

**Investment
Institute**

Rethinking global diversification

CAPITAL MARKET ASSUMPTIONS SERIES

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Rethinking global diversification

Themes in depth | May 2026

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Key takeaways

The Russia-Ukraine war, the rise of tariffs and, most recently, the energy crisis are all triggers of a new geo-economic regime, where the forces shaping markets are broader and more structural.

As energy security, defence and industrial policy move to the centre of national strategy, the investment landscape also evolves. Global efficiency matters less; domestic resilience and regional dynamics matter more.

Fiscal dominance will also be a major market driver in the next years, particularly for fixed income markets, as rising debt and pressure to support growth are likely to increase the need for domestic absorption of government debt.

In this environment, investors should reassess their regional exposure. US assets remain central to the global financial system, but their weight in portfolios should be reassessed. This applies not only to US equities, but also to US Treasuries and the US dollar, which are increasingly challenged as anchors of stability.

This means diversification will need to go beyond traditional market capitalisation to capture opportunities, particularly over the next five years. Structural market drivers are now more complex, so diversification must also consider currency, region, and sector, as well as supply chain exposure and energy security — in short, dependency risks. That is where a larger role for Europe, Asia or different diversification approaches tilted towards the real economy becomes increasingly compelling for investors.



“The US market remains appealing, but as concentration risks loom, it’s time to rethink global diversification around the real economy, FX and geopolitics.”

Monica Defend
Head of Amundi Investment Institute

26%
vs **40%**

US share of World GDP vs Emerging Market share of world GDP in 2025.

>60%

US share of the MSCI World All Countries index in May 2026.

- 90%
of GDP

Net International Investment Position (NIIP): the difference between what the US owns abroad (foreign assets) and what foreigners own in the US (foreign liabilities).

123%
of GDP

US debt as a share of GDP is high and set to rise as deficits widen and debt-servicing costs increase.

>10%

Amundi expected returns over the next 5 years in EM equity vs 7.4% expected in US equity.

Markets and the economy: divergence at a turning point

Crises often mark the beginning of regime shifts. Following the 2008 Great Financial Crisis (GFC), concentration in US equities resumed an upward trend that has lasted for more than a decade, despite the US economy's leadership being increasingly challenged by China's rise. This concentration has gained further ground over the past few years as the artificial intelligence (AI) theme has started to drive markets, led by the US.

This is not just an equity trend. In bonds, a prolonged period of zero or negative yields outside the US has driven strong inflows into US Treasuries. On the currency side, while the US accounts for just 26% of global GDP and around 13% of world trade, the USD represents half of trade invoicing and around 45–50% of SWIFT payments. When market leadership is this extreme, markets become increasingly momentum-driven until something begins to crack. **We believe the extreme market concentration in the US, along with the divergence from the real economy, is now reaching a turning point.**

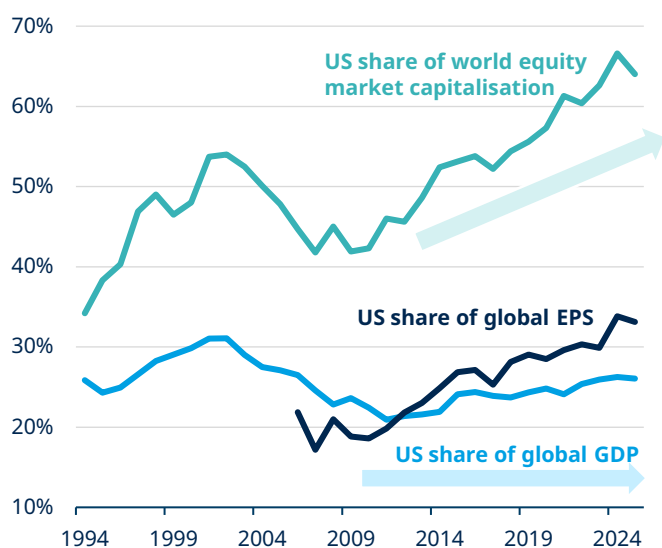
The US market's exceptional performance is rooted in structural strengths such as higher productivity, a dominant technology sector, a supportive entrepreneurial and shareholder culture, and deep capital markets, which have enabled highly profitable companies with significant global revenue exposure to capture a growing share of global earnings. **While regional concentration can persist as long as a country's growth advantages remain intact, it becomes a concern if other markets begin to offer better returns and if the potential scale of asset reallocation away from the US is significant.**

