QUANTITATIVE INVESTING

Rethinking US exceptionalism: A case for diversification

ROBECO
The Investment Engineers

- US exceptionalism is no longer a given
- Broad, attractively valued opportunity set is hiding in plain sight
- Combining diversification with alpha generation can aid portfolio resilience

For years, a dominant theme has been rewarded: back the US, and tune out the rest. For some investors, that positioning wasn't a deliberate choice — it crept in gradually, and it worked. But as that narrative faces a real test, the assumptions that could be embedded in many portfolios deserve a closer look. In this piece, we explore what's driving the shift away from US dominance, where the overlooked opportunities lie, and why a disciplined, systematic approach to diversification may be an important portfolio decision investors can make right now.

In hindsight, global investing felt almost simple for much of the past 15 years. Overweight US equities, particularly large-cap growth, and you were rewarded. Look elsewhere, and performance typically suffered. While some investors might not have consciously chosen a concentration in the US, it crept in gradually, driven by relative returns, benchmark evolution, and the quiet compounding effect of flows toward whatever was working.

Today, this positioning deserves a fresh look. This isn't a case against the US, which remains the world's deepest capital market, the anchor of global liquidity, and a genuine leader in innovation. Writing it off would be a mistake. But there's a more nuanced question worth asking: Is the persistence of US exceptionalism still something you can rely on?

The past 125 years show that exceptionalism – defined from a pure macroeconomic lens – is not carved in stone. Very few countries have managed to outgrow peers by at least one standard deviation in terms of relative GDP growth for a decade.[1] From a fundamental perspective, the durability of US equity outperformance increasingly depends on a narrow and demanding set of conditions: continued productivity acceleration, delivering benign disinflation to keep policy rates low enough to offset elevated fiscal deficits, and sustained global capital preference for US assets despite rising US policy incoherencies creating uncertainty. The probability that all three hold simultaneously is lower than it was a decade ago.

When a previously reliable regime becomes uncertain, diversification shifts from being a theoretical virtue to a practical portfolio decision.

[1] See Robeco's five-year outlook, 'Atlas lifted: Expected Returns 2025-2029', p.75

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Lusanele Magwa
Quant Investment Specialist


David Blitz, PhD
Quant Chief Researcher


Peter van der Welle
Multi Asset Strategist

From observation to assumption

The story of the past decade and a half is well known. The US delivered sustained economic resilience, better corporate profitability, and equity returns that consistently outpaced the rest of the world. Deep capital markets, strong institutions, and the rapid commercialization of new technologies, most recently AI, reinforced a powerful sense of structural superiority.

Over time, a performance observation often appeared to harden into a portfolio assumption. And that assumption became embedded in how portfolios were built, benchmarked, and evaluated. But the conversation is shifting. Investors are no longer debating whether the US has been exceptional — it clearly has, in terms of equity performance. The questions being asked now are more pointed: How much of that exceptionalism is already priced in? And how much of future fundamental outperformance is still required to justify current relative valuations?

Something structural is changing

Markets are often interpreted through a cyclical lens: inflation, rates, growth. But that framing can miss the bigger picture. What we're living through today looks less like a cyclical turn and more like a structural transition. For decades, global markets operated around a single dominant system: one reserve currency, one primary innovation hub, one main destination for global capital. The US occupied that role exceptionally well, and while that system isn't collapsing, it *is* evolving.

Economic activity, innovation capacity, and human capital are gradually dispersing across geographies. Capital flows are adjusting at the margin. And crucially, US-specific risks around trade policy, fiscal sustainability, and geopolitical posture, have re-entered the conversation in a way they largely hadn't for years. This is a subtle but meaningful shift. For much of the past 15 years, political and macro risk were largely associated with Europe and emerging markets. Increasingly, that assumption is being tested.

Real disposable income growth has slowed in a sticky inflation environment. A higher trend in fiscal deficits, a growing interest rate bill for the US Treasury and the highest US profit margins in decades imply a less forgiving macro backdrop for valuations. Meanwhile, we see pent-up demand and elevated household savings ratios and a pronounced fiscal expansion as growth accelerators in coming years in Europe.

