

### Summary

- All exposure to global equities will involve exposure to US equities.
- US stocks make up almost three-quarters of the MSCI World Index, and all the top 10 firms listed are American.
- Tariffs on trade and geopolitical turbulence have created volatility and some nervousness in the markets.
- Institutional investors have reduced their US allocations to some degree, as a step towards improved diversification.
- But the US continues to dominate conversations and capital markets and US equities will continue to have a place in UK pensions – the question is how to get the balance right.



## Born in the USA

► **Sandra Haurant explores why, despite growing concerns over concentration risk, tariffs and AI-fuelled volatility, US equities remain an unavoidable cornerstone of UK pension investment strategies**

The 4 July 2026 marks the 250th anniversary of the Declaration of Independence of the United States of America. It was only a little more than 100 years later, in 1890, that the US became the largest economy in the world. With such a speedy ascension, it's not surprising perhaps that the country's equity market has what Gen Z might call 'main character energy'.

Today, US equities make up a sizable 71.9 per cent of the MSCI World Index, while the second largest chunk is Japanese stocks, at 5.68 per cent of the index. (The UK is third with 3.68 per cent.) And a quick look at the top 10 companies on the MSCI World Index confirms America's position; at the time of writing, every one of them is an American firm, including, of course, the much discussed 'magnificent seven' companies.

We have Nvidia leading the pack, followed by Apple, Microsoft and Amazon. Alphabet, Google's parent company, gets two spots in the top 10 (at number five and number seven) as it has two separate listings. Broadcom, the semi-conductor firm, is at number six, Mark Zuckerberg's Meta is at number eight, followed by Tesla at number nine. J.P. Morgan Chase & Co, at number 10,

stands out as the only financial services company at the top of the list.

### Unavoidable assets

For UK pension funds, exposure to American equities is quite simply inevitable, says Isio chief investment officer, Barry Jones: "The US stock market *[and economy]* represents such a large proportion of global markets and *[the global economy]* that it is simply too big to ignore. As a result, any UK pension scheme with a meaningful allocation to equities will, by definition, have material exposure to US equities." Jones continues: "In terms of positioning, most investors have historically followed a market capitalisation-weighted approach. As the US market has outperformed other regions, its weight in global benchmarks has naturally increased."

Different approaches to equity investment in general, and therefore US equity exposure, exist within different types of pension scheme. Jones explains: "In UK private sector defined benefit (DB) schemes, equity allocations have

reduced significantly over time as schemes have de-risked and moved towards liability-matching assets. As a consequence, while US exposure may exist in a small allocation, it is less central to overall portfolio risk and governance discussions," he says. "By contrast, the largest concentrations of equity exposure sit within Local Government Pension Schemes (LGPS) and UK defined contribution (DC) arrangements, where growth-orientated strategies mean equities, particularly global equities, remain a key return driver." Indeed, according to the Pensions Policy Institute (PPI), private sector DB schemes hold 12.4 per cent of their portfolios in equities, compared with 69.3 per cent in bonds. Public sector DB schemes, on the other hand, have 22.7 per cent in equities. And in workplace DC schemes, more than half (54.4 per cent) is held in equities.

### Tariffs and trade

While US stocks continue to play an important role in UK pension schemes'

strategies, things have been changing recently. L&G co-head of asset allocation and head of macro, Chris Jeffery, says that the Stateside markets have a lot to offer for a variety of reasons.

“In terms of what investors in the UK seek from them, US equities offer an appealing diversification from the UK home market of faster growing, AI exposed companies, in contrast to the lower multiple, old economy companies which dominate the UK market,” he says.

However, he adds, there have been shifts in focus in recent times: “Over the past year, UK investors have slightly reduced their US equity holdings, pivoting instead into emerging markets, and beyond equities, money market funds.”

The reasons for this shift are multiple and varied, and include the tariffs imposed last year by the Trump administration.

Indeed, research carried out among institutional investors around the world by the asset management firm Nuveen, and published in February this year, showed that some 91 per cent of respondents had made portfolio changes due to trade, tariff and geopolitical issues in 2025. More than a third of those investors who reallocated capital by region increased their exposure to Europe.

Commenting on the report, Nuveen global head of institutional distribution, Harriet Steel, said: “Institutional investors are navigating a pivotal moment shaped by three transformative megatrends: the AI revolution, the energy transition, and the forces of deglobalisation.” She added: “These aren’t just abstract concepts; they’re driving concrete portfolio decisions. We’re seeing institutions invest heavily in AI infrastructure and energy production, recalibrate regional exposures in response to trade disruptions, and significantly expand their private market allocations. The common thread is that investors are moving decisively to position portfolios for a new investment landscape.”

While the research showed that three-quarters of respondents said 2025 had brought “more upside than downside to portfolios,” 4 per cent said that they thought US tariff and trade actions would have “long-lasting repercussions on investment strategy” and almost half (48 per cent) said they expect that the long-standing capital market dominance of the US will decline over the next decade.

**“The US will remain a core component of pension portfolios long-term growth strategies. Its equity and bond markets are simply too large and too influential to avoid”**

**Blowing bubbles**

The American market is big, but it’s also volatile. What’s more, to return to those top 10 MSCI World stocks, its biggest names are very much concentrated in a small number of sectors, namely technology, communications and discretionary consumer, raising concerns that investors could get caught up in the fall-out should a potential bubble burst.

Indeed, says Jones, a high level of exposure to US has “two related challenges for investors”.

“First, the overall level of US exposure, and second, the concentration risk within that exposure, particularly the dominance of the so-called ‘magnificent seven’ stocks,” he explains.

Some of the larger geopolitical events, such as the conflict in Iran, have had a relatively low impact on US markets, Jones argues: “On geopolitics, including the situation involving Iran, markets have so far remained resilient. US equities continue to reach new highs. That appears to reflect either a degree of ‘fear of missing out’ keeping investors engaged, or a market view that

current geopolitical tensions are unlikely to have a lasting impact on corporate profitability,” he says.

But, says Jeffery, data from the first quarter of 2026 suggested that there was a continuing trend in reduction of US exposure which, he says, was “predicated on concern around returns on heavy artificial intelligence (AI) investment, and disruption of the software sector by AI.”

Jeffery adds: “Over the past year, it is the emerging markets (EM) [sector] that has filled this gap in terms of net fund flows, offering high tech exposure and market leading companies (particularly in Taiwan and Korea) at lower multiples than on offer in the US.” However, he says: “More recent performance suggests there has been an enthusiastic re-embracing of US tech stocks through April and into May, though the data covering this period isn’t out yet.”

**Balancing act**

“Global equity investors have tried, over the last year or so, to pursue greater global diversification,” says Jeffery. “That drove some outperformance of European, Japanese and EM assets through the third and fourth quarters of 2025, but there’s no escaping from the profit and economic outperformance delivered by the US over the past three months. This has served to undermine the performance of some of these diversification trades.”

Simply put, it’s about that main character energy. Jones says: “Overall, the conclusion is clear: The US will remain a core component of pension portfolios long-term growth strategies. Its equity and bond markets are simply too large and too influential to avoid.

“The key question for investors is not whether to be exposed to the US, but how best to manage that exposure, balancing opportunity with concentration and geopolitical risks.”

**Written by Sandra Haurant, a freelance journalist**