How to Stay Diversified in Stocks When AI Is Everywhere

Value stocks can play a key role, but active management might be the x-factor.

AI offers potential transformational change on the scale of the Industrial Revolution. It may well deliver, but it's equally reasonable to ask: what if it doesn't? Or, even if it does, what if that success is already priced into today's lofty share prices? Your investment portfolio is more exposed than you realize, and many of the traditional places in which you could've sought shelter are now also hitched to the AI bandwagon.

One area that stands out as offering genuine diversification potential is value equities—but, importantly, only if done properly. Most passive-value equity benchmarks are stuffed full of the same technology names that you're seeking to diversify away from. If your aim is to "AI-proof" your portfolio, they may be a one-way ticket to disappointment. (Diversification does not ensure a profit or protect against a loss in a declining market).

Is Everything Becoming AI?

Most investors in US equities have roughly half their money in technology stocks, once you include Amazon and Tesla (consumer discretionary), and Alphabet and Meta (communication services). That proportion has marched higher in recent years. Nvidia, with its $4.5 trillion free-float market capitalization and 5.5% weight in the MSCI World Index[3] as of 12/31/25, is now larger than every other developed stock market on the planet.

Given that the US now makes up over 70% of the global developed market, investors in global equities fare little better. Long-held beliefs that a low-cost passive portfolio of global stocks delivers diversification—and avoids having too many eggs in one basket—demand urgent re-evaluation.

Insight From sub-adviser Schroders Investment Management

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Key Points

- AI exposure extends beyond technology, permeating utilities, real estate, and financials—leaving many equity portfolios far more concentrated in a single AI narrative than investors may realize.
- Historical evidence highlights the diversification potential of value equities,[1] which may show greater resilience when AI-linked stocks stumble.
- Many passive value indices still hold mega-cap tech leaders. Active value approaches emphasize valuation discipline and avoidance of AI value traps.[2]

FIGURE 1
USA and World Indices: Weight of IT Sector + Alphabet, Amazon, Meta, and Tesla Is High in Both
MSCI USA Index[4] (left chart) vs. MSCI World Index (right chart)

Data covers 2006 through 2025. **Past performance does not guarantee future results.** Indices are unmanaged and unavailable for direct investment. Prior to September 2018, Alphabet and Meta were in the IT sector but since then have moved to the communication-services sector. Over the period shown in the charts, Amazon and Tesla have always been part of the consumer-discretionary sector. Data Sources: LSEG Datastream, MSCI, and Schroders, 3/26.

Even this understates things. Here are four additional examples of areas with AI dependency.

Utilities: From Defensive Plodders to AI-Dependent Growth Stocks

Utilities have morphed from being a sleepy "defensive" (slow-growth/high-dividend) investment to a growth-oriented sector driven by unprecedented energy demand. The correlation is two-fold: AI requires massive, reliable power, causing utilities to become essential "shovels" in the AI boom, while simultaneously adopting AI to modernize ageing grids. US utilities have risen 23% and 16% in the past two years (as measured by the S&P 500 Utilities Index[5])—almost identical to the tech heavy S&P 500 Index.[6]

The link with AI is particularly strong for unregulated utilities near data-center hubs or those with a nuclear component. Many top US performers have delivered double and triple-digit returns cumulatively over the last three years alone. Past performance disclaimers should be flashing brightly at this point.

Meanwhile, dividend-payout ratios[7] have been cut (the sector payout ratio is comfortably below its five- and 10-year average) as capital is diverted into capital expenditures, to meet AI-driven electricity demand. If that demand trajectory disappoints, the sector could face excess capacity problems later.

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Real Estate: Data-Center Dependence

Real estate is another sector that investors have historically turned to for diversification. Here too, AI is becoming entangled. Specialist data-center REITs[8] are one of the largest sectors of the US REIT market. They're about 10% of the market today vs. 4% 10 years ago. Adding in other, more diversified, REITs, which have meaningful exposure to data centers, pushes that figure closer to 20%. AI demand is embedded deep into the REIT complex.

