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Investing across the world's largest opportunity set

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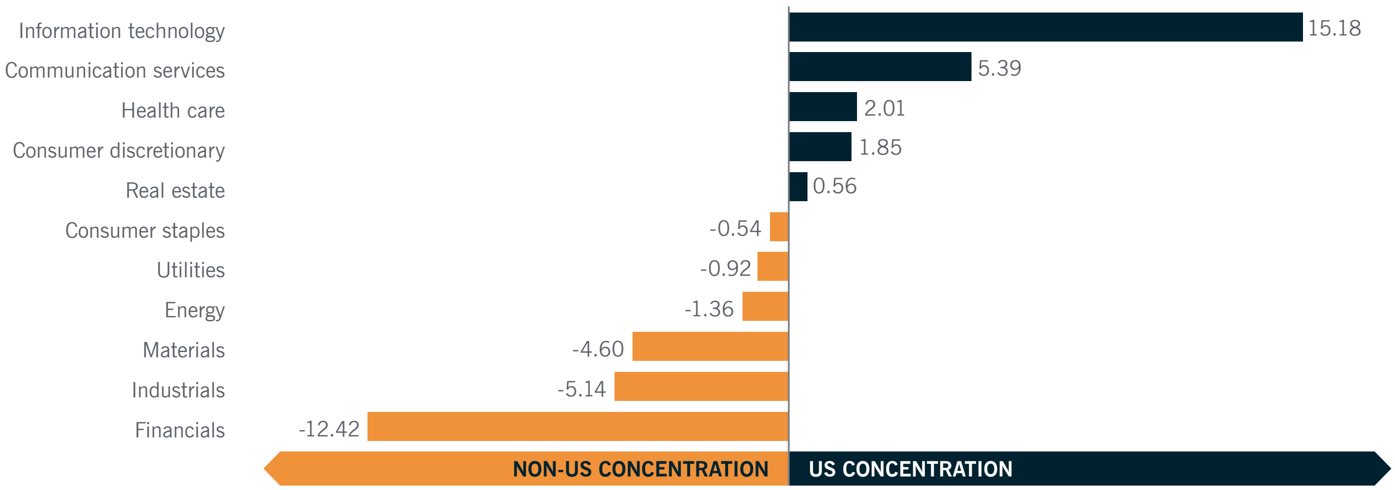
Key takeaways

- **We believe fundamental, bottom-up research allows stock selection to have the greatest impact:** In today's volatile, narrative-driven markets, rigorous company-level research by experienced teams has been a more reliable path to excess returns than attempting to time macro trends or factor rotations, which require being right at both entry and exit points.
- **Regional and sector concentration creates both risk and opportunity:** The U.S. market's heavy reliance on mega-cap tech (the "Mag 7") contrasts sharply with more diversified opportunities abroad, including European value and defense stocks, Japanese governance reform and emerging markets, meaning a truly global, benchmark-aware approach can capture opportunities a U.S.-centric view misses.
- **Discipline and patience matter more than chasing recent winners:** Allocating to recently outperforming managers often leads to disappointing results due to mean reversion, whereas approaches anchored in patient capital over time and stock selection, rather than sector or factor bets, have been better positioned to deliver consistent, risk-adjusted returns over time.

Figure 1: While tech dominates U.S. equities, global equities provide diversification

Sector allocation (%) differences S&P 500 vs MSCI ACWI ex US



Source: FactSet, as of 30 Jun 2026.

Structural shifts in global equities

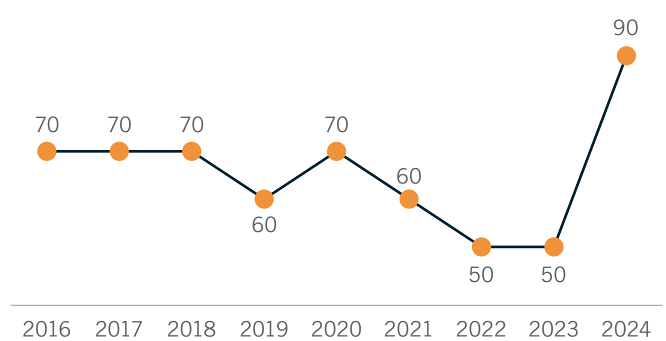
Global equities are a vast opportunity set that spans thousands of companies across developed and emerging markets, diverse sectors and varied market capitalizations (Figure 1). They offer exposure to unique economic drivers, many of which move independently of the U.S. business cycle. Yet despite this expansive universe, many active managers have struggled to deliver consistent outperformance in recent years.

