

Staying Balanced

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Over the past year, a small group of US technology giants has driven most of the gains in global stock markets. But according to the IMF's latest Global Financial Stability Report, the US market is now more concentrated than at any point since the dot-com bubble.

The US mega-cap technology companies have genuinely transformed entire industries, and their success shouldn't be dismissed. However, just a handful of companies, the so-called "Magnificent 7" now account for roughly one-third of the entire S&P 500 index. Recent IMF analysis confirms that US concentration now exceeds levels seen in the late 1990s. Whilst the headline numbers look strong, this creates a vulnerability.

Concentration risk has always existed, but today it's amplified by the pace of technological change, excitement around artificial intelligence, and the sheer volume of passive investment money flowing into the same handful of dominant companies. Yet this same pattern isn't present in other major markets. Markets in Europe, the UK, and Japan remain far more balanced across different sectors, whilst selected Asian and emerging economies are showing more sustainable earnings growth and improving economic fundamentals.

The IMF's World Economic Outlook tells a particularly encouraging story about emerging markets. Many have quietly strengthened their foundations over recent years, now financing more of their government debt locally, in their own currencies, through domestic investors rather than relying on foreign capital. This makes them far less vulnerable when global markets become nervous or when capital flows turn volatile.

Our portfolios reflect this thinking. We continue to hold exposure to the United States because it remains home to world-leading companies with strong balance sheets and unmatched innovation. However, we've balanced this with significant allocations to developed markets outside the US, selective Asian markets, and emerging market strategies. These holdings reduce overall dependence on any single region, sector, or investment theme, whilst broadening sources of return.

The UK and continental Europe, for example, have seen solid earnings recovery across a wider range of sectors, from financials and industrials to energy and healthcare. In Asia, growing domestic investment in local-currency bonds has provided greater resilience against global interest rate volatility.

Long-term investors benefit most from participating in multiple growth stories across different regions and sectors, rather than depending on a narrow group of leaders. Our diversified approach ensures our portfolios remain exposed to the global economy's full potential whilst protecting against concentrated risks. Whilst the world's investment landscape may appear increasingly concentrated at the top, opportunity remains broad beneath the surface. By maintaining balance between participation and protection, we aim to deliver consistent outcomes, regardless of which region leads the next phase of market growth.

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