Software-Driven Platforms

There are also other companies, such as Airbnb, Uber, Doordash, Netflix, and Disney, that are software-driven platforms. Their share prices embed an expectation that AI will deliver productivity gains for them (such as content development) and/or an improved user-experience for their customers.

Financials

Payments companies—established names such as Visa and Mastercard and newer entrants such as Block—are structurally tied to online and digital ecosystems. Again: AI exposure.

Put together, investors in US equities have done exceptionally well out of these exposures but now are likely to have a vast, concentrated bet on a technology/AI narrative. This is not simply about *correlations*[9] going to 1 in a crisis—these are fundamental linkages.

Can You Do Anything to Manage this Risk?

The aim here isn't to claim AI will fail, or even that AI-related companies are overvalued for what they might deliver, but to explore how investors can guard against this risk without giving up equity exposure.

2025 showed the benefits of global diversification. Europe ex UK, UK, Japanese, and emerging-market (EM) equities returned, respectively, 37, 35%, 25%, and 34% in US-dollar terms vs. 18% for the US (as measured by MSCI indices).[10, 11, 12, 13] International diversification is an option that everyone should consider.

But we also have to remember that AI is everywhere. Stocks with a hint of an AI link in non-US markets have also performed exceptionally in recent years and make up significant proportions of their domestic/regional stock markets.

The world's largest chipmaker, TSMC, for example, is 11% of the MSCI Emerging Markets Index and 58% of Taiwan's market as of 12/31/25. The next four largest EM stocks—Tencent (AI platforms), Samsung Electronics (memory), Alibaba (cloud and AI services), SK Hynix (memory)—are all explicitly AI-linked. Many large companies across developed markets have also benefited meaningfully from the AI wave.

Non-US markets remain cheap relative to the US, and catch-up potential exists. But that's not the same as saying they'll shelter investors if an AI-driven sell-off comes. Many would also be heavily exposed.

Traditional sector tilts are equally complicated, for reasons already outlined.

Value Equities as a Hedge Against AI Risk (Without Sacrificing Equity Exposure)

Value investing remains underappreciated in this context. In the US, the correlation between value equities and the "AI trade"—using semiconductors and equipment as a proxy—has recently been low and falling. During the dot-com sell-off it even turned negative. This suggests value may offer valuable and significant diversification benefits.