The convergence of market concentration in U.S. mega-cap technology stocks and evolving geopolitical dynamics has created a challenging environment. These structural shifts have exposed weaknesses in traditional global equity investment approaches, leading to underperformance and significant capital reallocation (Figure 2).

In an environment where macro volatility and narrative-driven trading dominate headlines, fundamental, bottom-up stock selection by experienced research teams has become an increasingly critical path toward generating excess return. We believe rigorous company-level research, rather than macro timing or factor rotation, is more likely to uncover the most compelling ideas among the world's largest opportunity set.

Figure 2: Changing investor behavior in challenging market environments

Leadership turnover rate (% of top 10 changing)



Source: eVestment, as of 31 Mar 2026. The chart above represents the percentage of top 10 net flow strategies that have turned over year over year from the eVestment Global Large Cap Core category.

> "We believe rigorous company-level research, rather than macro timing or factor rotation, is more likely to uncover the most compelling ideas."

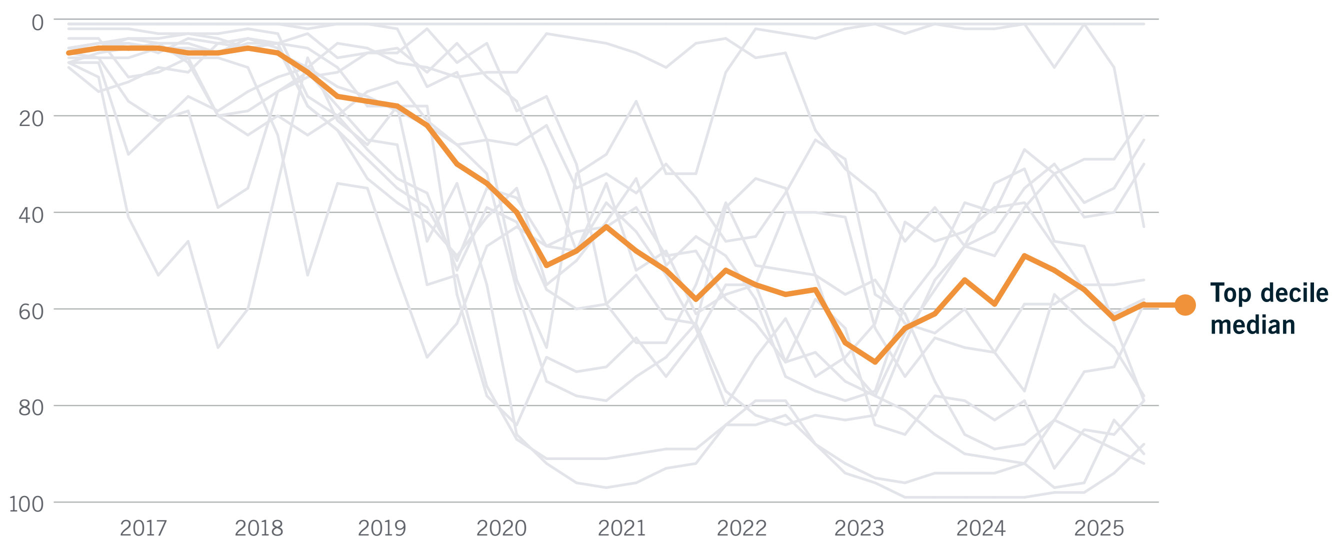
Unsustainable levels of outperformance

Over the past decade, some investors may have allocated capital to managers who had recently outperformed. Seeking to replicate favorable investment results in this way is understandable, but it can produce suboptimal long-term outcomes, as strategies that succeeded in one economic or market regime may struggle when conditions change (Figure 3). Institutional allocators drawn to these high-performing managers could be accepting substantial return volatility and the strong possibility of mean reversion in future performance. Academic studies have consistently documented this behavior, with Berk and van Binsbergen (2015) reinforcing research findings that investors systematically direct capital to recent winners despite caveats about past performance.[1]

Today's varied economic conditions provide ample opportunities for generating risk-adjusted returns, particularly for managers with extensive global resources. Given that correlations and returns change over time, actively managed approaches appear particularly well-positioned.

