Where to find returns beyond the big technology companies

As valuations stretch and concentration risk rises, investors are exploring new sources of growth across regions, sectors and asset classes.

The dominance of US mega-cap technology stocks has defined the past decade of market performance. Yet as AI investment costs surge and portfolios become increasingly concentrated, many investors are reassessing where the next wave of returns will come from.

Opportunities are emerging across emerging markets, Europe and Japan, as well as in themes such as energy infrastructure, healthcare innovation and private markets.

Ben Smith

Partner and Portfolio Manager,
Cusana Capital

Investment ideas outside US tech – the EM growth engine

The Cusana team have long been admirers of the great online ecosystems epitomised by the Mag 7. What led them to be successful was very powerful network effects, long growth runways, and near-infinite returns on incremental capital invested. Unlike capital-intensive businesses, such as manufacturing or oil production, the **compounding effect of these businesses was immense in driving per-share value.** This is now drawn into question by the eye-watering capex on AI servers. **Incremental returns have plummeted,** at least until AI monetisation dramatically improves from where it is today.

Recent EM equity index performance has been led by low-quality companies with high operational leverage in sectors such as metals and tech hardware. Profits and growth will almost certainly prove unsustainable, leading shares to retrace gains. In short, you risk losing a lot of money due to frothy levels in such stocks. The Korean market is an obvious bubble. Supply will respond to the super-profits on offer where there are no protective moats.

Cusana, in contrast, seeks wide-moat businesses with long runways of growth and superior corporate governance – these are the key drivers of sustained growth in profit per share that we seek from our investments. This is the true EM growth story. These companies can be found across Emerging Markets by the discerning investor, but are only a small portion of the wider market.

Avoiding AI threats, we find these in Chinese healthcare and EV/solar batteries, LatAm fintechs and ASEAN e-commerce, to name a few. It is about identifying great growth companies, not just themes.

The Indian consumer is in a structural bull market – which could last for decades – but has been interrupted by a cyclical slowdown. We now see signs of re-acceleration, and valuations have been meaningfully de-rated from 2024 peaks. Indian stocks are remarkably out of favour with EM Asia investors as AI capex and commodities have sucked away capital.

India has many great growth companies. The upper middle class of c50m has rapid income growth and is ballooning in size, meaning that this market of Western-style consumers is growing at around 15% per annum on a trend basis. The best stock investments range from beverages and travel to select financial services and healthcare to trucking platforms and Bollywood music content. **Sustainable growth rates range from 15% to 30% for the next 5 to 10 years. And they are currently on sale!**

> It is about identifying great growth companies, not just themes.

Filipe Alves

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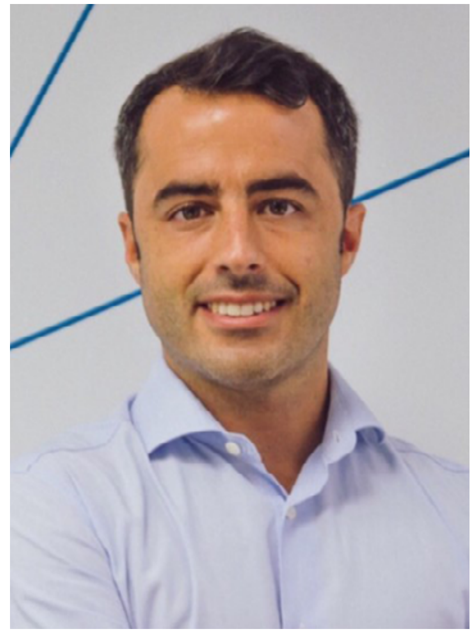

For much of the last decade, "own the winners" effectively meant owning a narrow set of US mega-cap technology franchises. While those businesses remain strategically important, valuations appear rich on certain measures to us. Whilst we view fundamentals as remaining generally attractive, supported by strong earnings growth, any future disappointment around AI could lead to the sector being reevaluated. The tech thematic features in the Mercer's 2026 Themes & Opportunities paper as a part of a broader set of megatrends. The following is a high-level summary on how we view a global asset portfolio broadening its opportunity set and positioning for megatrends.

