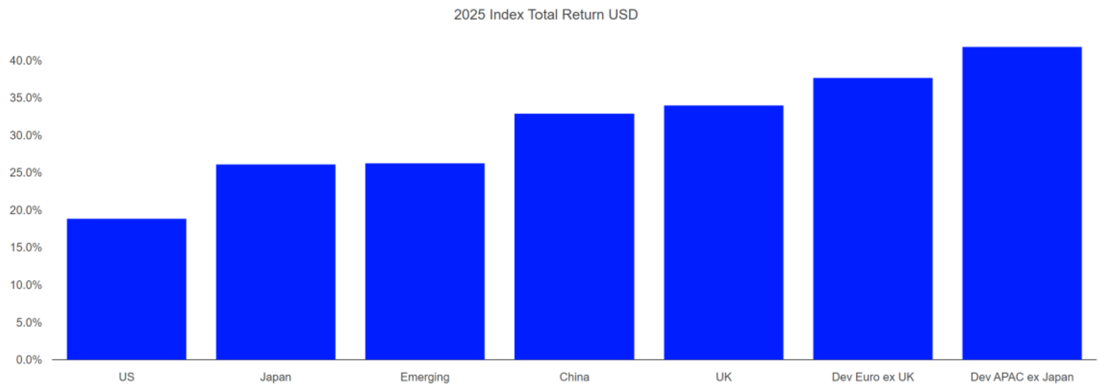
2025 in review

FTSE All-World returns 23.1% outperforming the US

Turn back the clock 12 months and the market was arguably “priced for perfection”. Bullish arguments could be surmised: consensus expectation of robust growth, that healthy corporate balance sheets were able to handle higher rates, momentum from AI growth, and that central banks would start cutting rates. On the negative side valuation multiples on US equity looked rich, inflation was stubbornly high in some regions, and uncertainty over US tariff policy loomed like an elephant in the room.

For the full year 2025 the FTSE All-World returned 23.1% total return in USD, it’s 4th best year in the post-GFC period[3]. Critically, as leadership shifted, US equities lagged (18.0%), with the top performing region being Developed Asia Pacific ex Japan[4] (41.3%) and Developed Europe ex UK (37.4%).

Figure 1: Index Total Returns in USD for key countries and regions



Source: FTSE Russell, data as at 31 December 2025.

Broadening of global equity performance, whilst US equity became more concentrated

A defining characteristic of 2025 was a broadening of global equity market leadership away from a handful of US tech stocks, where in 2024 more than half[5] of the All-World return was the Mag 7 plus a few US Tech companies.

[3] Behind 2019, 2017 and 2013.

[4] Important to note that FTSE Russell classify South Korea as a developed market, making it the 2nd largest country in the FTSE Developed Asia Pacific ex Japan Index with a 37.7% weight in the index as of 31-Dec-25.

[5] Source: LSEG / FTSE Russell; FactSet calculations. Data from 29-Dec-2023 to 31-Dec-2024 using the FTSE All-World USD Total Return index showed contribution to return of 53% for Mag 7 plus US Technology.

Broadening of Technology industry returns allowed ex-US tech stocks[6] to play catchup. Key beneficiaries were South Korea (96.3%) and Taiwan (40.7%), with South Korea the top performing country in 2025. However, the broadening of market leadership was not confined to Technology; at the industry level, Financials (33.3%) and Basic Materials (39.1%) posted strong returns as well as notable sector performances from Alternative Energy (87.0%) and Aerospace and Defence (53.1%).

Importantly, returns came from multiple drivers:

– Despite central banks cutting rates, relatively steep yield curves remained supportive of net interest margins for banks, boosting Financials and providing support for Developed Europe and the UK.

– Precious Metals and Mining acted as a geared play on gold and silver, with returns over 150% and driving Basic Materials. This supported the UK as well as markets like South Africa.

– Increased geopolitical risk is feeding into higher defence budgets, supporting the Aerospace and Defence sector, which has several notable names in the UK and European indices.

– Energy transition demand, including electric vehicles, led to the miners of input commodities being well bid; examples include copper, silver, lithium and nickel. This helped support Mexico, Chile and Peru in EM, as well as Australia and the UK.