We may have reached this point. Equity market behaviour in 2025 points in that direction. International ex US markets have begun to outperform, with MSCI World ex US posting its strongest relative performance versus the US since 2009, while Emerging Markets (EM) have outperformed Developed Markets. **The US dollar's strength has also started to fade,** and its relative stability during the Middle East conflict, contrary to the strength typically seen in past periods of safe-haven demand, is further evidence of its likely trajectory. **In our view, USD weakness is set to continue, albeit along a gradual adjustment path.** The main driver of this adjustment will be capital flow dynamics. The Net International Investment Position (NIIP) of the US highlights the country's dependence on foreign capital inflows. Should foreign investors begin to reassess US exposure, **even modest outflows could weaken the dollar further. Flows, exchange rates and relative asset appeal can interact in a self-reinforcing cycle, making concentration risk increasingly difficult to ignore.**

“The unprecedented market concentration in the US along with the extreme divergence from the real economy, are now reaching a turning point.”

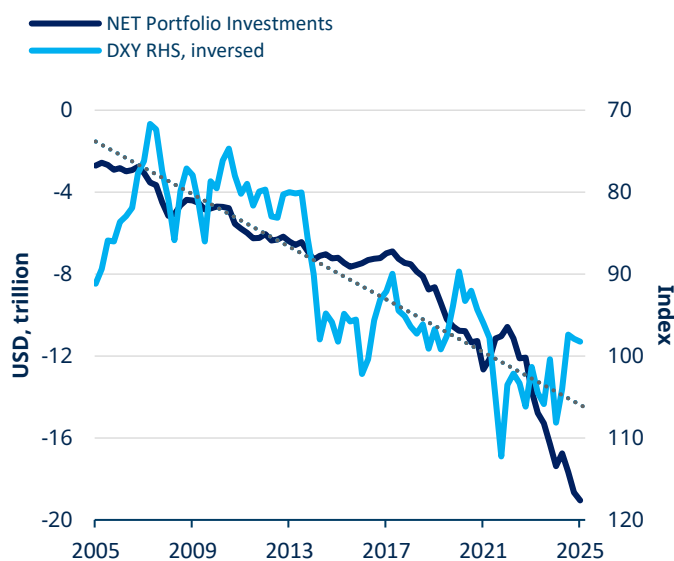
“Flows, exchange rates and relative asset appeal can interact in a self-reinforcing cycle, making concentration risk increasingly difficult to ignore.”

US market has outgrown the real economy



Source: Amundi Investment Institute, IMF, Bloomberg. Data related to GDP share is based on IMF data, market capitalisation and EPS refer to MSCI US and MSCI All Country World Index . Yearly data as of 2025.

Net Portfolio Investments and USD are linked



Source: Amundi Investment Institute, IMF. Data as of Q4 2025. Net portfolio investment position: the difference between US investors' holdings of foreign portfolio assets and foreign investors' holdings of US portfolio assets.

Looking ahead: a greater focus on the real economy

Our Capital Market Assumptions sets out our long-term scenarios and asset class return expectations. In this year’s edition, we focus on how economies and markets are **“Adapting to ruptures”**. As geopolitical rivalries intensify, global cooperation will weaken, and the distribution of resources and opportunities is becoming more uneven.