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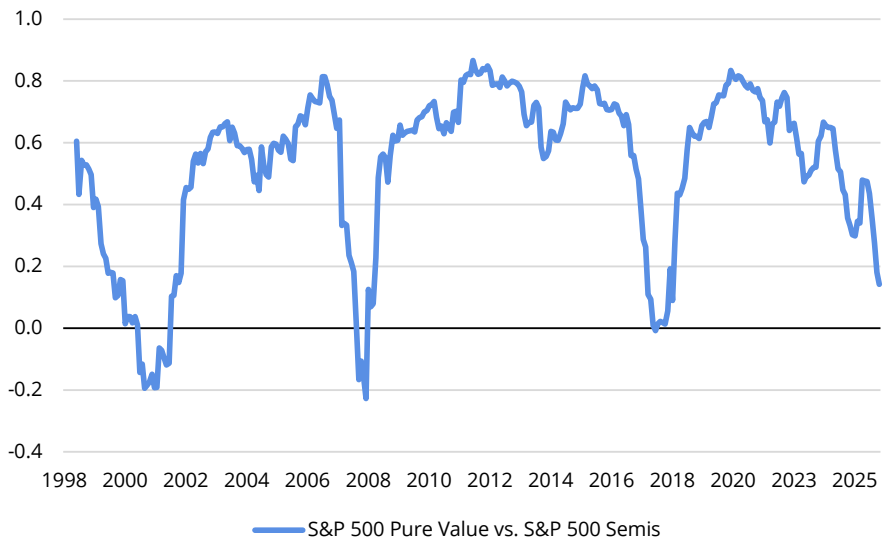
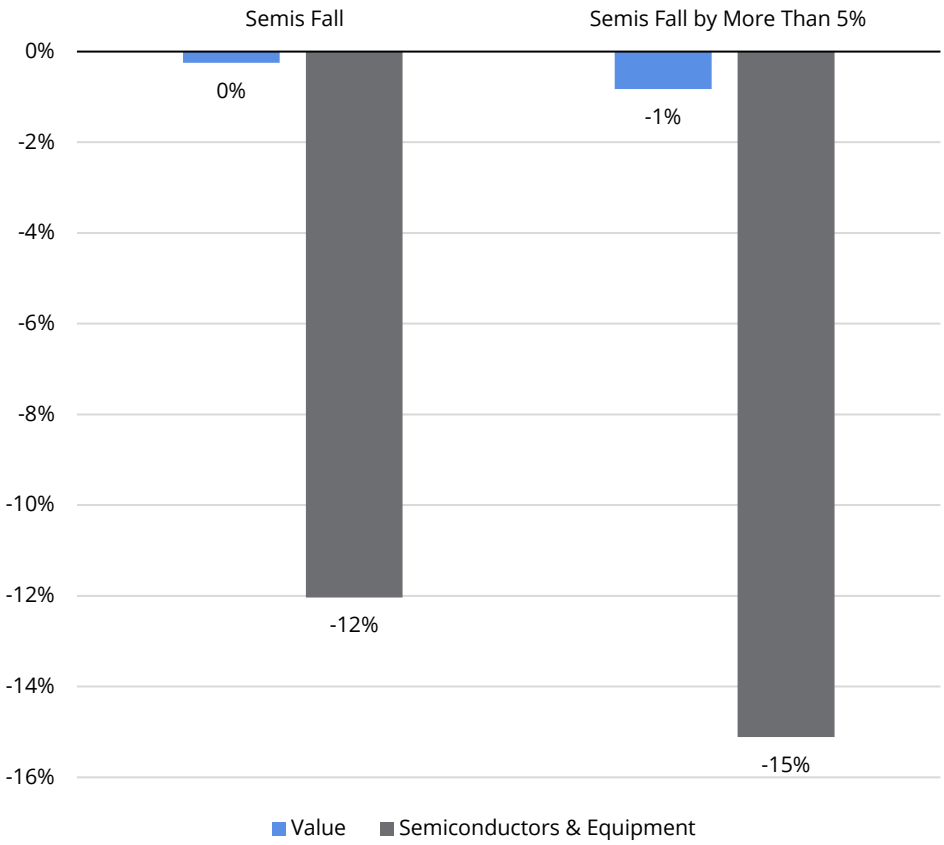
FIGURE 2
Value Stocks Have Had a Low Correlation with AI Stocks
Rolling 24-Month Correlations of the S&P 500 Pure Value Index[14] to the S&P 500 Semiconductors & Equipment Index[15]



Data covers 6/30/96 (inception of S&P 500 Semiconductors & Equipment Index) to 12/31/25. **Past performance does not guarantee future results.** Indices are unmanaged and unavailable for direct investment. Value stocks are represented by S&P 500 Pure Value Index. AI stocks are represented by the S&P 500 Semiconductors and Equipment Index. Both indices assume all dividends and cash distributions are reinvested. Semiconductors (semis) used as a proxy for AI stocks. Source: LSEG Datastream, S&P, and Schroders, 3/26.

Even more importantly, if we isolate those quarters in which semiconductor stocks fell, value equities were roughly flat, on average, vs. a 12% average decline for semiconductors. In deeper drawdowns (e.g., semiconductors down by 5% or more), semiconductors fell 15% on average. Impressively, value stocks fell only 1%.