– Alternative Energy rebounded in 2025 as renewable energy, particularly solar, delivered most of the marginal electricity capacity added globally. China was by far the biggest source of growth, but the US names also grew from a combination of data centre demand and demand brought forward from the cancellation of subsidies in late 2025.

This stands in contrast to the US where the market has become more concentrated[7]. Technology in the US returned circa. 28%, outperforming the second strongest US industry, Financials, by nearly 9 percentage points. This has resulted in the US market becoming more concentrated, with Technology's weight in the FTSE USA going from around 35% to nearly 40%.

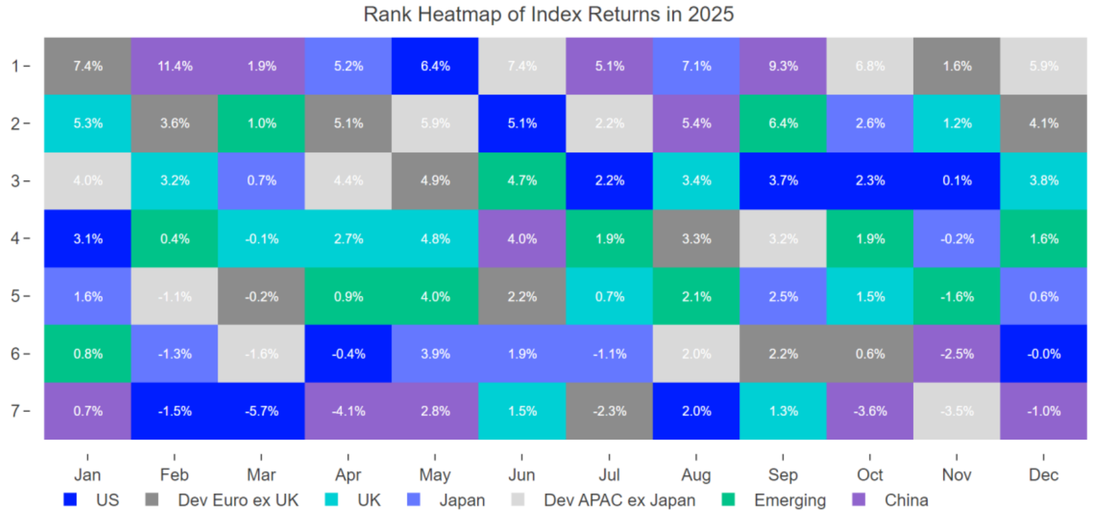
Multiple drivers for global equities also led to frequent shifts in geographic leadership within All-World ex US

Figure 2 shows monthly returns ranked by country / region such that the highest return is ranked 1 (top) and the lowest return is ranked 7 (bottom). Rather than focusing on specific numbers, we note the apparent random walk of the colour ranking, which is rational – with the market broadening, leadership shifted, benefitting different regions. This type of pattern makes short-term tactical trading even harder and favours broad diversification.

[6] For the purposes of this analysis we have included some tech related names, which sit outside of the Technology industry, for example Samsung in Korea which falls under Telecommunications in the ICB Industry classification.

[7] Concentration risk in US equities: https://www.lseg.com/en/insights/macro-microscope/us-equity-concentration-risk

Figure 2: Rank (1 is best) of monthly returns for key countries / regions in 2025

