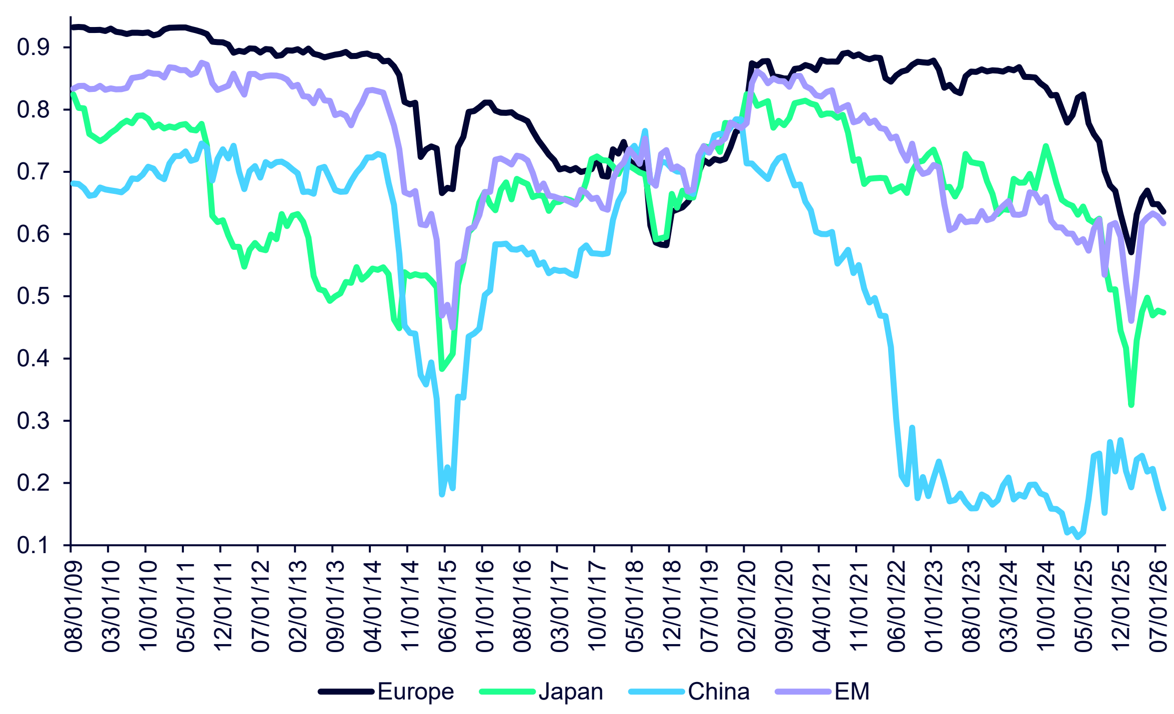
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
September 3, 2026

Mind on the Market

Chart of the Week

Global equity correlations have decreased



Source: FactSet, MSCI. 36-month rolling correlations calculated using monthly returns data in LC for MSCI Europe, MSCI Japan, MSCI China, MSCI EM, and MSCI USA as of August 31, 2026.

While global equity markets still share a common equity beta, their return paths have become less synchronized. That makes international exposure increasingly useful as a source of differentiated outcomes, an improvement from previous years.