A strengthening global manufacturing cycle, rising demand for commodities and a dollar bear market provide tailwinds for emerging economies. So rather than the US weakening structurally, the global opportunity set is broadening. In other words, non-US assets don't need a weak US to outperform, they only need a less dominant one.

Concentration risk has been quietly building

Another defining feature of recent years has been how narrow equity market leadership has become. A small group of US mega-cap companies, largely concentrated in technology and more recently AI, has driven a disproportionate share of global returns. Strong earnings, rising valuations, and index reweighting created a self-reinforcing cycle: performance attracted flows, flows supported market caps, and rising market caps increased concentration.

The result is that US exceptionalism, on closer inspection, has increasingly been narrow exceptionalism, driven by a specific cluster of companies rather than broad market strength. That matters for two reasons. First, it weakens the case for US dominance as a diversified, structural phenomenon. Second, it makes portfolios built around this concentration more fragile than they might appear. While the US has generated superior earnings delivery, investors have been disproportionately willing to pay for that strong delivery. That premium will eventually collapse. History is consistent on this point: equity leadership rotates.

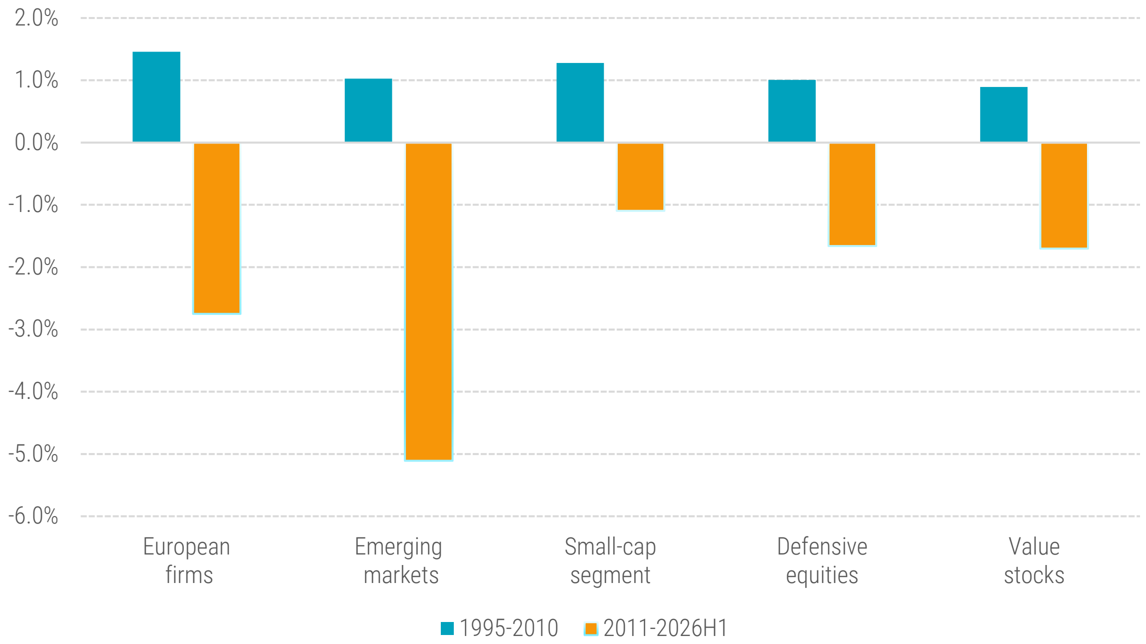
The opportunities hiding in plain sight

Beyond US large-cap growth lies a wide set of equity segments that have been largely overlooked, and in some cases, actively avoided, for the better part of 15 years:

- European firms
- Emerging markets
- Small-cap segment
- Defensive equities
- Value stocks

Each has materially underperformed global markets over this period. And that underperformance is precisely why allocations to them have declined. But step back further, and a different picture emerges which is extensively discussed in Robeco research.[2] In the 16 years before this recent stretch, each of these segments generated significant outperformance, as illustrated in Figure 1: not simultaneously, but at different times and in different market environments.

