

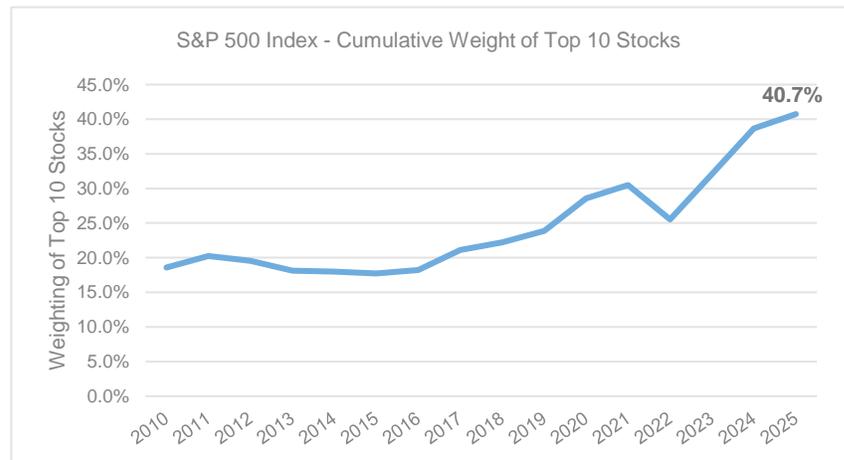
A Look at Global Equity Markets: Changes Aren't Permanent, but Change Is

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As we enter 2026, I'm reminded of a lyric from the song "Tom Sawyer" performed by the classic rock band Rush: "Changes aren't permanent, but change is." This lyric stands out because it captures something many of us experience regularly: the fact that while changes are oftentimes temporary, change itself is a constant factor in our lives. The investment market environment is a testament to this idea that change is really the only constant. While specific trends, cycles or disruptions may seem significant in the moment, they may ultimately be transient. What endures is the certainty of ongoing change. Looking back at the global equity markets in 2025, even though some trends we've seen for a few years continued, some interesting new changes took place.

At a broad level, US equity markets provided another year of strong performance in 2025. As measured by the S&P 500 index, the market returned 17.9% (on a total return basis), the third consecutive year of double-digit returns (over the last seven years, the index has produced six double-digit annual returns, ranging from 17.9% to 31.5%). Calendar year 2025 was marked by volatility (think back to "Liberation Day" and the corresponding market behavior) in the first quarter, followed a strong rally for the rest of the year driven by the easing of tariff tensions and the Fed reducing interest rates. While there was some dispersion between various market segments in the US in 2025, two themes were very similar to prior years: market concentration continued to increase, and tech domination drove a significant portion of the returns in the S&P 500. As the chart¹ above indicates, equity market concentration increased again this past year, with approximately 41% of the S&P 500 Index comprised of the top 10 names at year-



end². From a return contribution perspective, the US stock market continued to be dominated by a few names, as indicated in the accompanying table, similar to what we have seen over the last five years, over which the average return contribution of the top 10 names was approximately 52%³. A key question on some investors' minds is whether these stocks (and the corresponding AI

	2021	2022	2023	2024	2025
S&P 500 Total Return	28.7%	-18.1%	26.3%	25.0%	17.9%
Top 10 Weighted Stocks					
- Contribution to S&P 500 Return	33.3%	58.3%	49.6%	63.5%	53.1%