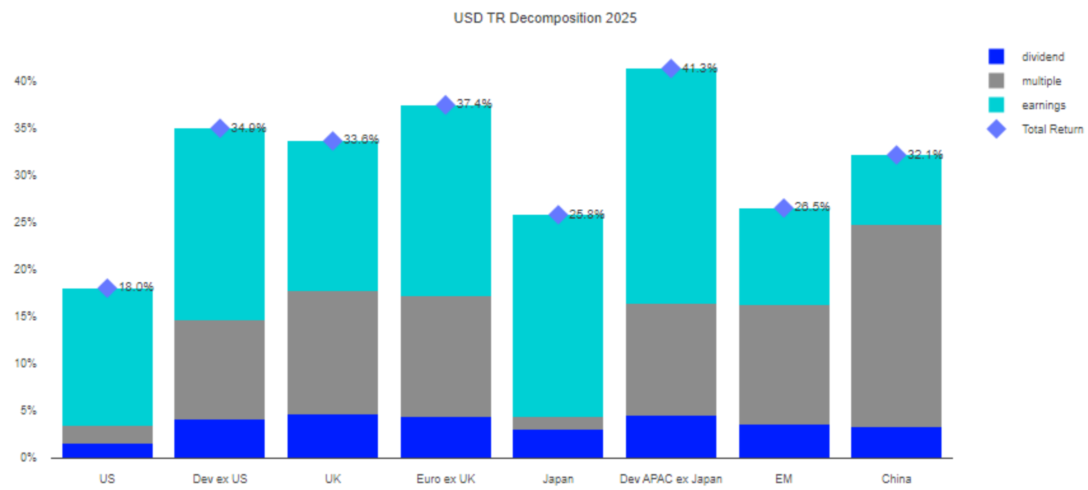


Source: FTSE Russell, data as at 31 December 2025.

Earnings growth or valuation changes driving return – varies across regions

Decomposing full period returns for 2025 into dividends, earnings growth and multiple expansion, the drivers varied. US index returns were almost entirely earnings growth (14.5%), whereas China was broadly a multiple expansion story (21.5% multiple expansion vs. 7.5% earnings growth). Europe (and the UK) was broadly balanced with a near 50:50 split between earnings and multiple expansion; despite strong returns in 2025, Developed Asia Pacific ex Japan was mostly driven by earnings growth and not just multiple expansion.

Figure 3: Decomposition of full year returns for 2025 of key markets



Source: FTSE Russell, data as at 31 December 2025.

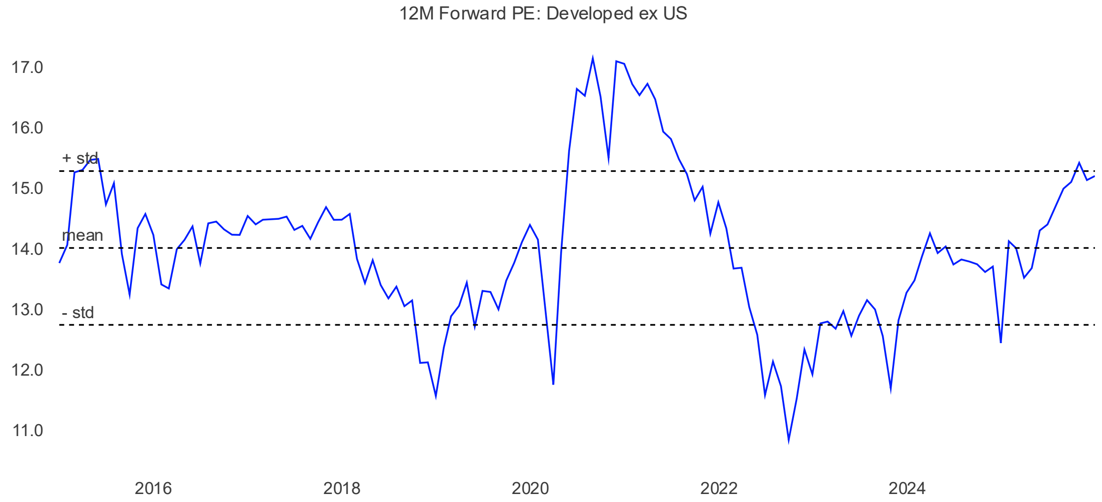
Looking forward… Outlook for 2026

Looking into 2026 what is likely to be the same? And what has changed?

Richer valuations leave less room for multiple driven growth

Entering 2025, valuation multiples for US equities looked very rich, whereas the Rest-of-World was broadly average; in absolute terms the 12m Forward PE for the FTSE USA was 22.1x vs. 13.6x for the FTSE Developed ex US Index. Coming into 2026, the US is off long term highs, but still near extremes, at 23.0x whereas Developed ex US, whilst expensive vs. its own history, sits at 15.2x.