Figure 3: Top decile strategies struggle to maintain performance edge

Mean reversion of the top decile performers from a decade ago



5-Year rolling returns, monthly, 2017-2025; eVestment Global Large Cap Core Equity category

As of 28 Feb 2017. Top 10th percentile strategies that are still investible (14 distinct strategies ranked 1st through 10th).

eVestment Alliance, LLC and its affiliated entities(collectively "Nasdaq eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, Nasdaq eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on Nasdaq eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. All categories not necessarily included, Totals may not equal 100%.

The evolving risks of regional concentration

United States

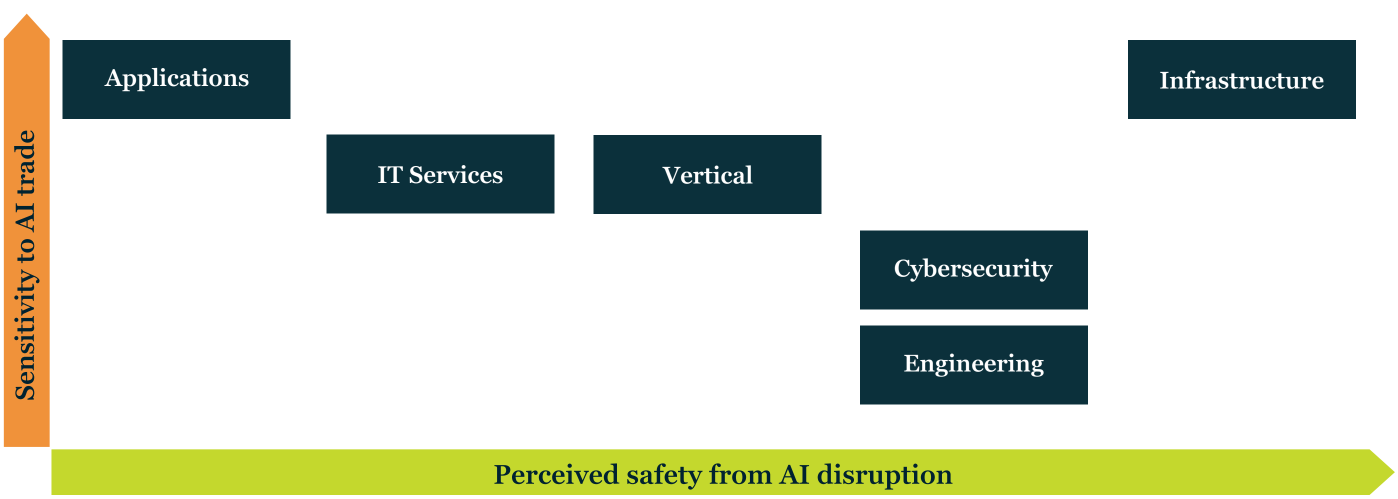
The U.S. equity market has fundamentally transformed and is now dominated by technology, with seven mega cap companies accounting for a disproportionate share of incremental earnings growth over the past decade. In 2024, the Mag 7 contributed 52% of the S&P 500 Index's total net earnings growth, while in 2023, S&P 500 earnings growth would have been negative without their contribution.[2] The artificial intelligence (AI) revolution is a powerful secular trend with the potential to reshape productivity across industries. That said, outperformance and AI capital expenditure levels raise valid concerns about valuations and competitive sustainability. Navigating the AI trade requires distinguishing long-term beneficiaries of the technology from companies that are riding temporary momentum. Timing entry and exit points in and from tech stocks is extremely difficult in this environment.

Recent concerns brought on by the software sector's volatility do not justify a "sell all software" ("SaaS-pocalypse") moment, in our view. Rather, we see the potential for active managers to identify and select software companies with durable strengths such as deep customer integration, unique data and pricing alignment compared with those more vulnerable to displacement by faster, AI-driven alternatives (Figure 4).