Trade is being rewired, reshaping supply chains under security and political constraints. This is particularly visible in strategic sectors such as critical minerals, where resilience and access are increasingly prioritised over efficiency. At the same time, weaker policy coordination is making collective responses harder to sustain, as evident in the stalled coordination of the green transition. **As countries turn inward, the push for strategic autonomy is reinforcing higher defence and energy-related infrastructure spending.** This may support growth in the near term, but it also adds to fiscal pressure. In countries already facing adverse demographic trends, higher spending and weaker fiscal flexibility are raising more persistent questions around debt sustainability. **AI may help offset part of these pressures through productivity gains,** but those gains are unlikely to be distributed evenly across countries, sectors or households.

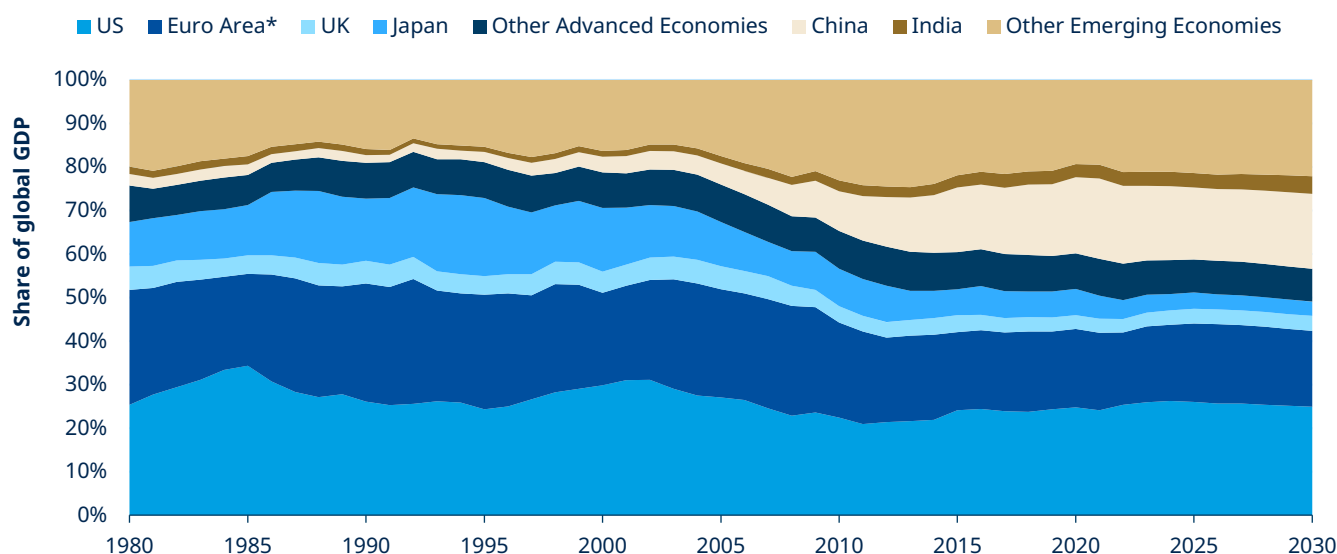
This fractured yet interconnected adjustment defines a macro regime of uneven growth, higher debt and stickier inflation, where **the balance of global growth continues to shift from developed to emerging markets.** Demographics remain supportive (particularly India, Indonesia and Africa), while faster AI adoption and technology leadership in countries such as China, South Korea and Taiwan should strengthen Asia’s growth profile. Emerging markets also benefit from access to critical minerals and energy resources, including China and Latin America. **Finally, EM institutional frameworks have also strengthened.** Covid and the war in Ukraine showed that EM are no longer defined by weak policy discipline. Many moved quickly to contain inflation while maintaining relative fiscal discipline, in some cases more effectively than advanced economies. **Looking ahead, EM are becoming more differentiated, offering greater exposure to technology, digital services and advanced manufacturing.**

In a fragmented geopolitical environment, Europe also offers opportunities. The region must strengthen its defence, energy and digital capabilities, supporting higher investment and a stronger industrial sector. Further integration and deregulation could broaden the **benefits beyond large exporters, while the AI investment cycle should also favour Europe through equipment, infrastructure and industrial upgrading.**

“Investors must position for a world of more volatile economic cycles and greater regional differentiation.”