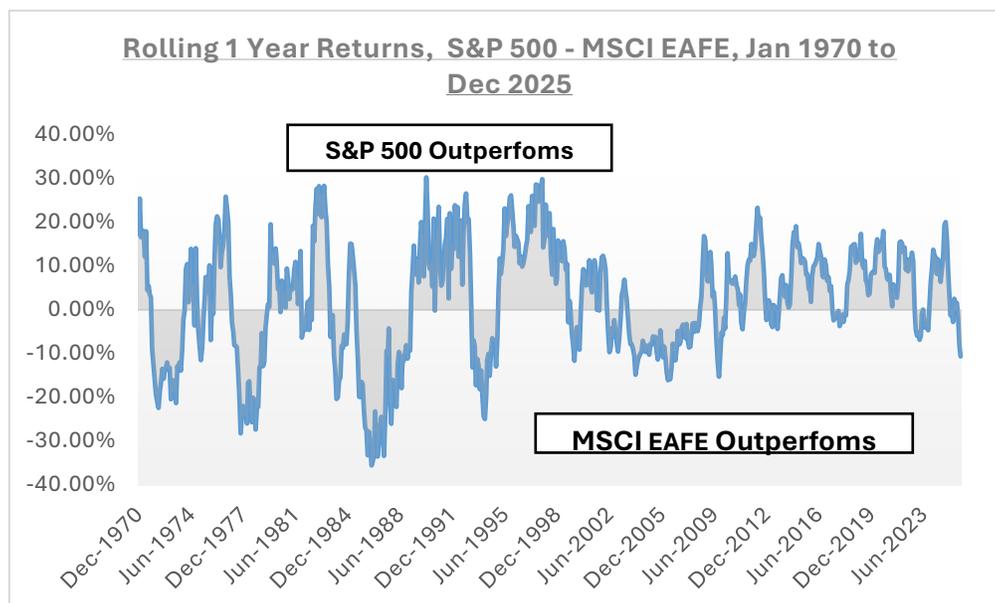
¹ Source: FactSet.

² As measured by market capitalization

³ Source: Gallagher, FactSet.

theme trades) will continue to dominate, or will we see a rotation⁴ out of these stocks into other names/sectors. Taking this a step further begs the question of whether active management within US equities may be primed to outperform if (when?) the market concentration begins to turn. One permanent change investors believe today may be that the days of active management outperforming are over and indexing is the only game in town. While some of the recent data may suggest that notion (calendar year 2025 was a difficult year for active management across the board), we caution investors to be mindful that these changes may not indeed be permanent. As we look ahead, we believe investors should evaluate their US equity portfolios and understand the current risks and the potential benefits of diversification if we see a rotation out of the dominant names/sectors that have driven the market over the last few years.

For investors who had come to rely on US market leadership, 2025 served as a clear reminder that market dominance is never guaranteed indefinitely. After more than a decade of underperforming US stocks, international stocks staged a dramatic reversal. In calendar year 2025, the MSCI ACWI ex US index (a broad index representing foreign stocks in both developed and emerging markets) produced a local currency return of 24.4% and a US dollar return of 32.4%, both outpacing the S&P 500. Breaking it down a bit further, the MSCI EAFE (developed markets only) produced a return of 31.2% while the MSCI Emerging Markets returned 33.6% (both in US dollar terms). Some of the key drivers of the strong returns overseas last year included fiscal expansion in Europe, central bank easing, a strong rebound in China, weakness of the US dollar and easing trade tensions. This type of strong year for international equity relative to the US markets has not been the case over recent time periods. In fact, this was the first year since 2017 that both the MSCI EAFE and MSCI Emerging Market indices outpaced the S&P 500. Over the last fifteen calendar years, the MSCI EAFE only outpaced the S&P 500 in four calendar years (27% of the time) while the MSCI Emerging Market outperformed in three calendar years (20% of the time). Going back further in time, you can see an interesting pattern between developed international markets and US equity markets in the chart ⁵, which



illustrates the rolling one-year excess return of the US equity market (S&P 500) versus the international developed markets (MSCI EAFE). Prior to the time of the Global Financial Crisis (GFC), it was approximately 50/50 between the US market and the international developed markets (i.e. 50% of the time of the US Markets outperform and vice versa). After the Global Financial Crisis this changed significantly, where approximately 75% of the time the US market

outperformed the international developed markets on a rolling one-year period. There are a multitude of reasons for this, including the rise of US technology companies, higher amounts of stimulus following the GFC in the US versus

⁴ As we start 2026, we do see improving breadth, with leadership expanding beyond mega-cap technology names.

