US exposure risk

June 2025

Investors are increasingly considering underweight US equities tilts amid the current macro and geopolitical environment marked by heightened uncertainty from the return of President Trump; evolving trade dynamics; and shifting investor sentiment around emerging markets. There is an elevated focus on portfolio resilience, with greater emphasis on scenario planning and liquidity management as markets navigate an era where traditional assumptions no longer hold as firmly.

Moderated by Alice Berriman, Senior Consultant at Frontier Advisors, the panel featured Niamh Brodie-Machura (Chief Investment Officer Equities, Fidelity International London) and Jacob Mitchell, (Chief Investment Officer, Antipodes), who delved into their views on the current economic environment and what it means for investment portfolios.

Niamh Brodie-Machura's outlook – Cautious optimism on the US

While US equities are at all-time highs, much of the recent outperformance has been concentrated in a small set of innovative stocks. Brodie-Machura questioned whether the conditions that supported US exceptionalism over the past 15 years including a favourable economic and regulatory environment, healthy financial markets, and deep talent pools will continue to hold. She highlighted vulnerabilities in the US such as increased market concentration, stretched valuations, and geopolitical unpredictability.

Notably, China has reasserted its global economic influence, showing leadership in EVs, AI, and patent filings, achieving rapid progress with relatively lower capital intensity. Europe and Japan, meanwhile, are seeing structural improvements, with more attractive entry points and stronger quality signals, which enhance portfolio diversification and resilience.

Fidelity has a downside consensus for 2025 growth forecast and advocates clients seek balance and diversification with caution with foreign currency.

Jacob Mitchell's view – Global rotation and repricing of quality

Mitchell examined the growing cost of quality as a factor, noting tech companies have significantly outperformed non-tech peers, compounding at over 14% p.a. versus 6%. However, this has led to what he described as a "profit bubble" in the US, similar to the dominance Japan held in the late 1980s. He underscored the rare durability of companies in the top global rankings and advocated for a more diversified global approach.

China, despite political concerns, stands out as deeply undervalued with upside potential. Regional diversification, particularly into Europe and China, can reduce tracking error as regional correlations revert to the mean, while offering more attractive valuations. AI adoption was cited as a broad-based global theme rather than a 'US exclusive' driver. While India has historically attracted investor interest, it is now viewed as broadly expensive. In contrast, China is perceived as offering better value with improving policy support for innovation, positioning it as an attractive long-term play despite ongoing geopolitical risks.

Mitchell highlighted there is heightened vulnerability in the US and potential for a recession hence there are more reasons to be optimistic about the rest of the world. Everything in the US is expensive, but not everything is exceptional.

The US dollar has declined around 10% YTD against trading partners. While it has traditionally served as a safe haven during risk-off periods, growing fiscal and trade imbalances are prompting investors to scrutinise whether the fundamentals still justify such trust. Currency risk and FX hedging are now more critical in global allocation decisions.

What this means for investors

The session emphasised the importance of reassessing US exposure amid rising concentration risks, valuation stretch, and policy uncertainty. While the US remains a leader in innovation, investors were encouraged to adopt a more balanced and globally diversified strategy, factoring in currency risk, valuation dispersion, and the relative appeal of underappreciated markets like China and Europe. The overall message was one of caution, nuance and the need for flexibility in navigating an increasingly fragmented global investment landscape.

Next steps

In an environment of heightened market volatility and uncertainty, Frontier can provide a comprehensive suite of investment strategy services designed to help clients navigate risk and enhance portfolio resilience. Frontier's offerings include strategic and dynamic asset allocation advice, stress and scenario testing, risk factor analysis, liquidity stress testing, an in-depth market outlook analysis and capital market assumptions across a variety of timeframes. These tools support informed decision-making and help balance risk and returns through various market cycles.

If you want to learn more about Frontier's modelling tools and research analysis, please contact Frontier's Capital Markets and Asset Allocation Team or your client consultant.