

Beyond AI: The broadening of equity market leadership

Insights
December 2025



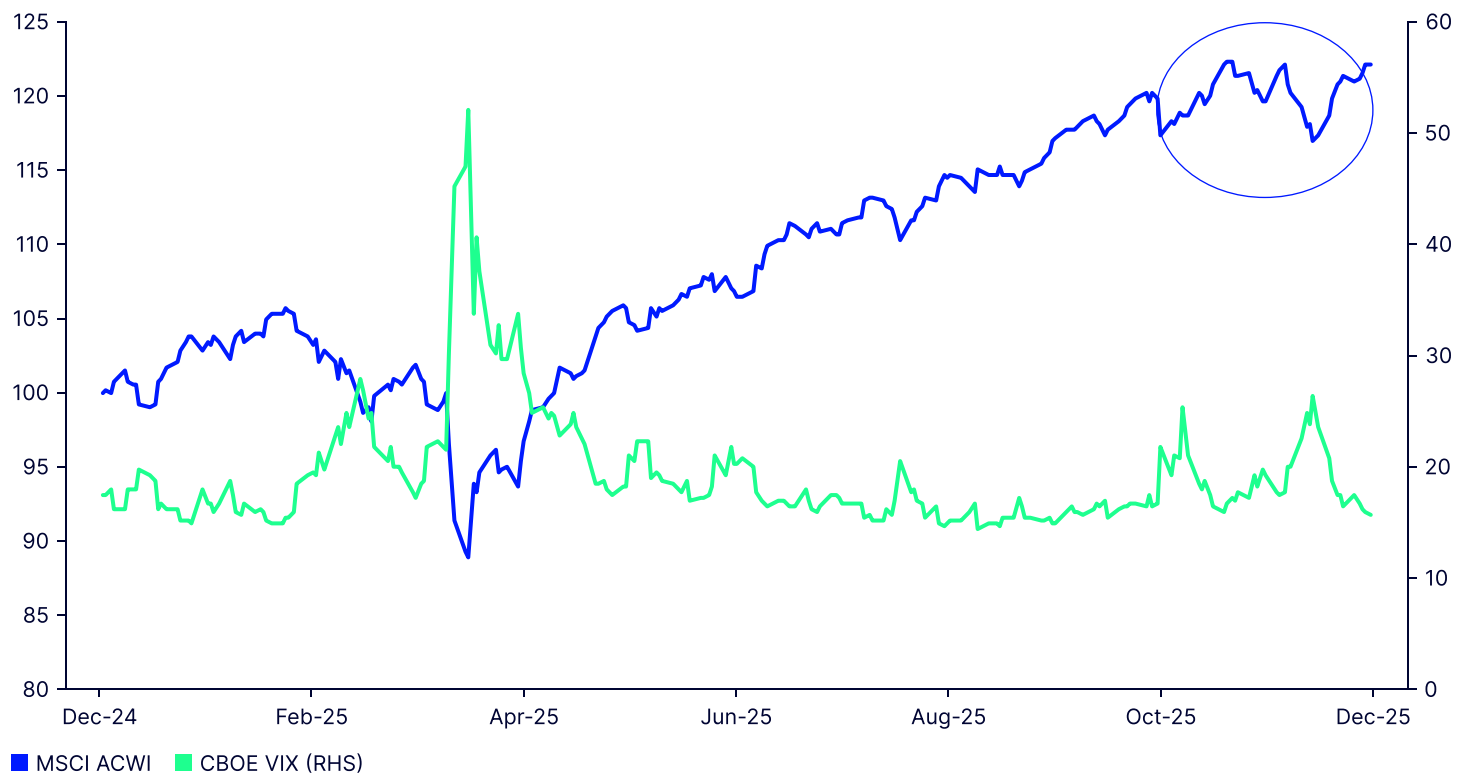
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The final weeks of 2025 have witnessed something of a wobble in the sentiment-driven rally that has propelled equity markets to repeated all-time highs. On closer examination,

markets appear to be evolving and broadening, which may be indicative of a healthy period of consolidation within this long-running bull market.

World equity markets have produced another impressive performance in 2025,¹ but the tariffs-driven sell-off in early April illustrates that investors have at times had to navigate pockets of market volatility. And as Figure 1 shows, returns through the end of October and November have reflected spikes in volatility levels, albeit not as great as in April. And the so-called 'fear gauge' then dipped back to 2025 lows by early December.