Figure 1 – Relative performance versus MSCI ACWI, from January 1995 to June 2026



Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: LSEG, MSCI, Robeco. For the global market we use the MSCI All Country World Investable Market Index (ACWI IMI), while for the contrarian alternatives we consider the MSCI Europe Index for European firms, MSCI Emerging Markets Index for emerging markets, MSCI All Country Small Cap Index for the small-cap segment, MSCI World Minimum Volatility Index for defensive equities, and MSCI All Country World Investable Value Index for value stocks. Data is available from January 1995 to June 2026. All returns are based on total returns and denominated in US dollars.

Today, they share something else in common: each trades at a meaningful valuation discount to the broader market, whether measured by price-to-book, price-to-earnings, price-to-cash earnings or dividend yield, as depicted by Table 1. Critically, this isn't a single trade or a unified macro bet. It's a collection of distinct opportunities, each with its own return drivers.

2 Blitz, D., March 2026, "Comparing contrarian alternatives", working paper.

Table 1 – Valuations as at 30 June 2026

	Global market	European firms	Emerging markets	Small-cap segment	Defensive equities	Value stocks
Price-to-book	3.53	2.51	2.58	2.10	3.32	2.32
Price-to-earnings	24.0	18.0	18.6	27.2	20.3	18.5
Price-to-cash earnings	16.6	11.4	14.0	13.5	12.7	12.0
Dividend yield (%)	1.61	2.80	1.93	1.98	2.08	2.49

Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: LSEG, MSCI, Robeco. For the global market we use the MSCI All Country World Investable Market Index (ACWI IMI), while for the contrarian alternatives we consider the MSCI Europe Index for European firms, MSCI Emerging Markets Index for emerging markets, MSCI All Country Small Cap Index for the small-cap segment, MSCI World Minimum Volatility Index for defensive equities, and MSCI All Country World Investable Value Index for value stocks. Data is available from January 1995 to June 2026.

Five segments, five different stories

A common misconception is that investing in these segments is simply an 'anti-US' or 'anti-growth' position. Recent performance illustrates why this is not the case. Emerging markets have delivered particularly strong returns, while several of the other non-US and diversifying segments have lagged, demonstrating that these exposures are not one unified bet against the US. Instead, they respond to different economic, market and valuation drivers. The longer-term historical record reinforces this point:

- Europe outperformed during the mid-1990s expansion.
- Emerging markets led during the commodity-driven cycle from 2001 to 2010.
- Small caps excelled in the early 2000s and again during the post-financial crisis recovery.
- Defensive equities held up best during the major drawdowns of 2000-2002, 2008, and 2022, while also performing reasonably in moderately rising markets.
- Value stocks led the way during the early 1990s recovery.

As shown in Table 2, the correlations between their relative returns have historically been low. When one performs well, others often don't, which is precisely what makes them complementary. Instead of making a single contrarian bet, investors considering these segments are gaining access to multiple independent equity return drivers.

Table 2 – Correlation of monthly excess returns versus MSCI ACWI, from January 1995 to June 2026

	European firms	Emerging markets	Small-cap segment	Defensive equities	Value stocks
European firms	1				
Emerging markets	0.05	1			
Small-cap segment	-0.07	-0.04	1		
Defensive equities	0.04	-0.19	-0.29	1	
Value stocks	0.38	0.03	0.26	0.26	1

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The illusion of timing

The natural follow-up question is: which one will outperform next? In practice, this is extremely difficult to answer with confidence. The forces shaping markets today, from geopolitical fragmentation and industrial policy to supply chain reconfiguration and technological disruption, don't follow neat cyclical patterns but instead interact in ways that make precise forecasting unreliable.

That's actually the point. Rather than predicting the next winner, the goal is to recognize a simpler truth: that different market regimes reward different parts of the market, and the timing of those transitions is inherently uncertain. The real risk is being unexposed when leadership changes, more than being wrong on timing. Put differently, the value of diversification – often called the only free lunch in investing — shows up most clearly when market leadership rotates.