Market focus has started to shift toward companies with perceived imperviousness to the threat of being rendered obsolete. The heavy assets, low obsolescence (HALO) framework identifies capital-intensive businesses with proprietary, hard-to-replicate competitive advantages, such as power grids, baseload generation, cooling systems and related infrastructure, that serve as the physical foundation of AI. These assets provide defensive barriers and offer durable value, typically with extremely high replacement costs and inelastic demand, all of which create a structural hedge to AI's growing ubiquity as critical aspects of the global economy remain anchored to the physical world.

A global perspective enhances the HALO theme. While U.S. infrastructure is often privately held or municipally owned, non-U.S. markets tend to offer a deep investible universe of airports, toll roads, utilities and midstream pipelines where AI-driven energy demand has yet to be fully priced in. In Canada, Europe and Asia, many of these assets carry embedded growth potential via redevelopment and expansion opportunities at far more attractive entry points than their U.S. counterparts. This allows investors to not only own the theme but also to time the investment cycle advantageously.

Figure 4: Identifying AI disruption's winners and losers across subsectors



The views expressed here are those of Nuveen's research analysts as of April 2026 and are subject to change based on market and other conditions. The exhibit represents a qualitative, forward-looking framework developed by Nuveen's research analysts to assess the relative sensitivity of technology subsectors to artificial intelligence disruption. The positioning of sectors within this matrix reflects subjective judgment and is not based on a specific quantitative methodology or index. Sector classifications and perceived risk levels may change over time and actual outcomes may differ materially from those depicted. **Past performance does not predict or guarantee future results.** AI-related market developments are evolving rapidly, and the competitive dynamics described herein may shift in ways that are difficult to predict.

Non-U.S. developed markets

Compelling stock-picking opportunities exist across non-U.S. developed markets, where value and cyclical exposures offer a striking contrast to U.S. mega cap technology and may have particular appeal at economic inflection points. While growth stocks have dominated in the U.S. post-COVID punctuated by sharp rotations in mid-2024, early 2025 and Q1 2026, value has consistently outperformed outside the U.S. (Figure 5). This bifurcation creates fertile ground for active managers. It also suggests that a flexible, core or blended approach is better-suited than any single stylistic conviction for managing against a global benchmark.

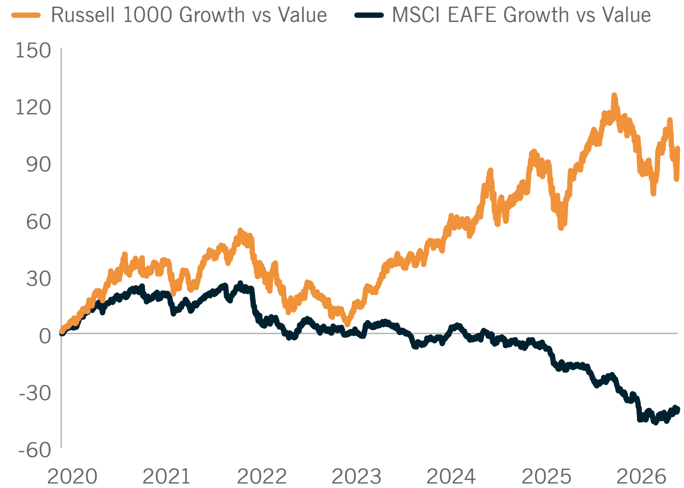
In Europe, companies that we deem best-in-class offer attractive valuations relative to U.S. peers, despite comparable or superior business quality in many instances. European banks, for example, rallied in 2025, supported by robust capital bases, healthy margins, steep yield curves and financing demand tied to AI-related capital expenditure. These catalysts that may not yet be fully priced in. European defense is another area of structural opportunity. Following decades of underinvestment, the industry is transitioning into a multiyear rearmament cycle, with ground combat manufacturers reporting record backlogs and aerospace contractors positioned as critical capability providers.