• AI hyper-acceleration: invest across the stack, not just the headline winners.

The AI opportunity is broadening from applications to infrastructure. In public equities, this points to diversified exposure across the value chain: semiconductors and hardware enablers, cloud and hyperscale platforms, and the software layer that integrates AI models into business workflows. In the real assets and private markets space, the opportunity set is even more tangible: data centers, fibre networks and other digital infrastructure supporting compute and connectivity. **In private markets, we think vintage diversification is critical to help manage valuation risk while maintaining access to earlier-stage innovation beyond mainstream generative AI.**

• Energy tipping points: the opportunity could be in the "middle" of the system.

The economics of renewables continue to improve, but the challenge is increasingly the grid. That shifts the opportunity set from generation alone to the assets that make electrification work: transmission and distribution upgrades, smarter grid management, storage (including large-scale batteries), and distributed solutions such as microgrids and load management. **Public markets can gain exposure through leaders in electrification and grid modernization, and private infrastructure typically offers exposure to contracted cash flows, providing some inflation protection.** In credit, we think there may be opportunity in higher-quality issuers financing essential grid and network investment.

• Resources and resilience: supply chains, critical materials and adaptation become investable.

Decarbonization and digitization are resource-intensive. **Copper stands out as a widely used metal across grids, electrification and electronics, while lithium and other battery inputs remain strategically important amid concentration in processing and geopolitically driven volatility.** Investors can express this via selective listed materials exposure, specialist strategies, or circular-economy leaders involved in recycling and resource efficiency. Resilience is broader than minerals though: water scarcity and physical climate impacts are becoming financially material. In infrastructure and real assets, projects involving water and waste systems, strengthening of critical infrastructure, and capabilities that reduce disruption costs, could be attractive plays.

• Healthcare transformation: precision medicine meets data governance.

Rapidly falling genome sequencing costs and AI-enabled biology are accelerating drug discovery, diagnostics and personalized treatment pathways. **What is less clear is how these forces will play out.** In listed markets, this could favour active selection across small and mid-caps with late-stage clinical assets in underexplored therapeutics and large-caps investing in next-gen therapies (gene editing, cell therapy). In private markets, early-stage biotech and digital health startups with scalable platforms and strong user engagement metrics can offer upside in our opinion.

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This article does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances. Mercer provides recommendations based on the particular client's circumstances, investment objectives and needs. As such, investment results will vary, and actual results may differ materially.

Matteo Calgaro

Financial Advisor,
Poste Italiane

Over the past few years, markets have followed a great bullish momentum thanks to a handful of stocks and, with the aim of passive investing, investors have surfed it almost effortlessly.

Indeed, the rise of index-tracking ETFs has been one of the defining financial trends of the past decade. The appeal is clear: low costs, broad exposure, simplicity. But that simplicity comes with the hidden cost that **index-based investing has quietly concentrated risk in ways many investors have yet to fully reckon with.** Take SWDA, the iShares Core MSCI World ETF: its top ten holdings account for 26,49% and the United States alone represents around 70% of the entire index exposure. That means, investors who buy SWDA believing they are achieving global equity diversification are, in reality, placing two thirds of their capital in a single country and a quarter in the Magnificent Seven tech stocks. A concentration that nowadays might be dangerous to cope with.

The macro backdrop adds further complexity. With the policy choices of the Trump administration creating structural uncertainty, the dollar is said to be no longer the unconditional safe haven it once was (personally I disagree), and international investors are beginning to reposition accordingly.

So where should investors look then?

Starting from the United States itself, **there are concrete opportunities beyond the mega-cap orbit simply taking into account the diversified small and mid cap environment.** For instance, the Russell 2000, which is up about 6% year-to-date in 2026, is trading at a P/E of approximately 18x versus the S&P 500's 29x, a valuation discount with meaningful room for multiple expansion especially if we consider that US economy is resilient and rates are heading down.