Contact

Ginger Perry
Investment Strategist

Dane Smith
Head of Investment Strategy & Research – North America

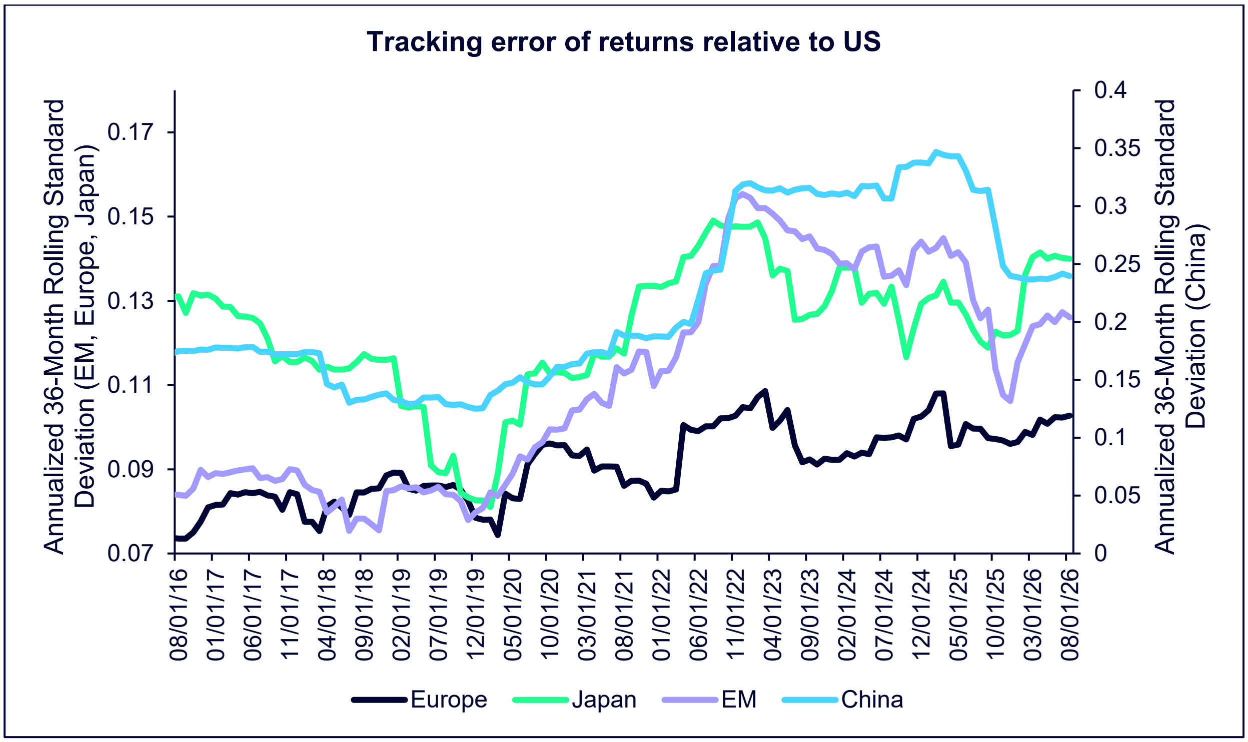
Weekly Highlights

MSCI ACWI ex US Cumulative Total Return in USD	Correlation between US and Japan: **2009 vs 2026**	Correlation between US and Europe: **2009 vs 2026**
217%	0.82 vs 0.47	0.93 vs 0.63
Source: FactSet, using monthly total returns data in USD 8/31/2011 – 8/31/2026.	Source: FactSet, MSCI as of 8/31/2026. 36-month rolling correlations calculated using monthly returns data in LC for MSCI Japan and MSCI USA.	Source: FactSet, MSCI as of 8/31/2026. 36-month rolling correlations calculated using monthly returns data in LC for MSCI Europe and MSCI USA.

The international diversification opportunity set is changing

International markets have not escaped the global forces shaping equities, such as AI (which we've previously written about in AI leaders reshape the EM investment story | State Street), inflation and monetary policy. Yet, these common themes have not produced uniform market behavior globally. Since 2020, rolling correlations between US equities and several major international markets have steadily declined. China is the clearest outlier, reflecting a return path increasingly shaped by domestic policy, property stress and its own economic cycle. While correlations remain broadly positive, the decline over time is meaningful. At the same time, the US has become an increasingly dominant share of global equity benchmarks, rising from 53% of the MSCI ACWI Index a decade ago to 63% today (FactSet, as of 9/1/2026). As a result, many investors have become more concentrated in US equities.

While correlations measure co-movement, tracking error measures the variability of return differences relative to the US market. In this context, higher tracking error indicates larger variability in performance from US returns, illustrating distinct return experiences over time.