Rotation

When rotation appears, it matters which macro regime we are transitioning toward. As the correlations between relative returns have historically been low for the five equity segments, they load differently and/or load on different macro drivers. Thus, different macro regimes will see different segments outperform. In Table 3, we mapped macro drivers we see as most likely to determine a specific macro regime which in turn could drive relative performance of the equity segments.

Table 3 – Macro drivers, macro regime and segment performance

Segment	Primary macro regime/driver	Outperformance transmission
European firms	Fiscal-driven upswing & post-crisis stabilization (EU investment boom; ECB easing; Russia–Ukraine truce)	Risk-premium compression (improved sentiment) & cyclical earnings rebound in European equities
Emerging markets	Broadening economic expansion, a synchronized global shift (broadening PMIs; industrial revival)	Capital inflows to EM & weak-USD FX tailwind boost EM earnings
Small-cap segment	Domestic demand surge with monetary easing (especially eurozone credit easing fueling growth)	Lower financing costs + high operating leverage amplify small-cap profit growth
Defensive equities	Bear-case macro (prolonged uncertainty – stagflation, the 'exorbitant decay' scenario)	Flight-to-quality: defensive stocks hold value better, delivering shallower drawdowns in risk-off periods
Value stocks	High-rate, high-inflation regime (sticky inflation; elevated real yields)	Growth-stock multiples compress (higher discount rates) while pricing power supports Value-sector earnings

Source: Robeco analysis, June 2026

Diversification is necessary, but not sufficient

So far, the argument has been about beta: broadening exposure across multiple equity segments. But diversification alone doesn't guarantee better outcomes, it just expands the opportunity set. The challenge lies in what you do with that set. In uncertain environments, investor behavior tends to become pro-cyclical: chasing recent winners, exiting underperformers, rotating too late. The segments that offer the greatest diversification benefit are often the hardest to hold through periods of underperformance. When discipline erodes and conviction fades, the quality of implementation matters more than ever.

Where alpha comes in

Broadening your equity exposure is a sound structural decision. But combining that with a consistent, disciplined approach to generating alpha can materially improve outcomes. Systematic investing is particularly well-suited to this challenge, for two reasons.

First, it enforces discipline. A rules-based process avoids the behavioral biases that tend to undermine long-term returns. Second, it enhances returns within each segment. By systematically targeting exposure to empirically proven return drivers, it seeks to generate alpha on top of the beta exposure.

The combination is powerful: access to multiple independent return drivers, maintained through cycles, each enhanced by a consistent alpha engine. The result isn't just diversification — it's better risk-adjusted returns. For investors looking to put this into practice, Robeco offers a range of systematic equity strategies across each of the segments discussed. A performance overview of a representative selection of these strategies is also shown in Table 4 and Table 5 in the appendix.

Building portfolios for a less certain world

If markets are transitioning from a concentrated regime toward a more dispersed one, portfolios need to reflect that shift. The objective isn't to reduce US exposure. It's to reduce reliance on a single source of returns.
Every investor faces a version of the same choice:

- Maintain concentration and implicitly bet on the continued dominance of a narrow set of US companies
- Or diversify thoughtfully, accessing a broader set of equity opportunities, each with distinct return drivers and, today, attractive valuations

The most effective path forward isn't simply to diversify, but to do so with discipline and with the right tools.
At Robeco, our systematic equity strategies are built for exactly this kind of environment. We harvest alpha across Europe, emerging markets, small caps, defensive equities, and value — while preserving the diversification benefits each segment offers.

The goal is not to predict which segment will lead next. It is to build portfolios that are resilient to structural change — and capable of delivering stronger outcomes regardless of where leadership emerges. Because in a world where exceptionalism is no longer a given, resilience, built on diversification and enhanced by alpha, becomes the defining edge.