⁵ Source: Gallagher and eVestment.

Europe, the relatively quick recovery of the US economy relative to the other developed countries following the GFC, etc. While it is impossible to predict which market will outperform on a yearly basis, investors may want to be cautious to extrapolate into the future any trends (current or past). The global equity markets are constantly changing and risks (valuations, geopolitical, tariff implications, market concentration, etc.) are apparent in both US and international equity markets. As investors review their equity exposures, we maintain that the international markets offer diversification benefits and potential return enhancements over time.

As we look ahead to 2026 and beyond, there are many factors that may impact not only the global equity markets but the broader financial markets (fixed income, private equity, private debt, real estate, etc.) in general. Markets have benefited from a resilient economy and strong corporate earnings growth along with recent interest rate cuts and the potential for further cuts in 2026. In addition, markets have also benefited from a “risk on” psychology of investors, which is a potential concern in the sense that if investors’ psychology changes (i.e., transitions to a risk-off environment), asset prices may be subject to increased volatility on the downside.

With this as a backdrop, here are areas to watch as we move forward:

- **US Stock Market Concentration** – As previously noted, concentration levels in US stock markets are at record levels. Investors should consider potential implications for both equity and total portfolio performance should the AI-driven trade reverse. While discussions often focus on equities, investors should also assess exposure across other asset classes, such as fixed income, infrastructure and private equity, that may also be influenced by AI-themed trades.
- **Impact of Tariff Policies on US and International Markets** – The year 2025 was marked by significant fluctuations in US tariff policy. Initially, “Liberation Day” led to higher tariffs, many of which were subsequently reduced throughout the year. Similar policy volatility could persist in 2026. Investors are encouraged to maintain a long-term perspective and avoid reacting solely to short-term news developments.
- **Federal Reserve Interest Rate Policy** – The Federal Reserve is expected to play a central role again in 2026. With Chairman Powell’s term concluding, a new appointment⁶ is anticipated to take the helm in May. Market expectations at this time include further rate cuts during 2026. Key considerations will be the influence of these cuts on inflation and if policy will shift towards supporting employment in light of potential labor market weakness. Additionally, the approach of the incoming Chair regarding longer-term interest rates warrants close observation.
- **AI and Unemployment** – AI adoption continues to expand within Corporate America. According to a recent McKinsey study⁷, 88% of respondents report regular AI use in at least one business function, compared to 78% the previous year and 55% in 2023. As integration progresses from experimentation, the effects on US unemployment merit attention. The question remains whether AI will displace existing roles or fundamentally redefine them. Historically, technological advancements have eliminated some positions but generally resulted in new opportunities.
- **Geopolitical Risks** – Current global geopolitical risks are elevated, and most analysts do not anticipate significant calming in 2026. The environment is characterized by increased fragmentation, regional conflicts, heightened competition, and growing uncertainty. While these factors had minimal impact on asset prices in 2025—a somewhat unexpected outcome—their influence moving forward remains an area of concern for asset allocation strategy.

⁶ On January 30, 2026, the President nominated Kevin Warsh to be the next Chairman of the Federal Reserve. This is subject to Senate confirmation.

⁷ Source: McKinsey, “The state of AI in 2025: Agents, innovation, and transformation”, November 2025.

As discussed in the opening paragraph, change remains the one constant that can be anticipated with considerable certainty. A review of global markets suggests that further changes are likely—some may have temporary effects on the market, while others may introduce more lasting, fundamental shifts. Constructing broad, diversified portfolios that are resilient to such fluctuations is crucial in today's environment. While many investors have benefited from robust returns over recent years, largely due to strong performance in US equity markets, it is important not to assume these trends will continue. Market dynamics or dominant trends eventually shift; however, the process of change endures. Implementing effective risk management and maintaining awareness of various risk exposures within your portfolio are integral to establishing a long-term investment strategy aligned with your risk and return objectives. It is essential to remember that although specific changes are not permanent, change itself is always present.

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