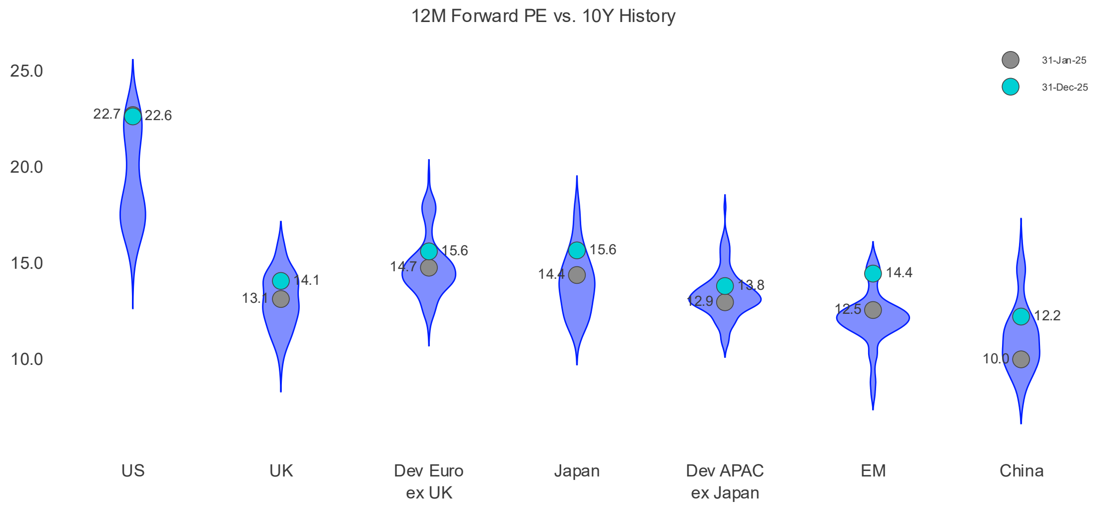
Figure 4: 12m Forward Price/Earnings Ratio for the FTSE Developed ex US Index. The horizontal lines show the mean and standard deviation where we can see that the index went into 2025 slightly richer than average and is currently about +1 standard deviation rich.



Source: FTSE Russell, data as at 31 December 2025.

Richer valuations relative to history raises an important question – are higher multiples simply a function of sentiment driven capital flows, or are multiples justified by systemic change, leading to sustainably higher ROE? In the former case, momentum may drive further re-rating but the main implication is that there is less room for index returns to be driven by multiple expansion, placing more emphasis on earnings delivery as the primary driver. In the latter case, history becomes less relevant; “fair” valuations may look rich and more attention needs to be paid to absolute levels.

Figure 5: Distribution of 12m Forward Price / Earnings over the last 10-years for key regions. The US is expensive relative to its own history as well as in absolute terms. Other markets all re-rated in 2025 but broadly aren't extreme vs. their own history.



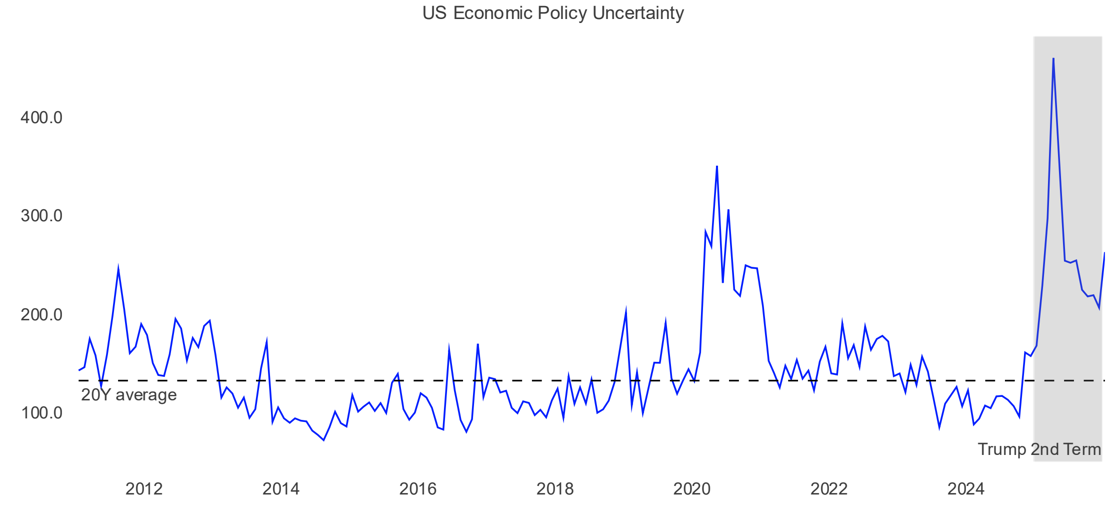
Source: FTSE Russell, data as at 31 December 2025.