Figure 1: MSCI ACWI Index total returns vs. CBOE VIX Index

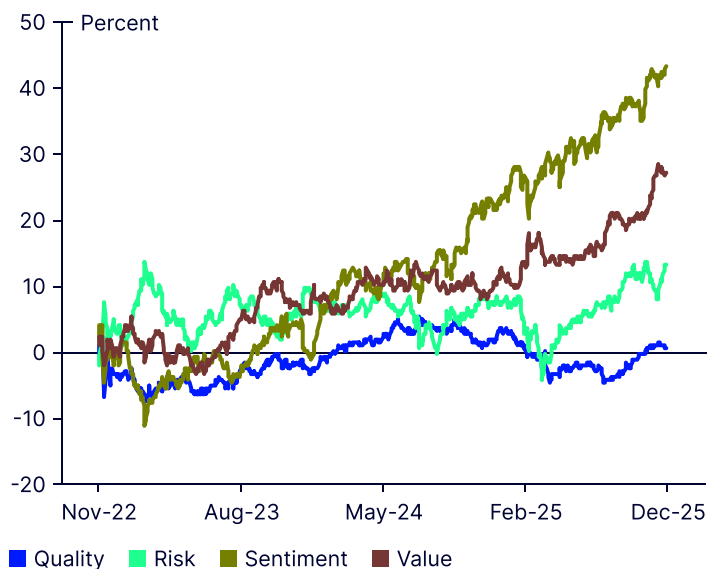


Source: Factset, MSCI, State Street Investment Management as at December 5, 2025. **Past performance is not a reliable indicator of future performance.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

As we previously discussed in [What if investors get bored of AI?](#), the AI trade and narrative has been one of the dominant themes driving momentum within equity markets since the public release of ChatGPT by OpenAI in November 2022. With that thematic firmly in place, the mega-cap hyperscalers within the “Magnificent Seven” have helped elevate the performance of Growth, Sentiment, and the United States over other factors and regions.

Since the AI theme really established itself in early 2023, Sentiment factors have been the strongest drivers of return, far exceeding broad measures of Value, Quality, and Risk at an aggregate market level. Although not reversing, returns to Sentiment appear to be flattening off in more recent times.

Figure 2: Factor spread returns since October 2022

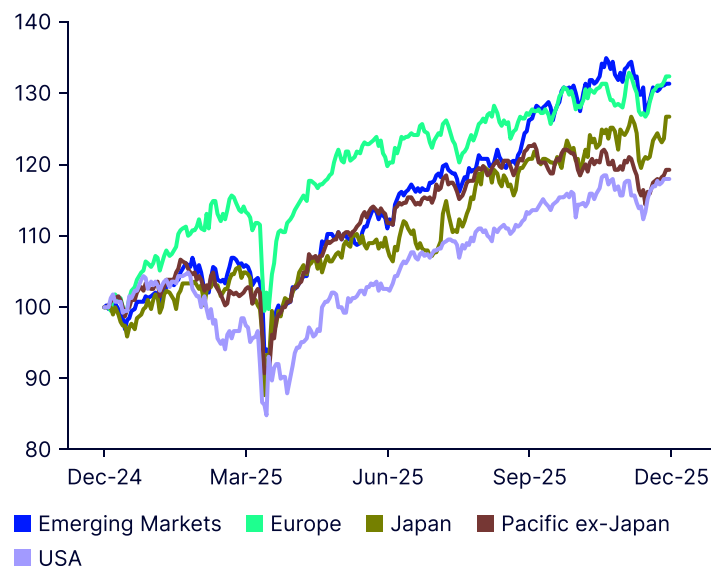


Source: State Street Investment Management. Quintile spread returns for direct measures of Sentiment and broad measures of Value, Quality, and Risk themes. Data as at December 5, 2025. **Past performance is not a reliable indicator of future performance.**

There has been something of a handing over of the baton in 2025. Equity markets in Japan, Europe, and emerging markets have outperformed the US over the course of the year, with Europe and Japan continuing to deliver strong absolute returns during the period of market instability since October (Figure 3).

