

What has happened to the great rotation?



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Before the onset of the conflict in the Middle East, equity markets had shown signs of broadening out, with pockets of strong returns beyond the US technology and artificial intelligence driven themes. Uncertainty around the long-term effects of the geopolitical shock has resulted in a repricing of risk, and the rotation has seen some retracement. But is this an understandable short-term response or something more enduring?

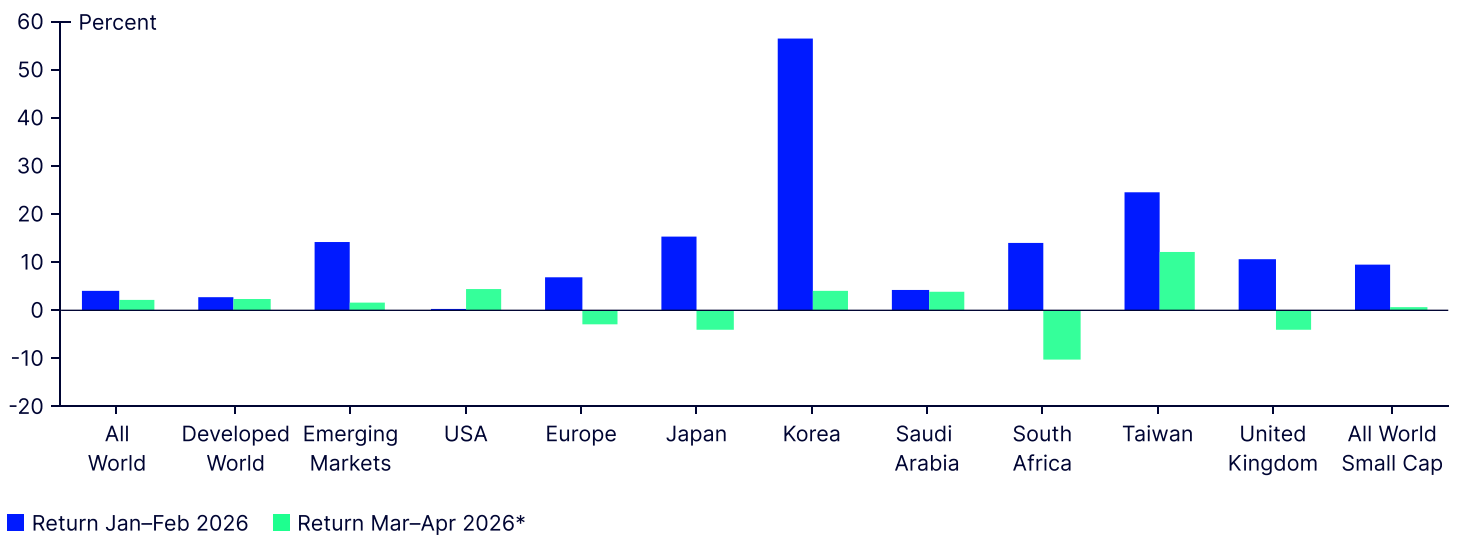
Robust market returns despite uncertainty

The global equity market turbulence that followed the surprise bombing of Iran at the end of February and the subsequent escalation of hostilities in the gulf region has gradually settled, even if a resolution to the conflict has still to be found. The recovery in equities from the post-bombing lows may appear remarkable—and many markets have since rebounded to record highs—but performance in the year to date is not simply the product of a shifting geopolitical landscape.

We have previously argued that investors should look beyond the high-performing US technology segment to take advantage of opportunities in other pockets of the market. We noted the advantages of considering allocations in small caps, emerging markets, Europe and Japan.¹ And this was an approach that appeared to hold through the first two months of 2026—however, in the period since the onset of war in Iran, this rotation has unwound somewhat (Figure 1). There are some notable standouts in this chart: Korea's return was 56% (in local currency terms) through February, buoyed (along with Taiwan) by the incredible performance of semiconductor names riding the AI data centre build-out wave.

Notwithstanding the significant moves evident in this chart, the US is arguably the big story here. Having trailed their peers through January–February, US equities have since regained the leadership they have shown over many years. The laggards more recently include previous outperformers such as the UK, Europe, and South Africa, where relatively weak economic growth combined with energy import needs have concerned investors. For those companies and sectors where energy is a significant input cost, the effect of the oil supply disruption creates significant uncertainty around margins and earnings, and therefore returns.

Figure 1: Equity leadership rotation apparent since February (selected markets)



Source: FactSet, MSCI, State Street Investment Management, as at April 27, 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. *Returns up to April 24, 2026.

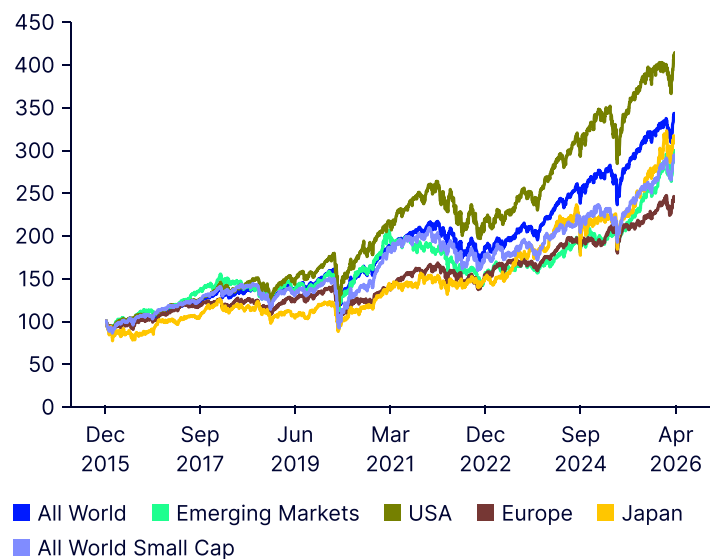
Outside of this group, many markets returned to all-time highs in April, including 21 countries in the MSCI All World Index. As Figure 2 illustrates, a similar story was evident across the broad developed and emerging markets and world small-cap indices.² This has become less of a broad market-direction story, but one of dispersion across countries and sectors. But high valuations and increased uncertainty suggest a keen risk lens is warranted for investors.