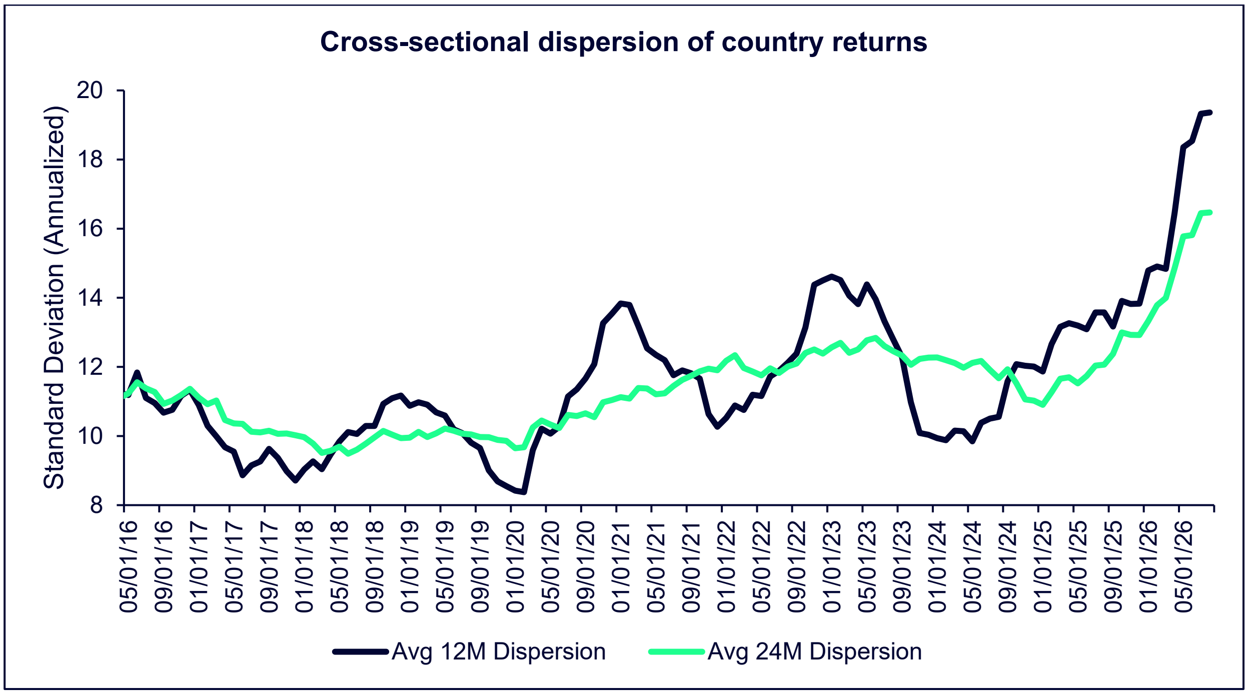


Source: FactSet, MSCI, data as of August 31, 2026. Displaying annualized rolling 36-month standard deviation of returns in LC for MSCI Europe, MSCI Japan, MSCI EM, and MSCI China relative to returns in LC for MSCI USA.

Compared to 10 years ago, relative-return dispersion as demonstrated by the trajectory of tracking error has increased for several regions, notably Europe and EM. China remains the highest-tracking-error market, but the wider pattern suggests that international allocations are varying in performance more than they did earlier in the sample.

So… *why* are regional outcomes diverging?

Country-level dispersion helps explain why regional markets are following increasingly distinct paths.



Source: FactSet, MSCI, using monthly data as of July 31, 2026. Displaying average rolling 12M and 24M standard deviation (annualized) between the monthly returns (in LC) of top 20 countries (11 DM and 9 EM) within the MSCI ACWI ex-US Index.

As shown by the chart above, country-level dispersion is rising, showing a noticeable uptick over the past couple of years. This trend suggests that regional allocations are increasingly shaped by local dynamics, even when responding to the same global themes. AI remains one example of regional differentiation, with the US benefiting from hyperscalers and software platforms while Taiwan has benefited through semiconductor manufacturing. Regional equity markets have differing drivers as well. Europe has been influenced by defense spending and industrial policy, Japan by corporate governance reforms and a weaker yen, and several emerging markets by commodity and energy dynamics. For example, Brazil has grown as a major oil producer, meanwhile South Africa is a top supplier of platinum, highlighting the spectrum of economic and market drivers across the EM complex.

Macroeconomic policy can also be a source of cross-country differentiation. As inflation, growth, and fiscal conditions have evolved differently across economies since the pandemic, central banks have increasingly pursued distinct policy paths, contributing to a wider range of market outcomes. As of the time writing, the US Federal Reserve and the ECB are on temporary pause (although showing increasingly hawkish signals), while the Bank of Japan continues to normalize policy, the RBA remains on the path of rate increases, and select EM central banks, including Brazil's, have pursued targeted cuts to support domestic demand. Diverging inflation paths help explain why policy responses have become less synchronized. Using FactSet data for 6 developed markets (US, UK, France, Germany, Japan, Switzerland) going back to 2016, inflation outcomes today remain more dispersed than they were prior to the pandemic, reflecting differences in fiscal responses, labor markets, energy exposure and supply-chain disruptions, thereby affecting central bank policy.

Bond markets are also pricing local risks differently. For example, taking 12 developed economies, the current 10-year rate differential between the highest and lowest rate is 2.11%, while 10 years ago, the differential was 1.81% (FactSet, using data 9/30/2026-8/31/2026 for Canada, US, UK, Germany, France, Japan, Spain, Denmark, Finland, Italy, Norway, and Sweden). Hence, this dispersion in long-term government yields reflect inflation expectations, fiscal trajectories, and geopolitical risks.

Diversification: A balance of risk and return

However, greater diversification potential does not mean that international equities will necessarily outperform the US. Over the past 15 years, US equities have delivered the strongest cumulative return, returning roughly 724% cumulatively vs ACWI ex-US at 217% (FactSet, total cumulative returns as of 8/31/26 in USD). While an internationally diversified portfolio could have reduced concentration, it would have lagged a US-only allocation.

The bottom line

While global markets continue to be influenced by many of the same themes, they are producing increasingly divergent outcomes across countries and regions. Correlations between the US and major international markets have declined, relative-return dispersion has increased, and country-level outcomes have become more varied. Macroeconomic drivers such as inflation and monetary policy, as well as local experiences of global phenomena (supply shocks, tech growth) can create dispersed outcomes across countries. The combination is expanding the opportunity set outside the US. While regional performance is becoming more differentiated, AI remains a shared catalyst across many markets, allowing investors to broaden their geographic exposures without losing access to a defining structural growth trend.

Source: FactSet, MSCI, State Street Investment Management. Data as of 8/31/2026 unless otherwise stated. The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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 $6 trillion in assets managed*, clients in 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 June 30, 2026 and includes ETF AUM of $2,203.98 billion USD of which approximately $156.81 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.

Important Risk Information

ssga.com

Marketing Communication

State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.

Important Risk Information

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investing involves risk, including the risk of loss of principal.

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.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

The views expressed in this material are the views of Ginger Perry and Dane Smith through the period ended September 3, 2026 and are subject to change based on market and other conditions.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

AdTrax: 5064514.167.1.GBL.RTL
Exp. Date: 9/30/2027.