A consequence of rich valuations is being more vulnerable to downside shocks, as markets may derate multiples during periods of stress which can exacerbate drawdowns. Whether we look at the US in absolute terms, or relative to its own history, it is expensive – which could make it more vulnerable than other markets.

EPS growth forecast to be much stronger outside the US

The growth outlook entering 2026 isn't markedly different to 2025, with Reuters Polls for 2026 estimating 2.9% for real GDP growth for the world, below the IMF 10-year trend GDP of 3.1%, but respectable. Levels of economic uncertainty, at least in the US, are also broadly similar coming into 2026, which is to say elevated from long-term trends, but materially lower than the spike caused by tariff announcements in April 2025. Higher economic uncertainty feeds into the likelihood of economic growth being translated into realised earnings, with higher uncertainty leading to less confidence (or wider forecast bands) around estimates which could fuel bouts of volatility.

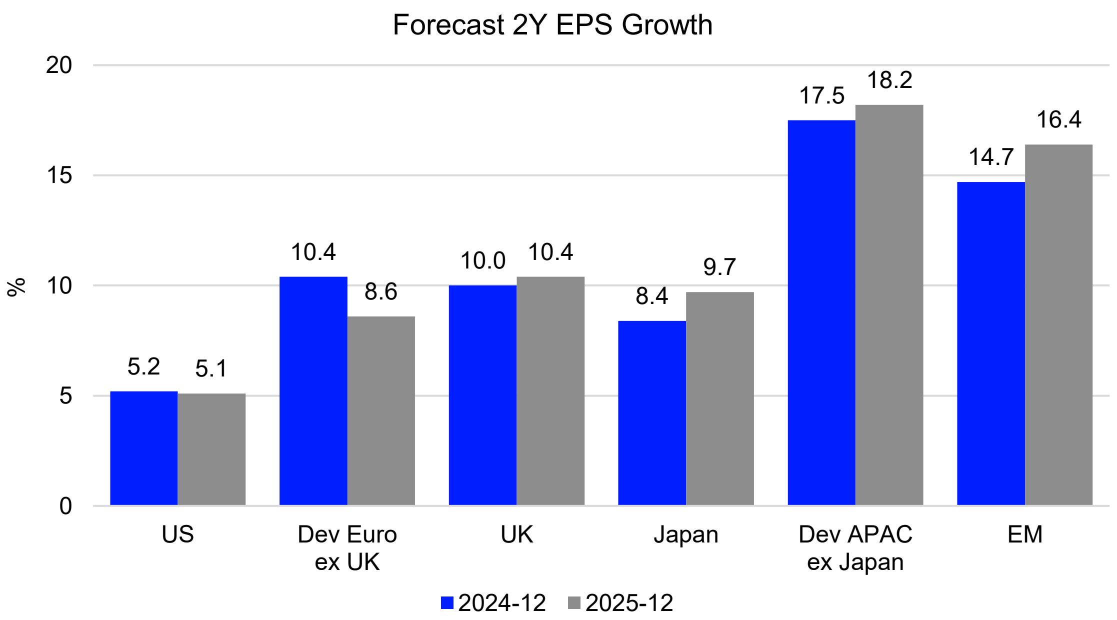
Figure 6: Economic policy uncertainty has been elevated since the current administration took office. Uncertainty spiked in April due to tariff concerns but has normalised at lower levels, if elevated vs. history.



Source: FTSE Russell, Baker, Bloom and Davis, data as at 31 December 2025.

EPS growth expectations are stronger outside the US. Looking at 2y forward EPS growth estimates, the US is at 5.1%. By comparison Developed ex US is nearly 2x at 9.8%, Emerging Markets and Developed Asia Pacific ex Japan are more the 3x the US at 16.4% and 18.2% respectively. If markets may struggle to move higher from multiple expansion then strong earnings expectations are an important tailwind, which significantly favours Developed Asia Pacific ex Japan and Emerging Markets.

Figure 7: 2-year forward forecast EPS growth is stronger outside the US



Source: FTSE Russell, data as at 31 December 2025.