In Japan, corporate governance reform is creating a multiyear tailwind. Pressure from activist investors has prompted companies to unwind cross-shareholdings, resulting in accelerated share buybacks and improved shareholder returns. Prime Minister Sanae Takaichi's infrastructure investment agenda, combined with the government's proactive energy subsidy measures, also supports the investment case, along with the weaker yen, which provides an additional earnings tailwind for export-oriented companies. The country's resilience in the face of higher energy prices further reinforces the long-term thesis for Japanese equities.

Emerging markets

Emerging market (EM) equities remain structurally under-allocated in institutional multi-asset portfolios and public pension plans. Within this cohort, target allocations to EM average around 5% (per eVestment data), materially below EM's ~11% weight in the MSCI All-Country World Index (ACWI) benchmark, suggesting many plans treat EM as a satellite allocation rather than a core/full benchmark-matching position. In our view, EM continues to warrant a near full allocation not for performance chasing, but rather for diversification benefits and long-term demographic advantages. A central question governing the EM outlook is the trajectory of U.S.-China relations, though strategic positioning across semiconductors, power infrastructure and commodities may allow investors to benefit regardless of how that dynamic unfolds.

Figure 5: Style dynamic has behaved differently in the U.S. vs rest of the developed world



Source: FactSet, as of 30 Jun 2026.

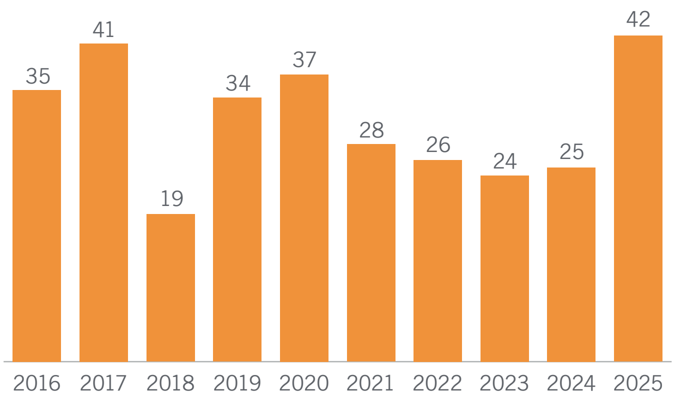
For China, 2026 marks the beginning of its latest five-year economic plan with a particular emphasis on technology through the AI Plus initiative. This national strategy, launched by China's State Council, aims to embed artificial intelligence deeply across all areas of the economy, government and society. Elsewhere, we see distinct, idiosyncratic stock selection opportunities amid India's consumer-friendly fiscal policy and AI investment agenda, South Korea's improving corporate governance and Brazil's delicate balance of favorable monetary policy and geopolitical pressures. Forward-looking earnings growth for EM companies has risen meaningfully in recent months, driven in part by Samsung and SK Hynix in South Korea, underscoring the region's potential.

Maintaining a global perspective

Given common perceptions about the relative performance of U.S. and non-U.S. equity markets, some investors may be surprised to learn that 42 of the world's 50 top-performing stocks in 2025 were domiciled outside the U.S. (Figure 6). Moreover, this was not a one-off occurrence but part of a broadly consistent pattern for the MSCI ACWI over the past decade, demonstrating the value of a global approach.

Figure 6: Best performing stocks aren't found in the U.S.

Of the 50 top MSCI ACWI performers, number outside the U.S. (2016 – 2025)



Source: Factset as of 31 Dec 2025, smallest two quintiles of market cap excluded each year

Approaches to global equity investing

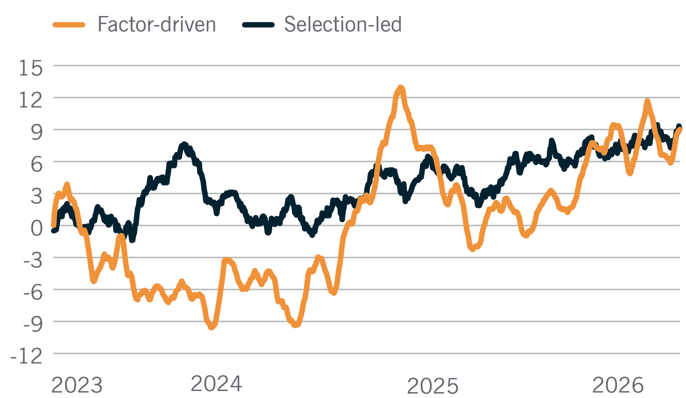
There is no one-size-fits-all approach to managing global equities. In fact, many investors often employ a variety of approaches in an effort to generate uncorrelated sources of returns for their clients. As passive strategies captured market share over the past decade, many active managers shifted toward making macro calls or timing factor exposures. While such approaches may succeed in specific periods, they lack consistency and repeatability (Figure 3). Market timing requires being correct twice, at both the entry and exit point, while factor timing depends on predicting changes in market regimes that even sophisticated quantitative models struggle to forecast reliably. In our view, the most consistent performance experience for investors comes from aiming to generate the majority of excess return via stock selection instead of factor exposures or sector/country allocations. Stock selection is not only the most repeatable alpha signal, but focusing on it can also help minimize unintended risk factors.