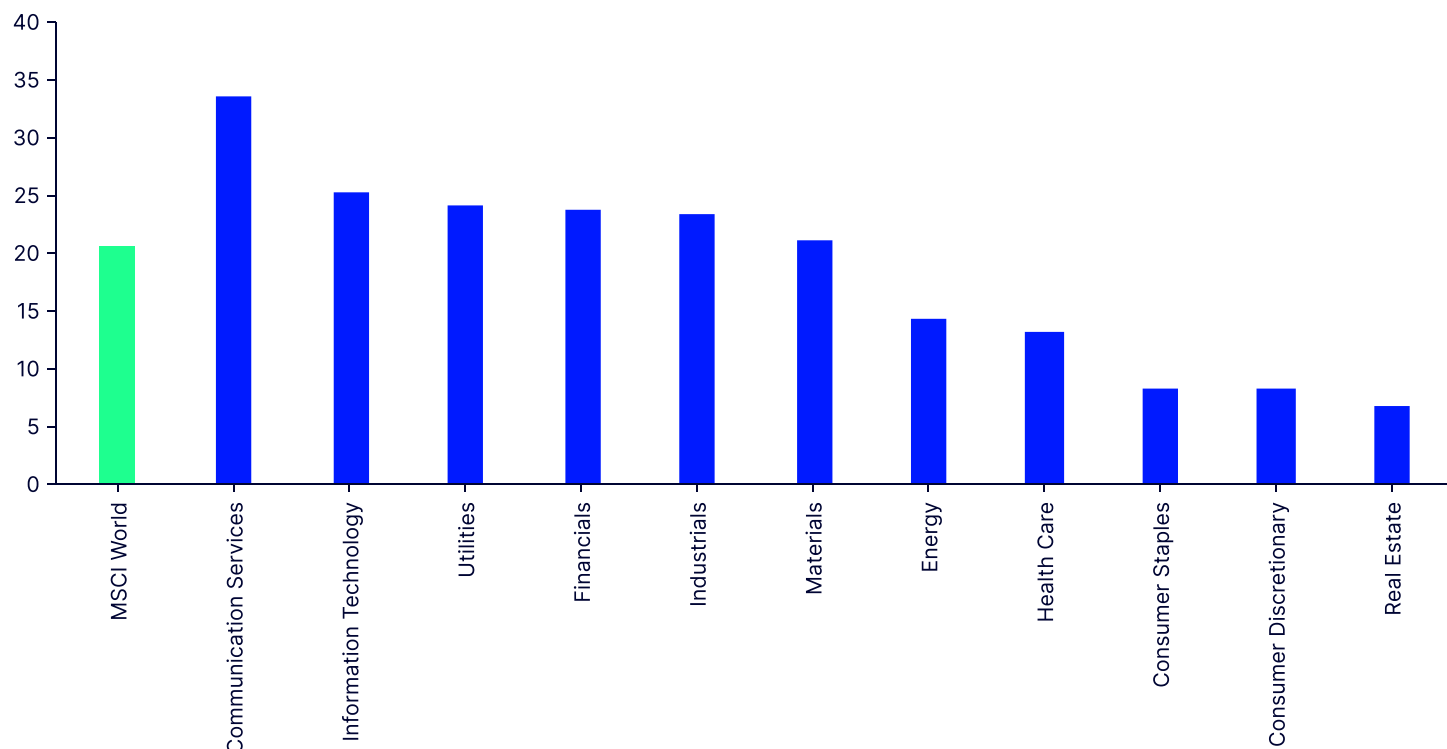
When we examine sector performance in 2025, we encounter a similar broadening out of leadership. As Figure 4 shows, Communication Services and Information Technology are still ahead of the pack for the year, while Financial Services, Utilities, and Industrials have also delivered healthy returns. Within the latter two sectors, strength has been notable among companies operating within the AI infrastructure supply chain, and those in the data center buildout space in particular. For example, utility companies powering the data centers, through to industrial manufacturers and specialist semiconductor testing, industrial cooling, and switching companies have performed well.

Figure 3: MSCI regional total returns in 2025 (USD)



Source: Factset, MSCI, State Street Investment Management. As at December 5, 2025. **Past performance is not a reliable indicator of future performance.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Figure 4: Sector returns for MSCI World Index (YTD)



Source: Factset, MSCI, State Street Investment Management. As at December 5, 2025. **Past performance is not a reliable indicator of future performance.**

This broadening out of returns and the rotation of sector leadership has also coincided with a slight rolling over of the sentiment theme, particularly in the US market. However, as we enter the next phase of this market cycle, we have also witnessed an evolution of the information flow through the supply chain of customers and suppliers. Figure 5 traces how customer momentum can lead returns through the supply chain—this has been one of the strongest performing sentiment signals in the second half of 2025.

As we head into another year, we will remain alert for signs of continued broadening in equity markets, or for signs of stalling in the extended bull run. We don't believe the AI theme has broken, but rather it is starting to play out in a different way, one that may be broader and more rational. As investors, we always think it pays to favor a robust diversified investment approach. We believe that not focusing too much on a single theme, sector, or group of signals, is an approach that can be key to navigating the ever-evolving nature of equity markets in 2026.

To learn more about the views and investment capabilities of the Systematic Equity—Active team, please visit our [website](#).

Figure 5: Direct sentiment measure vs customer signal returns in North America



Source: Factset, State Street Investment Management. As at October 31, 2025. Quintile spread returns for direct measures of sentiment and the customer momentum supply chain signal. As at December 5, 2025.

Endnote

- 1 As measured by the total return of the MSCI All Country World Index to 5 December 2025.

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* This figure is presented as of September 30, 2025 and includes ETF AUM of \$1,848.02 billion USD of which approximately \$144.95 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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