“Europe is an increasingly attractive destination for investors as upcoming reforms and strategic autonomy investment plans gather pace.”

The real economy has been evolving more towards China and EM



Source: Amundi Investment Institute, IMF. Country forecast are by IMF. Country percentages are based on historical GDP at current prices, in billions of US dollars. Last available data as of 30 April 2026. *Euro Area refers to European Union excluding Emerging and Developing Europe before 1991 and Euro Area after.

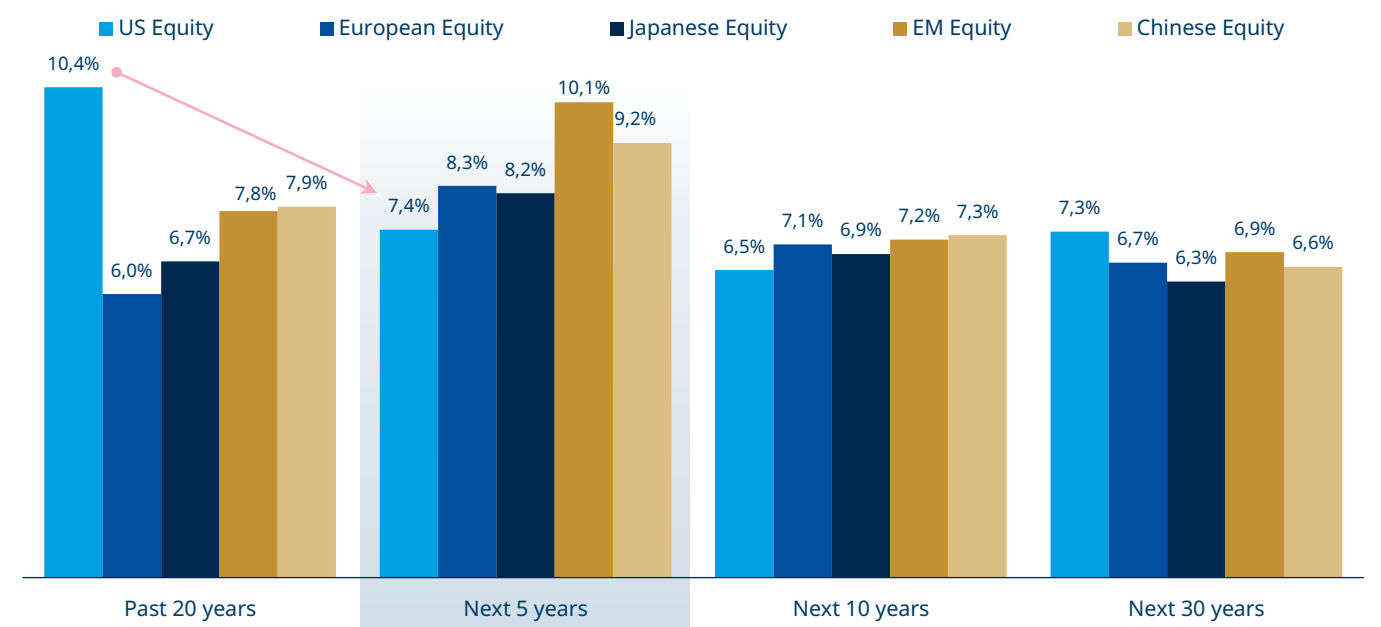
Rethinking global diversification

Diversification is not a static concept; it evolves over time. In the 1990s and 2000s, as financial markets globalised, investors increasingly looked beyond domestic bias to seek global opportunities. More recently, global diversification has been less appealing due to the US leading AI-related technology and the safe-haven status of the USD, making US markets very attractive for foreign investors. However, concentration risks and long-term growth themes signal a shift.