To demonstrate this, we compared two simple hypothetical portfolios (Figure 7). Both target the same amount of outperformance (+3%) over their benchmark and take the same amount of active risk (5%) as measured by tracking error (TE). All else being equal, the only difference between the two is the source of portfolio risk. The "Factor-Driven" portfolio focuses on a handful of sizable, top-down positioning calls, tilting toward a style (such as value or growth), a sector or a region. These bets often have staying power: when they're right, they're right for months; when they're wrong, they're wrong for months. In contrast, the "Selection-Led" portfolio generates its active risk via multiple independent stock picks. No single position dominates, and each one performs based on its own drivers, such as company earnings, a product launch, a management change. Because the positions are less correlated than those in the Factor-Driven portfolio, good and bad surprises tend to offset one another over time.

Across 500 simulations, the two hypothetical portfolios produced nearly identical headline statistics with the same or similar expected outperformance, risk level and risk-adjusted returns. But a critical disparity manifests in the worst-case drawdowns: the Factor-Driven portfolio's largest shortfall was roughly three times the size of the Selection-Led portfolio's. Ultimately, this focus on stock selection affords greater consistency of outcomes and underlies the sector-neutral and bottom-up fundamental approaches to global equity investing we discuss next.

Figure 7: Same tracking error, very different rides

Composition of active risk (tracking error)



Source: Nuveen, as of 01 Oct 2023 – 30 Jun 2026.

This hypothetical simulation is intended for illustrative and informational purposes only and created solely to illustrate a concept regarding the relationship between tracking error and drawdown experience across different active management styles. It is not based on any actual or model portfolio, and does not use any historical market data. It is not a backtest, a track record, or a forecast of future results. No representation is made that any investment strategy will achieve results similar. **Past performance is no guarantee of future results.**

Multimanager

Many large institutional allocators use a multimanager approach, either by using more than one global manager or by dividing a broad global index into constituent parts (such as U.S. growth and value, non-U.S. developed, small cap, EM and so on) and then allocating those different components to certain managers based on their respective areas of expertise. In this way, investors are tasked with (a) vetting managers to determine their specific sources of risk-adjusted returns and (b) assessing correlations among these varying components within their portfolios.

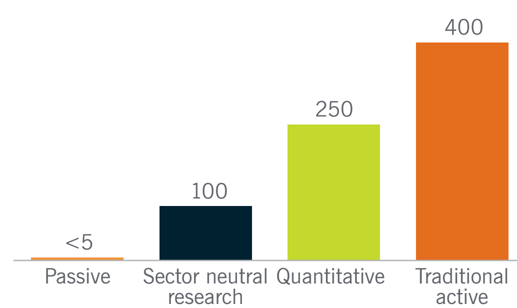
Structuring portfolios that are able to generate risk-adjusted returns via security selection (or underlying manager selection) can help control for external factors such as macro rotations or factor timing. When a majority of predicted active risk (or tracking error) derives from security selection and exposure to other sources of risk is reduced, the resulting portfolio may be less likely to be affected by uncontrollable external factors.

Sector-neutral, fundamental

A sector-neutral global equity framework allocates capital proportionately (based on a market cap-weighted index) to managers or analysts in given areas of expertise, and rebalances on a regular basis. This enables the allocator to isolate stock selection as the primary driver of excess returns. This is because all sector active weights, and for the most part all country weights, are essentially neutralized due to the sector-neutral methodology of the allocation framework.