But personally, I believe **it is Europe that offers the most compelling risk/return profile today,** with the Euros-toxx 50 that trades at a forward P/E of around 14-15x.

Moreover, there is a powerful and historical catalyst at play. Many Europe's blue chips (banks are a pinnacle example) still operate with deeply rigid and layered internal processes, the legacy of decades of bureaucratic structures. **The adoption of artificial intelligence in these industries is a potentially transformative lever capable of unlocking significant margin and productivity improvements.** Add to this a new wave of fiscal spending on defence and infrastructure, a solid banking sector with clean balance sheets, plus the amplifying effect of a weaker dollar on euro-denominated returns, and the investment case becomes difficult to ignore.

As for China, despite attractive valuations, geopolitical variables are too difficult to price for investors at this stage.

Returning to passive investing, aside from specific market areas, **what I find really strategic in times like this are equal-weight ETFs.** They can be very effective. By distributing weight uniformly across all index constituents, **they structurally reduce mega-cap dominance and embed an automatic contrarian discipline through periodic rebalancing,** systematically selling what has risen and buying what has lagged. **They offer a simple but powerful antidote to concentration risk, without the need to make active bets on individual sectors or geographies.** Infact, I believe excessive selective investment is something financial advisors should always steer clear of.

To summarize, returns in 2026 may not disappear, they may migrate. Diversification must be increased, which does not mean necessary sacrificing performance: it means seeking it where the consensus has not yet arrived.

Oleg Kapinos

Head of Global Distribution Strategy,
Asset Management One

In the words of Mark Carney, the Canadian Prime Minister, the world is experiencing "a rupture, not a transition" – a phrase that has quickly entered the lexicon of portfolio managers and policymakers. **Yet, for all the talk of fragmentation, equity markets have not produced any response of a matching magnitude.** The great rupture, it seems, has not yet made its way into asset prices.

That calmness masks deeper anxieties. Some investors have begun to question the sustainability of lofty valuations in the technology sector, particularly for the firms which invested heavily into AI infrastructure build-up. **The assumption that data centres, computational capacity, and the global supply chains feeding them can continue scaling seamlessly across borders now looks increasingly questionable.** As a result, there are early anecdotal signs of capital rotating out of American equities and into other regions.

Japan stands out as one such destination. There are certain similarities with Europe: just as Germany has embarked on an ambitious defence and infrastructure push, the government of Prime Minister Sanae Takaichi is preparing its own fiscal expansion. Plans include stepped-up spending on defence, as well as strategic industries such as semiconductors and AI. **As geopolitical tensions are reshaping industrial priorities, Japan is finally starting to take bold action.**

For investors, the appeal lies not only in the scale of this spending but in the particular kinds of companies poised to benefit. Unlike in the United States, where AI exposure often means paying eye-watering multiples for the world's largest technology firms, Japan offers what might be called second-order exposure opportunities: businesses that supply the materials and components enabling AI rather than the algorithms themselves. **Non-ferrous metals, optical components and other niche industrials may lack the glamour of the semiconductor titans, but they provide the building blocks for AI's imposing edifice.** They also come with the virtue of less stretched valuations.

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Construction firms provide another angle through which fiscal expansion in Japan could translate into investment returns. The country's shrinking labour force has already placed constraints on the supply of construction services, giving companies solid pricing power. Clients, long conditioned to low inflation, are now forced to accept rising costs, while builders' margins stay healthy. **An increase in defence-related infrastructure spending promises additional demand to an industry already operating near capacity.**

None of these opportunities will dominate headlines or social-media feeds. They lack the scale, brand recognition, and speculative excitement of the global technology giants. But in an era defined by rupture, these investment opportunities may prove to be more durable. Japan's overlooked industries offer something rare in today's markets: exposure to powerful structural trends without requiring a leap of faith on valuation.