An era of rupture calls for a greater focus on the real economy and structural themes to capture future opportunities. Looking at expected returns across time horizons, US equities should deliver solid returns, but they are likely to underperform, opening the way for a shift towards Europe, Japan and emerging markets. An improving EPS backdrop outside the US and still stretched valuations in the US are the key drivers of this shift. However, over the long run, valuation distortions will be reabsorbed, and the higher earnings power of the US market will prevail. As a result, investors should not abandon the US but reduce concentration risk.

“While the market capitalisation approach is based on past winners, an era of rupture calls for a greater focus on the real economy to capture future opportunities.”

Historical and expected future returns across major equity markets








Source: Amundi, Bloomberg, Amundi 2026 Capital Market Assumptions. Data as of 31 December 2025. Expected returns are based on Amundi CASM Model, starting date is 31/12/2025. Returns are nominal, in local currency and gross of fees. Forecast returns are not necessarily indicative of future performance, which could differ substantially.

For bonds, the rise of global debt levels, particularly in the US and some advanced economies, supports the case for a wider approach to diversification. Sovereign bond investing is driven by three main needs: income, low volatility and low correlation to equities. US Treasuries are increasingly challenged on all three fronts. **High policy uncertainty has already driven US bond volatility higher, at a time when EM volatility has decreased significantly.** On the income front, higher rates globally are making US bonds relatively less attractive, while a weakening US dollar is also challenging the traditional bond-equity correlation dynamics.

Global debt is expected to continue rising, and the World Global Bond Index remains heavily concentrated in the US. As the risk of financial repression rises, investors need to look beyond headline debt levels and focus instead on debt relative to GDP and on currency risk. Looking ahead, EM debt continues to stand out for its combination of income and diversification. For JPY-based and euro-based investors, the case for strengthening domestic exposure is also becoming more compelling as local yields have improved.

But broadening geographical exposure beyond the US is only part of the story. In an era of rupture, we expect a wider set of structural themes. Infrastructure and critical minerals will be needed to meet demand from AI and the energy transition, while gold should remain supported by policy uncertainty, constrained supply, and the structural demand for diversification from central banks.

Structural themes and the future of diversification

CMA macro theme	Main narrative	Investment implications	Impact on global diversification
 Opportunities amid rupture	Greater domestic focus, supply chain reshaping, rise of the middle power.	Benefits domestic companies and rising EM powers (China, India).	<p>Decrease US exposure relative to the rest of the world</p> <hr/> <p>Increase EM allocation (both equities and bonds)</p> <hr/> <p>Enhance global diversification with a greater focus on the real economy – GDP Weighted (both equities and bonds)</p> <hr/> <p>Add thematic exposure to capture long-term themes (i.e. strategic autonomy, critical minerals)</p>
 AI could delay demographics' effect on growth	AI will unevenly support growth in the next decade. Over the long-term, ageing population will weigh on growth.	Benefits AI and tech beyond the US (first wave winner) – China and Asia as tech leaders, Europe industrial robotics.	
 A delayed path towards Net Zero	Lower transition costs, but higher long-term physical risks will lead countries that are not energy independent to accelerate into clean tech.	Benefits commodity markets, critical minerals, clean tech, infrastructure, and green bonds.	
 Strategic autonomy may enhance resilience	Higher spending on defence, AI and energy as strategic priorities.	Benefits domestic companies, mainly in Europe.	
 Debt and financial repression	More fiscal pressure means more debt, in a moment when the US interest burden is becoming extreme. The dollar's role is likely to erode gradually.	Weaker USD to support EM bonds. Euro bonds and Japanese bonds will be more appealing for domestic investors.	

Source: Amundi Investment Institute.

Key takeaways

1

Rebalance US exposure to reduce concentration risk

2

Diversify by economic exposure, not only by market cap

3









Use regions, sectors, FX, bonds and themes to diversify

Amundi Investment Institute

In an increasingly complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella: the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

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