Are the tailwinds for Developed ex US and EM still in play?

Concentration risk in US equities has gotten worse, the 10 largest companies[8] in the FTSE USA now make up 39.7% of the index. Industry concentration is also extremely high with Technology stocks now 41.4% of the index; including Amazon and Tesla which are often considered Tech adjacent, the weight is 47%. For context, Nvidia and Apple, the two largest stocks in the index have a weight greater than the Energy, Utilities, Real Estate, Telecommunications and Basic Materials industries combined.

Let's consider some of factors that drove outperformance by Developed ex US and EM in 2025.

Developed market central banks are nearing the end of their cutting cycles – reducing one market tailwind – but yield curves are steeper than a year ago which may still support the net interest margins of banks. Financials in EM have an advantage from EM central banks having been slower to cut rates than their developed peers, leaving room for more accommodative monetary policy from EMs in 2026.

Geopolitics has arguably gotten more precarious in the first few days of 2026, which has the potential to keep Aerospace and Defence names well bid, and gold and silver have made new highs in the first few sessions of 2026 which similarly may keep Basic Materials supported.

Developed Asia Pacific ex Japan was the top performing region in 2025, with South Korea the top performing country. Despite achieving exceptional returns, South Korea trades at valuations[9] which aren't challenging in absolute or relative terms, and has strong forecast EPS growth. Australia, the other dominant market in the FTSE Developed Asia Pacific ex Japan Index has large weights in the Basic Materials names producing commodities, like copper, that are essential to the green energy transition.

We note these not as specific predictions, but to highlight that there remains a diverse set of drivers moving markets, and the absence of definitive equity leadership supports holding a diversified basket of strategic holdings which have different fundamental drivers.

[8] This is greater than the top 10 holdings, which are 38.5%, because Alphabet has 2 share classes in the top 10 holdings.

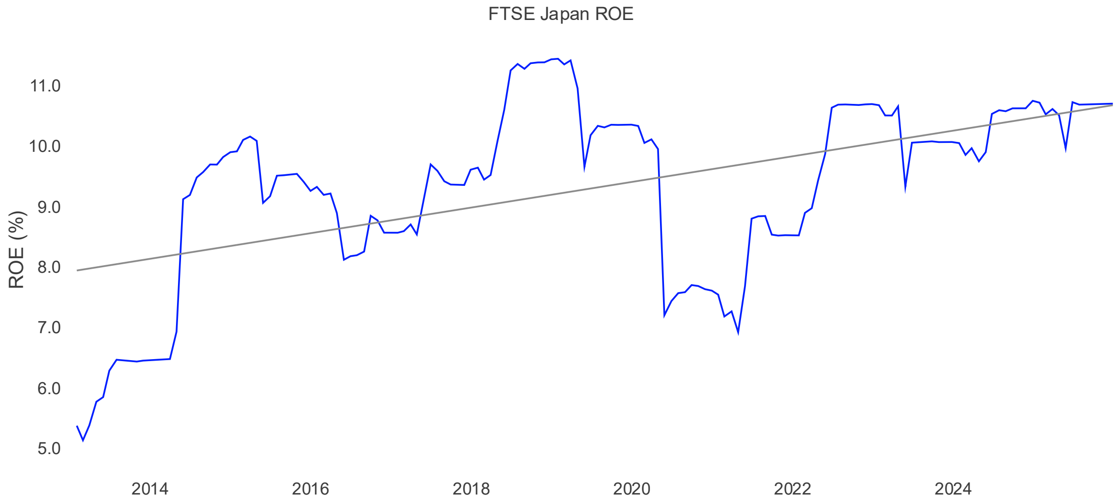
[9] FTSE South Korea has a Forward Price / Earnings of 10.1x, which is in the 6th decile of the last 10Y history: as of 31-Dec-2025.

Eyes on Japan

Moving forward, an important market to monitor in 2026 is Japan.

Attributing improving corporate governance in Japan solely to PM Takaichi risks ignoring history[10] – with ROE in Japan having been improving since the start of Abenomics in 2013. What is true is the new PM, a student of former PM Abe, views governance reform as essential and her leadership may help catalyse
the change as a confluence of other factors are coming together – which could lead to a material unlock in ROE from Japanese equity.