Rishma Moennasing

Lead Investment Funds & Mandates,
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The major US big tech companies are facing pressure, partly due to concerns about massive short-term capital investments and high valuations. Where are big investors moving to. There are several trends that I noticed when discussing this topic with fund managers.

- **Europe** – Big inflows moved to European stocks now that the EU has realised that they have to become less dependent of the US and other international markets and should invest more in European strategic industries. European stocks indexes outperformed the US stock markets (S&P 500) year to date.
- With current geopolitical situation important **strategic industries** also for Europe are Safety and security companies. Defence companies have performed very well and the expectation is that positive sentiment might continue now more European companies have to realise the Nato minimum for investing in defence. Companies like Rheinmetall has benefited from this but also a company like Indra Sistemas, providing (IT) advise services to defence industry more than doubled last year.
- **Energy transition and the grid,** infrastructure for energy and data, is an important and necessary topic. With the growth AI investing and being more and more imbedded in companies these more infrastructure (grid networks) is needed but also companies that increase the generation of sustainable energy are interesting , like Arrays. They provide technologies for solar parks to increase the power generation. Or Schneider building the energy infrastructure.
- And big tech is facing pressure but this is **also an opportunity** because some high quality companies may have been unnecessarily penalized. For example software producers were down because the AI disruption might harm there returns. But some high quality companies for example SAP and RELX have integrated AI in there business models and use AI for theirs services. But these nuances are not seen in a major selloff. So be selective and current environment is a good opportunity for stock pickers.
- And trends that is interesting for long term is **health and wellbeing.** The whole value chain has opportunities like companies being active in prevention and diagnostics. Pharmaceuticals of important drugs like for weight reduction, cancer and Alzheimer. Healthy food with more proteins, less sugar and salt. Sport and active wear including technical gadgets do benefit from this trend. But also, relaxation is important for some that is with streaming services like Netflix, Disney, or Amazon Prime.

And lastly, I recommend to select a broad fund or ETF investing in these trends and (sub)themes to reduce the company specific risk.

Yohann Derbyshire

Head of Investments,
Carat Capital

For the past decade, a handful of mega-cap technology stocks dominated investor portfolios — and for good reason. But as concentration risk grows, the question every advisor should be asking is: where do returns come from next?

The answer must be diversification. **This is not a call to abandon the big technology companies — we continue to see long-term value in many of these names.** Rather, it is a recognition that the most resilient portfolios are those that look beyond a single theme, however compelling, and capture opportunities across a broader investment universe.

Artificial Intelligence is no longer a tech-only story

The most important shift in today's market is that **artificial intelligence is no longer confined to the companies that build it.** AI is now being deployed across healthcare, energy, logistics, and financial services — transforming industries that have historically traded at modest multiples. Semiconductor manufacturers in Asia, industrial automation firms in Europe, and data infrastructure providers across emerging markets are all absorbing AI's productivity gains. Investors who restrict their AI exposure to a short list of US technology names are, in effect, buying the headline while missing much of the story.

Gold: Hedge and Growth story in one

Gold has reasserted itself not merely as a defensive asset but as a genuine performer. Structurally, the case is compelling: central bank purchases — particularly from emerging market institutions diversifying away from dollar reserves — have provided a durable demand floor. **At the same time, real yields remain historically uncertain, geopolitical fragmentation continues to intensify, and fiscal deficits in major economies show no sign of narrowing.** These are not transient tailwinds. For portfolios overweight in growth equities, gold offers an uncorrelated return stream that has proven its ability to appreciate in both risk-off and inflationary environments.

Investment-Grade Bonds: Stability with purpose

Investment-grade fixed income will not replicate technology equity returns, nor should it try. What it offers is something increasingly valuable: predictable income, capital preservation, and genuine diversification against equity drawdowns. **With yields at levels not seen in over fifteen years, the opportunity cost of holding quality bonds has materially declined.** A well-structured allocation to corporate investment-grade debt can anchor portfolio volatility without sacrificing meaningful return potential — a trade-off that looks considerably more attractive today than it did in the zero-rate era.

