Capturing opportunity as the equity landscape evolves

Insights
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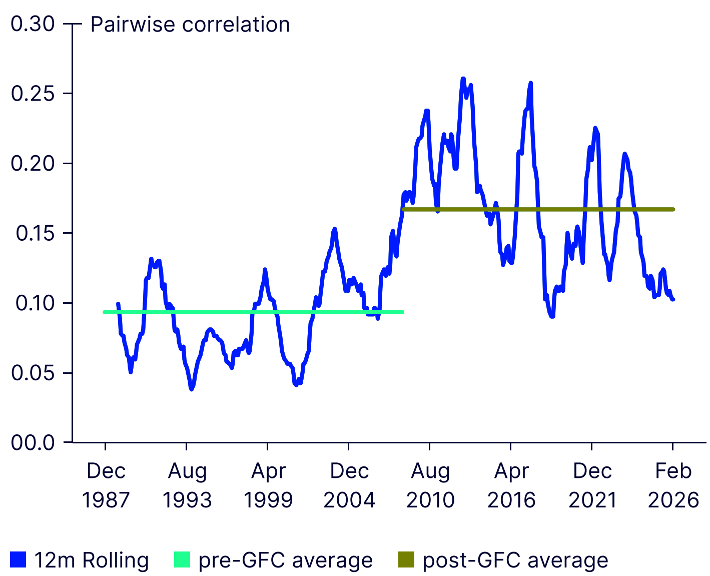
Equity markets continue to be captivated by the global Artificial Intelligence narrative—a storyline that has shaped returns, sentiment, and macro commentary through recent years. The AI ecosystem and its beneficiaries remain a powerful driver of index level performance, but there are many other less-high-profile factors influencing today's market landscape.

We have written previously about the fixation of equity market participants on all things AI-related and what that has meant in terms of market concentration and performance. But as we have seen through history, prior episodes of market concentration and leadership from a narrow set of mega cap companies can obscure the rich opportunity that lies elsewhere. We have encouraged investors to look beyond such a small cohort of stocks and we have glimpsed signs of a broadening out of equity leadership into other regions of the world and segments such as small-cap stocks.

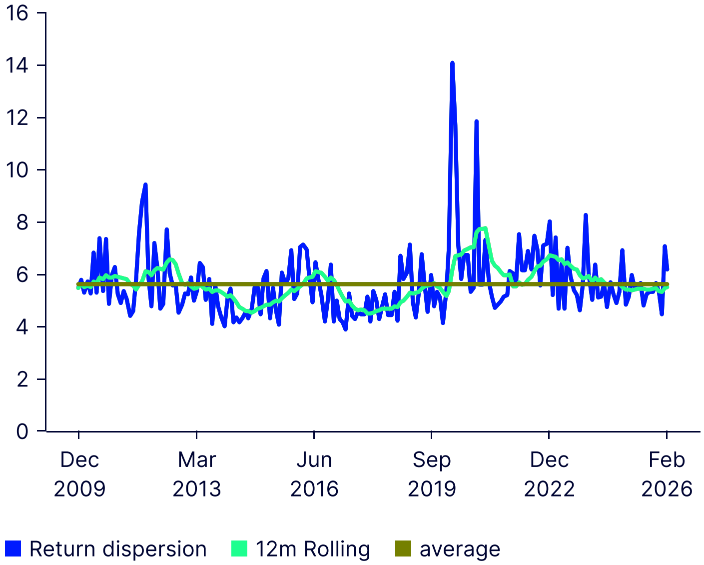
A very narrow, macro-driven market can create headwinds for active investors, in particular, unless they happen to latch onto and ride the dominant theme. While the headlines have continued to focus heavily on AI, there has been a further evolution in market performance since the end of 2025. So far this year, the pairwise correlation between stocks has continued to trend down (Figure 1), indicating a market increasingly driven by idiosyncratic factors, rather than a single macro theme, where stock selection could be rewarded more. Moreover, there have been tentative signs of an uptick in market dispersion—such a development creates opportunities for skilled active equity managers to generate returns by capturing the spread between good and poor performers (Figure2).

Figure 1: Pairwise correlation nears pre-GFC levels



Source: Factset, MSCI, State Street Investment Management as at February 20, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. Pairwise correlation is measured using monthly returns for stocks in the MSCI World Index.

Figure 2: Monthly cross-sectional dispersion of returns for stocks in MSCI World Index



Source: Factset, MSCI, State Street Investment Management as at February 20, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. 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. Dispersion is measured using monthly returns for stocks in the MSCI World Index.

Figure 3: Top 10 returning developed market region/ industry group segments over past 12 months

	12m total return (%)
European Banks	92.7
Japan Semiconductors and Semiconductor Equipment	90.0
European Semiconductors & Semiconductor Equipment	82.0
Japanese Energy	69.5
Asia Pacific Real Estate Management & Development	66.7
North American Semiconductors & Semiconductor Equipment	63.1
European Utilities	61.0
Japanese Capital Goods	55.8
Japanese Utilities	54.7
Japanese Banks	50.8

Source: Factset, MSCI, State Street Investment Management as at February 20, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. 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. Weighted average returns in US dollars for stocks in the MSCI World Index.

Broadening market dispersion: Opportunities beyond the AI narrative

An examination of the market in more detail provides additional insights into the current dispersion of returns. At a region and sector level, for example, the strongest performances over the past year have come from pockets of the market not associated with the prevailing IT-related narrative. As Figure 3 shows, European banks have led the way. Although semiconductors have benefitted globally from the AI wave, the considerable breadth amongst the other top-performing groups points to healthy broad-based market strength.

With dispersion now evident across sectors and regions, active risk-taking is increasingly being rewarded. For systematic investors, this backdrop is particularly advantageous: models calibrated to identify relative mispricing, sentiment shifts, and behavioural overreactions typically perform best when markets are neither uniformly trending nor uniformly mean reverting.

While AI continues to spark both optimism and anxiety—especially around whether vast investment will ultimately translate into sustained profitability—the current cycle is not solely defined by one technological trend. We have previously emphasized the need to look past US centric themes when Value, Small Cap, or regional rotation stories were unfolding, today's market offers a similarly broad set of return drivers.

The importance of a broader view

We believe to be successful in active management and to deliver the best possible risk-adjusted return outcomes it is essential to have as broad a view as possible. Our systematic active process, with a global multi-factor, multi-signal framework that explicitly prices risk, costs and behavioural patterns across tens of thousands of securities, underpins our ability to harvest opportunities wherever they emerge—and to do so with discipline as markets continue to evolve.

AI may dominate equities, but market dispersion is broadening, rewarding active managers who look beyond headline trends for global opportunities.

To learn more about the views and investment capabilities of the Systematic Equity – Active team, please visit our website.

About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over $5 trillion in assets managed*, clients in over 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

* This figure is presented as of December 31, 2025 and includes ETF AUM of $1,950.80 billion USD of which approximately $173.02 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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