FIGURE 3
In Down Markets, Value Stocks Suffered Much Less Than AI Stocks
Median Quarterly Return in Quarters in Which Semiconductors Fall



Data covers 6/30/96 (inception of S&P 500 Semiconductors & Equipment Index) to 12/31/25. **Past performance does not guarantee future results.** Indices are unmanaged and unavailable for direct investment. Value stocks are represented by the S&P 500 Pure Value Index. AI stocks are represented by the S&P 500 Semiconductors and Equipment Index. Both indices assume all dividends and cash distributions are reinvested. Chart isolates those quarters in which semiconductors fell in value; non-overlapping periods are used. Semiconductors (semis) used as a proxy for AI stocks. Source: LSEG Datastream, S&P, and Schroders, 3/26.

One reason for this is the "margin of safety" from which value investors benefit when buying companies on cheaper valuations. By only paying low prices relative to conservative appraisals of earnings or asset values, investors avoid areas of the market that require large growth to justify the price. So, when those areas of the market that may have enjoyed a speculative boom have retreated, value investors have historically been much more immune to those falls.

This analysis is based on US value stocks, but, in today's environment, the case is even stronger for value outside the US. If investors turned off US stocks specifically, because of high valuations or any other reason, US growth and value stocks would likely both suffer (to varying degrees). Non-US value should be more resilient in such a scenario.

Buyer Beware: Passive "Value" Probably Won't Help

The shift from active to passively managed strategies has been one of the biggest changes in investor behavior of the past decade. While there may be some justifiable reasons, this specific situation is one in which passive investing may disappoint. Most value indices contain large allocations to the very same AI names investors are seeking to avoid.

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FIGURE 4
Most Value Indices Have Major Exposure to Major Technology Names
Largest Five Value-Index Holdings

MSCI USA Value Index[16]	MSCI USA Value Weighted Index[17]	MSCI USA Enhanced Value Index[18]	Russell 1000 Value Index[19]	S&P 500 Value Index[20]	S&P 500 Pure Value Index
Alphabet A	**Apple**	**Micron Technology**	Berkshire Hathaway	**Apple**	Ford
Meta Platforms	**Microsoft**	**Cisco Systems**	JP Morgan	**Amazon**	Bunge Global
JP Morgan	JP Morgan	**Intel**	**Alphabet A**	Exxon	General Motors
Berkshire Hathaway	Exxon	General Motors	**Amazon**	Walmart	Mosaic
Exxon	Amazon	AT&T	**Alphabet C**	**Tesla**	Centene

As of 12/31/25. Sources: MSCI, FTSE, Russell, S&P, 3/26.

This isn't an accident. These value indices are often designed to avoid taking large tilts vs. the broader market, as that's what many investors desire. Some also allocate a stock partly to a value index and partly to a growth index based on its characteristics rather than purely in one or the other. This leads to a lot of overlap.

I believe many investors in passive-value strategies are unaware that they're allocating significant sums of money to the likes of Alphabet, Amazon, Meta, Microsoft, and even Tesla. They could be in for a rude awakening.

The S&P 500 "Pure Value" Index—used in the earlier analysis—is different: It selects only the cheapest S&P 500 Index stocks and weights them by value characteristics, not size. This creates a much more differentiated portfolio and stronger potential diversification benefits. But it also takes no account of whether any of these companies are cheap for good reason. Just because a company is cheap vs. its historical valuation doesn't automatically make it a good investment. There's a significant risk that some of the "pure value" index constituents may turn out to be duds.

Why Active Value May Make The Most Sense

Active approaches can deliver the diversification benefits of pure value—low correlation to AI, resilience in AI related sell-offs—while avoiding exposure to value traps. The goal isn't simply to be cheap, but to be cheap relative to fair value.

This creates a portfolio that:

- Has a credible case for potentially performing well if AI disappoints;
- Maintains the long-term return potential of equities; and,
- Can still perform if the AI-driven bull market continues.

Conclusion

AI may transform everything—or it may not. What's clear is that most equity portfolios are now running a far larger implicit bet on the AI narrative than investors appreciate. And many of the usual diversifiers have all become entangled in the same theme.