These portfolios sit between passive and quantitative approaches based on levels of active risk in the range of 75 – 125 basis points (bps), compared to passive strategies at 0 bps and quantitative at 200 – 300 bps (Figure 8).

Figure 8: Investment discipline spectrum of active risk



	Passive	Sector neutral research	Quantitative	Traditional active
Tracking error range (bps)	0 – 5	75 – 125	200 – 300	300 – 500
Excess return target (bps)	—	40 – 60	100 – 150	150 – 250
Information ratio target	—	0.50	0.50	0.50

Source: Nuveen Global Equities. Excess return target shown above is gross of fees.

Bottom-up, fundamental

With an emphasis on stock selection as the primary source of risk-adjusted returns, a robust, fundamental research approach acknowledges that while macro factors and sector trends matter, long-term portfolio performance is ultimately determined by stock-specific returns driven by company fundamentals, competitive positioning, management quality and valuation.

A structural advantage supporting this approach is patient capital. By investing on an 18-month to five-year horizon, managers may be better able to avoid short-term performance pressures, such as quarterly return expectations, which can lead to suboptimal decisions if overly focused on generating excess return quickly. Understanding that stock prices can reflect company fundamentals means managers can maintain conviction even during periods of temporary volatility. Cremers and Pareek (2016) empirically demonstrate that patient capital and longer holding periods are associated with superior fund performance, particularly when combined with high active share.[3]

Moderate levels of sector-level positioning further illustrate how fundamental research creates value. Rather than making large sector bets that introduce unintended factor exposures, the goal is to identify superior companies within each sector or industry, thereby allowing stock selection, not sector timing, to drive performance.

Limitations and risks

Markets continually adapt, and specific strategies may prove more or less effective as conditions shift. The current environment, while challenging for market timers and top-down allocators, could evolve in ways that favor different approaches. Increased market efficiency, driven by technological advancement and information commoditization, could gradually erode the advantages of fundamental analysis in certain market segments, particularly large cap U.S. equities, where analyst coverage is most dense.

Conclusion

The changing global landscape, shaped by AI disruption, geopolitical realignment, European rearmament, Japanese corporate governance reform and structural EM demographic changes, demands a rigorous, differentiated approach to portfolio construction. Such an approach calls for deep, bottom-up fundamental research, patient capital and a commitment to generating risk-adjusted returns by anchoring active risk in stock selection rather than factor or sector timing. We believe managers best-positioned to deliver consistent long-term performance are those with the global resources, analytical depth and discipline to stay focused on fundamentals across the full breadth of the opportunity set.

For more information, please visit nuveen.com.

Endnotes

References

1 Berk, J., & van Binsbergen, J. H. (2015). Measuring skill in the mutual fund industry. Journal of Financial Economics, 118(1), 1–20.

2 The "Magnificent 7" refers to seven U.S. technology-focused companies: Microsoft, Apple, Nvidia, Alphabet, Amazon, Meta, and Tesla.

3 Cremers, M., & Pareek, A. (2016). Patient capital outperformance: The investment skill of high active share managers who trade infrequently. Journal of Financial Economics, 122(2), 288-306.

Methodology & Disclosure

Figure 8 is a simplified, hypothetical simulation created solely to illustrate how the composition of active risk, not merely its magnitude, can affect an active manager's return path.

Model setup: both portfolios target the same +3% annualized active return (built in as a constant daily drift) and the same 5% annualized tracking error, over a 756-day (~3-year) horizon.

Factor-Driven portfolio: risk comes from four bets that persist day to day (each day = 0.80 × prior day + a new random shock). This carry-forward creates long swings and deeper, longer drawdowns.

Selection-Led portfolio: risk comes from independent, memoryless daily draws (no carry-forward), so gains and losses tend to cancel out, producing a smoother path.

The summary statistics come from averaging 500 separate simulations, not from the single paths shown on the chart, so the chart and table won't match exactly by design. Also, the two chart lines are forced to end at the same +9% cumulative return (3%/year × 3 years) purely for visual comparison; that shared endpoint is imposed, not a real result of the simulation.

Sources

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