Illiquid Markets: The premium worth earning

Private debt and infrastructure deserve a larger share of institutional and sophisticated investor allocations. These asset classes offer an illiquidity premium — a structural compensation for capital that cannot be redeemed on demand. Private credit, in particular, has stepped into lending gaps left by retreating banks, offering floating-rate exposure with strong covenant protections. Infrastructure, meanwhile, provides inflation-linked cash flows tied to essential assets: toll roads, renewable energy, digital networks, and utilities. Both categories are relatively insulated from public market volatility and contribute meaningful diversification to traditional stock-and-bond portfolios.

The concentration of the past cycle need not define the next. We still believe in the long-term potential of the world's leading technology companies — but the strongest portfolios will be those that complement that conviction with broader diversification. Returns are out there; they simply require looking further afield.

Where in the World Are Your Returns Coming From?

Rob Hinchliffe, CFA
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The Limits of Traditional Geographic Labels

A common question from investors is deceptively simple: where do you invest? The expectation is often a straightforward geographic answer—US, Europe or emerging markets. Yet focusing only on where companies are listed can obscure where economic value is actually being created. In global equity investing, geography, like sector classification, can be misleading.

Why Revenue Exposure Matters More Than Domicile

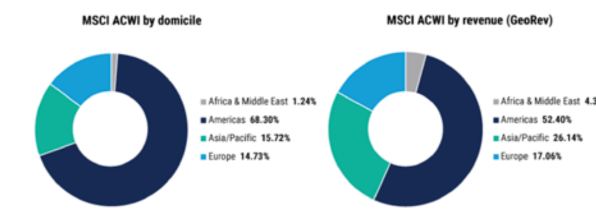
At PineBridge, we believe that where a company earns its revenues matters more than where it is headquartered. A firm may be listed in the UK, but if its sales are generated primarily in Asia or the US, its long-term returns will be driven by those end markets—not by domestic economic conditions. While short-term sentiment may move share prices in line with local indices, over time returns tend to converge on the true sources of growth and earnings.

This distinction has become increasingly important as market concentration has risen. By domicile, the US represents close to two thirds of the MSCI ACWI index, with the largest seven companies accounting for a significant share of overall market capitalisation. This level of concentration leaves many investors feeling exposed, particularly after years of US equity outperformance and dollar strength.

A Different Picture Through the Revenue Lens

However, when global equity exposure is analysed through the lens of revenues rather than listings, a very different picture emerges. The US share of exposure falls meaningfully when measured by where companies actually sell their products and services. At the same time, emerging markets—which appear modest when viewed by market capitalisation—play a far larger role in driving global revenues. In other words, a substantial proportion of returns generated by developed market listed companies are ultimately linked to demand in emerging economies.

Where the Money Is:
How We Look at Geographical Exposures



Source: FactSet Geographic Revenue (GeoRev) data as of 29 August 2025. For illustrative purposes only.

Implications for Portfolio Diversification

This "revenue view" of the world helps investors see through headline risks and regional labels. It also explains why an apparently US heavy portfolio may in practice be more globally diversified—or, conversely, why some allocations may be more concentrated than expected. What matters is not the flag on the balance sheet, but the underlying drivers of company earnings.

Understanding geographic exposure at the revenue level can also support better diversification decisions. Investors may gain access to growth in faster expanding economies without taking on the governance, liquidity or regulatory risks sometimes associated with local listings. Equally, it can reveal hidden concentrations that may not be obvious from traditional benchmarks.

Looking Beyond the Map

Ultimately, by looking beyond where companies are listed to where their revenues are earned, investors gain a clearer picture of what is truly driving returns—and where future opportunities may lie. For more information, see How PineBridge Uncovers Global Equity Alpha Differently.

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