If investors want to reduce their dependence on a single powerful narrative without selling equities, value investing stands out. The historical data show that value has tended to hold up well when the AI trade stumbles. But most passive-value strategies may not help: They're full of the same mega-cap technology names that dominate the broader market.

An active-value approach can offer a way to maintain equity exposure, reduce AI concentration risk, and may help build a more resilient return profile. In an investment world increasingly shaped by a single theme, we think that kind of diversification may be worth a great deal.

To learn more about the role of diversification in your portfolio, please talk to a financial professional.

[1] **Value stocks** are equities priced below their intrinsic worth compared to key financial metrics like dividends, earnings, or sales. They attract value investors who believe the market undervalues these stocks, offering long-term growth opportunities.

[2] A **value trap** is an investment that looks cheap based on metrics, such as price to earnings (P/E), price to cash flow (P/CF), or price to book value (P/B) ratios, but remains undervalued for good reason, often due to underlying business or industry weaknesses. These persistently low valuations can persuade investors seeking bargains, only for the stock to fall further.

[3] **MSCI World Index** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed markets.

[4] **MSCI USA Index** is a free float-adjusted market capitalization index that is designed to measure the performance of the large and mid-cap segments of the US market.

[5] **S&P 500 Utilities Index** measures the performance of those companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

[6] **S&P 500 Index** is a market capitalization-weighted price index composed of 500 widely held common stocks.

[7] **Dividend payout ratio** is the proportion of earnings paid to shareholders as dividends. It's expressed as a percentage.

[8] A **REIT** (Real Estate Investment Trust) is a company that owns, operates, or finances income-producing real estate across various sectors, such as apartments, malls, offices, and warehouses. They allow individual investors to buy shares in commercial real estate portfolios, typically offering high dividends and liquidity, as they are traded on major stock exchanges.

[9] **Correlation** shows the strength of a relationship between two variables and is expressed numerically by the correlation coefficient. The correlation coefficient's values range between -1.0 and 1.0. A perfect positive correlation means that the correlation coefficient is exactly 1. A perfect negative correlation means that two assets move in opposite directions, while a zero correlation implies no linear relationship at all.

[10] The **MSCI Europe ex UK Index** captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 331 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

[11] The **MSCI United Kingdom Index** is designed to measure the performance of the large and mid cap segments of the UK market. With 72 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

[12] **MSCI Japan Index** is a free-float adjusted market-capitalization index designed to measure large- and mid-cap Japanese equity market performance.

[13] **MSCI Emerging Markets Index** is a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance in the global emerging markets. MSCI index performance is shown net of dividend withholding tax.

[14] **S&P 500 Pure Value Index** is a style-concentrated index designed to track the performance of stocks that exhibit the strongest value characteristics by using a style-attractiveness-weighting scheme.

[15] **S&P 500 Semiconductors & Equipment Index** measures the performance of companies within the S&P 500 that are classified under the semiconductor sub-industry, covering manufacturers, designers, and equipment suppliers.

[16] **MSCI USA Value Index** captures large- and mid-cap US securities exhibiting overall value style characteristics.

[17] **MSCI USA Value Weighted Index** is based on a traditional market cap weighted parent index, the MSCI USA Index, which includes US large and mid cap stocks. The MSCI USA Value Weighted Index reweights each security of the parent index to emphasize stocks with lower valuations. Index weights are determined using fundamental accounting data—sales, book value, earnings and cash earnings—rather than market prices.

[18] **MSCI USA Enhanced Value Index** captures large and mid-cap representation across the US equity markets exhibiting overall value style characteristics. The index is designed to represent the performance of securities that exhibit higher value characteristics relative to their peers within the corresponding GICS® sector.

[19] **Russell 1000 Value Index** is an unmanaged index measuring the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. Indices are unmanaged and not available for direct investment.

[20] **S&P 500 Value Index** is a subset of the S&P 500 Index. It includes full market-capitalization weightings in the most value-oriented third of the S&P 500 Index, and a half market-cap stake in the stocks within the S&P 500 Index that have both value and growth characteristics.

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