Appendix

Table 4 – Performance as of 30 June 2026 in EUR

	1 year	3 years	5 years	Since inception
European equities				
Robeco European Active Equities	28.65%	18.97%	12.63%	15.38%
MSCI Europe Index	21.81%	14.39%	10.30%	13.06%
Emerging markets equities				
Robeco Emerging Markets 3D Active Equities	56.11%	27.69%	14.39%	10.79%
MSCI Emerging Markets Index	47.34%	21.12%	7.98%	7.65%
Defensive equities				
Robeco Global Conservative Equities	16.14%	13.62%	10.66%	10.64%
MSCI All Country World Index	26.98%	17.85%	11.80%	12.25%
Robeco Global Developed Conservative Equities	17.59%	13.75%	10.96%	11.98%
MSCI World Index	24.58%	17.40%	12.29%	13.49%
Robeco European Conservative Equities	18.16%	15.26%	9.24%	9.57%
MSCI Europe Index	21.81%	14.39%	10.30%	9.58%
Robeco Emerging Markets Conservative Equities	28.96%	17.98%	11.81%	8.62%
MSCI Emerging Markets Index	47.34%	21.12%	7.98%	6.58%
Value equities				
Robeco Global Value Equities	35.40%	20.61%	14.09%	10.98%
MSCI All Country World Index	26.98%	17.85%	11.80%	12.28%
Robeco European Value Equities	27.90%	19.59%	13.00%	12.25%
MSCI Europe Index	21.81%	14.39%	10.30%	10.50%

Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: LSEG, MSCI, Robeco. Inception and performance figures are based on gross asset value of the longest-running live composite accounts. All figures as of 30 June 2026. Returns gross of fees, in EUR. Robeco European Active Equities: Index: MSCI Europe Index. Portfolio: Robeco European Active Quant TE 2% Equities (July 2020). Robeco Emerging Markets 3D Active Equities: Index: MSCI Emerging Markets Index. Portfolio: Robeco Emerging Markets 3D Active Equities (February 2015). Robeco Global Conservative Equities: Index: MSCI All Country World Index. Portfolio: Robeco Conservative All Countries Equities (February 2012). Robeco Global Developed Conservative Equities: Index: MSCI World Index. Portfolio: Robeco Conservative Developed Equities (September 2011). Robeco European Conservative Equities: Index: MSCI Europe Index. Portfolio: Robeco Conservative European Equities (July 2012). Robeco Emerging Markets Conservative Equities: Index: MSCI Emerging Markets Index. Portfolio: Robeco Conservative Emerging Markets Equities (April 2011). Robeco Global Value Equities: Index: MSCI All Country World Index. Portfolio: Robeco Global Quant Value Equities (February 2014). Robeco European Value Equities: Index: MSCI Europe Index. Portfolio: Robeco European Value Equities (November 2018). Performance since inception is annualized from the first full month.

Table 5 – Performance as of 30 June 2026 in EUR

	1 year	3 years	5 years	Since inception
Small-cap equities				
Robeco NextGen Global Small Cap Equities	39.55%	-	-	23.22%
MSCI World Small Cap Index	33.63%	-	-	16.37%

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Source: Robeco. MSCI. Portfolio: Robeco Incubator Fund III (EUR) F-share. Index: MSCI World Small Cap Index (net dividends reinvested). All figures in EUR. Data end of 30 June 2026. The information contained in this slide includes references to the Incubator Fund that was structured as an AIF (non-UCITS fund). The Incubator Fund, including its prospectus and any related investment disclosure documentation, was not marketed, offered, or made available to the public or to external investors at any time. A UCITS-compliant ETF has since been launched as the successor strategy to the Incubator Fund. This Robeco NextGen Global Small Cap Equity ETF is a separate and distinct product with its own regulatory framework and cost structure. This slide reflects the performance of the Incubator Fund using internal capital. While this performance represents actual live trading and includes transaction costs, the strategy was not subject to the full regulatory requirements or constraints of a public UCITS fund during the period shown. The strategy aimed to adhere closely to UCITS guidelines; however, deviations may have occurred. The Incubator Fund performance is shown gross of fees. In reality, external investors would be subject to management fees and other administrative costs, which would have a negative effect on the returns shown. Because this performance was achieved using internal capital, the results may not fully reflect the impact that certain economic or market factors (such as significant inflows or outflows) might have had on the manager's decision-making if the Incubator Fund were open to external investors. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. Performance since inception is as of the first full month. Periods shorter than one year are not annualized.

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The prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.

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