Earnings support returns

Unwavering earnings expectations have underpinned the robust equity market returns over the past month—undoubtedly, the disruption of oil supply through the Strait of Hormuz has had some direct impact on equity returns, where it can be measured. On the earnings growth front, expectations in the US, Korea, and Taiwan continue to impress, with stocks aligned to the AI narrative a clear focus. Certain oil exporters have also benefitted, such as Saudi Arabia (notwithstanding shipping challenges), while South Africa, which is reliant on energy imports, has seen earnings growth projections fall (see Figure 3).

Second-order effects are harder to fully factor into earnings forecasts, particularly in the absence of clarity on a long-term resolution to the Middle East conflict. The enduring effects of oil supply disruption are unclear but the longer the current situation remains, the worse the outcomes are likely to be.

Figure 2: Many equity markets remain at elevated levels

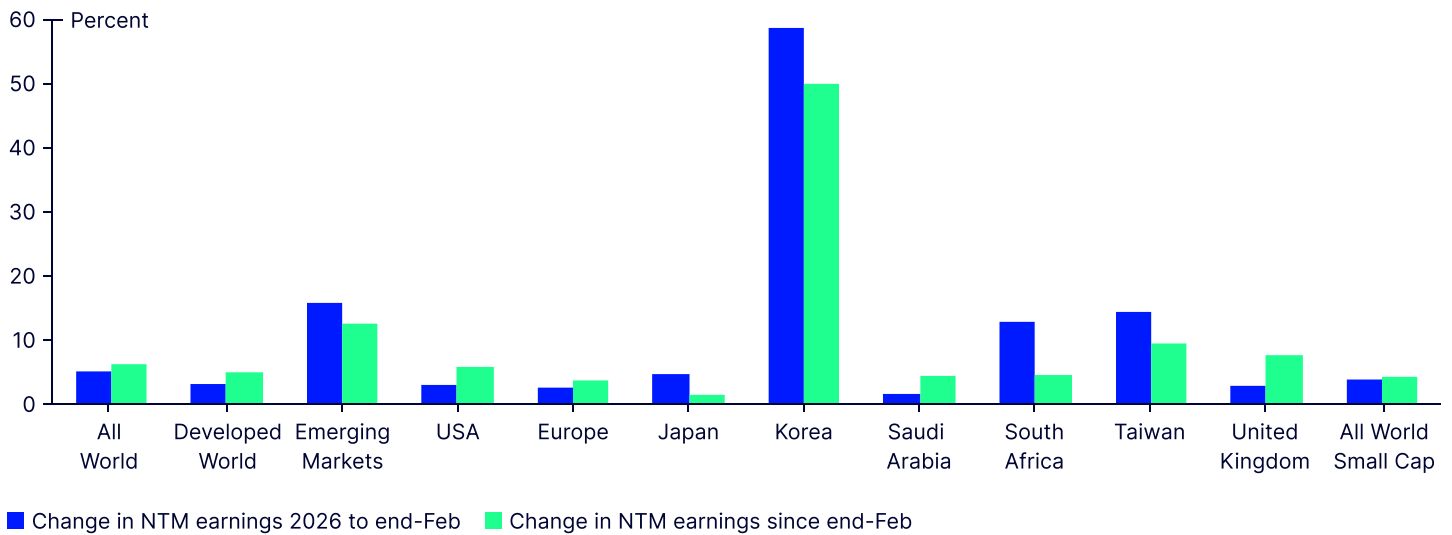


Source: FactSet, MSCI, State Street Investment Management, as at April 27, 2026. Returns indexed to 100 at 31 December 2015. The performance data quoted represents past performance. Past performance does not guarantee future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

A pause, not a halt, in the rotation

Taken together, the recent pause in equity market broadening appears less a rejection of the rotation narrative than a reminder of its fragility in the face of exogenous risk. The reassertion of US and AI linked

Figure 3: Changes in next-twelve-month earnings expectations



Source: FactSet, MSCI, State Street Investment Management, as at April 27, 2026. Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

leadership reflects a preference for earnings visibility and balance sheet resilience rather than a renewed acceleration in underlying growth. Elevated index levels therefore mask a more selective environment, where confidence in forward earnings has become increasingly uneven across regions and sectors.

Looking ahead, the path for equity markets will hinge less on the direction of aggregate growth and more on how key uncertainties are resolved. A sustained easing in geopolitical risk and energy market disruption would likely allow dispersion to narrow and the rotation toward previously lagging regions and segments to reemerge. Conversely, if oil supply uncertainty persists and cost pressures remain elevated, dispersion is likely to remain high. This in turn likely reinforces investors’ preference for markets and companies with greater pricing power and earnings certainty.

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

Endnotes

- 1 See for example: [Waiting for the small-cap resurgence](#) | State Street; [Beyond AI: The broadening of equity market leadership; Capturing opportunity as the equity landscape evolves](#).
- 2 As measured in local currency terms since 31 December 2015. Source: FactSet, MSCI, State Street Investment Management as at April 27, 2026.

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* This figure is presented as of March 31, 2026 and includes ETF AUM of \$1,940.32 billion USD of which approximately \$184.18 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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