Figure 8: Trailing ROE of the FTSE Japan index. Looking at the trend line, we can see improving ROE has been an adjustment that started in 2013 with Abenomics.



Source: FTSE Russell, data as at 31 December 2025.

As well as Japan presenting an opportunity, an unwind of the Yen carry trade is a key risk that could have a material impact on global liquidity conditions. Concerns stem from rising domestic rates in Japan, leading to less attractive rate differentials and fewer carry opportunities. Concurrently, the Yen undervaluation, with elevated implied volatility, raises the probability of Yen appreciation which increases risk for carry traders. It is impossible to state an exact size of the Yen carry trade, but the BIS observed $1.3-1.7 trillion[11] in Yen funding via FX derivatives, so even a partial unwind would lead to significant contraction in global liquidity conditions.

India remains an interesting market and a structural growth story[12]. However, despite the rate of growth of the Indian economy and robust earnings growth from Indian corporates, the equity market underperformed the All-World in 2025. Largely this was a function of valuations where India was trading at a very significant premium to broad EM; in Q4 2024[13] India's Forward PE peaked at >25x, whilst the broad EM index was trading around 12.5x. Real GDP growth forecasts for India are the highest[14] in the G20, and 2Y EPS growth estimates are 17.6%; but the market still trades at a significant premium to

[10] Global Investment Research: https://www.lseg.com/en/insights/ftse-russell/what-has-led-to-japans-come-back

[11] Sizing up carry trades in BIS statistics: https://www.bis.org/publ/qtrpdf/r_qt2409y.htm

[12] India: a structural growth story: https://www.lseg.com/en/insights/ftse-russell/india-a-structural-growth-story-but-have-valuations-run-ahead

[13] FTSE India 12m Forward PE peaked at 25.1x in Sept-2024.

[14] Based on Reuters Poll estimates for FY2026 and 2027 as of 31-Dec-2025.

EM, with a multiple comparable to the United States, which may prove to be a headwind in the medium-term despite the exceptional growth potential.

A thread running through our asset allocation[15] research has been the structural improvements in EMs which are providing tailwinds for EM assets. South Africa[16] is a case in point – in 2024 the country formed the Government of National Unity (GNU), which ostensibly lead to the end of "load shedding", the term used for power cuts that constrained activity, removal from the FATF "grey list[17]", and a credit-rating upgrade in 2025. The South African Reserve Bank (SARB) has kept inflation contained and has flagged cuts in 2026 which, alongside significant exposure to Basic Materials, provides tailwinds to the market.

In summary

In many ways, the outlook for 2026 looks a lot like it did this time in 2025. Growth expectations are reasonable, if not stellar, AI is an important growth driver, inflation may pose problems in some regions, and US valuations look very rich. But coming into 2026, valuations are richer everywhere; trade policy risks have settled (if at elevated levels), and there are several positive structural stories outside of the US – particularly Japan, Developed Asia Pacific ex Japan and the Emerging markets.

It is possible 2026 is a continuation of 2025. US Technology hasn't been providing decisive equity leadership, but many of the factors that supported Developed ex US and Emerging Markets are still in place today; and other drivers may emerge. Relative to the US, Developed ex US and EM are less concentrated and offer broader industries exposure. Ex-US valuations are less stretched and broadly offer much better expected earnings growth; in the case of Emerging Markets there are structural changes improving the resilience of several economies.

The lack of decisive leadership supports eschewing short-term market timing, as current drivers may be changing. Instead, it supports holding a basket of strategic positions that have different drivers and are taking advantage of diversification benefits.

[15] Asset Allocation Insight: https://www.lseg.com/en/ftse-russell/market-insights/asset-allocation/december-2025

[16] Rediscovering the South African Equity market: https://www.lseg.com/en/ftse-russell/research/rediscovering-south-african-equity-market

[17] The Financial Action Task Force (FATF) "grey list" are countries are officially labelled Jurisdictions under increased monitoring where there are identified weaknesses with the countries anti-money laundering (AML) and other processes. South Africa worked with FATF and was removed in October-2025: https://www.reuters.com/world/africa/south-african-rand-holds-steady-investors-await-fatf-verdict-2025-10-24/

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Asia-Pacific

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