

US Exceptionalism: 5 Perspectives on 2 Truths

How US leadership and a changing global order are reshaping returns, risk, and diversification.

US Exceptionalism at a Crossroads

Adam Berger, Multi-Asset Strategist

When it comes to the notion of US exceptionalism, or sustained outperformance relative to other markets, two things are true:

1. US exceptionalism is intact; and
2. US exceptionalism is waning.

Before unpacking this paradox, it's helpful to outline where we've come from and where US markets could be headed.

Where We've Come From

For years, the US has benefited from strong economic and corporate fundamentals. US assets have dramatically outperformed those in other regions. As a result, the US has enjoyed a "safe-haven" status that has given the global investment landscape a sense of order. In addition, the US dollar (USD) experienced long-term strength, reinforcing its role as the world's reserve currency. And since the Global Financial Crisis (GFC), risk assets¹ have shown a high degree of correlation, meaning diversification across equity markets didn't necessarily pay off.

Where We Could Be Going

Today, the return gap between US and non-US markets is narrowing. The previously cited safe-haven status is being challenged, and while the USD remains the world's reserve currency, that role is under pressure. Global correlations among risk assets are also declining, pointing to renewed opportunities for portfolio diversification. Ongoing geopolitical instability around the world exacerbates many of these dynamics, as illustrated by the military conflict in the Middle East.

Markets haven't yet fully appreciated the coexistence of these two truths. Many asset owners have yet to account for the portfolio implications and potential impacts on returns.

Below, four Wellington strategists share what they believe investors should pay attention to as the paradox of ongoing but waning US exceptionalism continues to unfold.

Balancing US Strength with Global Diversification

Nanette Abuhoff Jacobson, Global Investment Strategist

Given the dual truths outlined above, I believe investors may want to consider leaning into both US strength and global alternatives. I hold this view despite recent events in the Middle East, which are geopolitically significant but, in my view, ultimately transitory for markets.

Insight from sub-adviser Wellington Management



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Key Points

- US market leadership remains intact, but its foundations are increasingly being tested.
- Broader leadership and lower correlations² are shifting return patterns across regions and asset classes.
- Greater dispersion is heightening risk considerations and renewing the case for diversification³ and active management.

¹ Risk assets refer to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate, and currencies.

² Correlation measures how closely two investments have historically moved together. A value of 1.0 means they moved in the same direction, -1.0 means they moved in opposite directions, and 0 means no consistent relationship.

³ Diversification does not ensure a profit or protect against a loss in a declining market.

Leaning into both US and global assets aligns with the sentiment expressed by Canadian Prime Minister Mark Carney in a speech at the Davos summit earlier this year, when he called on countries to “hedge.” While this obviously applies to military and economic relationships, hedging can take many forms. I view this as a call to allocators as well. Investors may do well to hedge their portfolios in areas where US exceptionalism appears to be waning.

Indicators of declining US exceptionalism include recent surges in gold prices, questions surrounding Federal Reserve independence, challenges to sovereignty (Greenland, for example), a weakening USD, and increased US state intervention in the private sector. Even so, the US remains an engine of global growth and a leader in technological innovation, suggesting that moving away from it entirely may be unwise. Taken together, these two truths suggest that multi-asset investors may not want to put all their eggs in a US basket.

Investment Implications

Based on the view that US exceptionalism remains intact, investors may wish to consider US, tech, and global equities over the long term. In the shorter term, I believe rotating into US value and small-cap equities may be prudent. In addition, beneficiaries of AI—such as data-center enablers, metals and mining companies, utilities, healthcare services, and select beaten-down asset managers and software firms with low disintermediation risk⁴—may also offer opportunities.

Regarding the concurrent view that US exceptionalism is waning, investors may want to consider non-US equities, including emerging markets, global fixed income, commodities and/or gold, as well as value and quality exposures within the US as part of a multi-asset allocation.

Across either scenario, investors could also look to potential opportunities in dynamic fixed-income and credit strategies. In a complicated and often contradictory market environment, an active approach may help managers identify investments that can withstand these dynamics.

AI, Capital Intensity, and the Future of US Equity Returns

Andrew Heiskell, Equity Strategist

From an equity-market perspective, US exceptionalism refers to the meaningful and consistent outperformance of US equities relative to the rest of the world since the GFC. During this period, strong fundamentals drove that outperformance, and a consistently strengthening USD was supportive.

Over time, the return on equity of US companies relative to their developed-market peers has continued to widen, driving what could be described as “exceptional” earnings growth. While the technology sector has accounted for a significant share of US equity-market outperformance, margin expansion and earnings growth have been broad-based across the market. And although US valuations have expanded, they have largely been supported and justified by this fundamental strength.

The second truth, however, raises important questions. Can the US sustain this growth and return gap? Has the period of relative outperformance vs. the rest of the world peaked, or is it peaking now? It’s certainly possible. The US equity market today looks very different from what it did 50 years ago. At that time, capital-intensive manufacturing and industrial sectors formed the backbone of the market. As the historically capital-light technology sector took hold, the runway for growth expanded dramatically. Today, by contrast, rapid growth in AI-related capital expenditures⁵ is raising questions about the future returns on that invested capital.



Taken together, these two truths suggest investors may not want to put all their eggs in a US basket.

⁴ Disintermediation is when companies lose business because customers can access the same product or service more directly, reducing the need for a middleman.

⁵ Capital expenditures are the money a company spends to buy or upgrade long-term assets such as buildings or equipment.

Investment Implications

More broadly, as US policies shift away from the prior global order, other countries are likely to respond by encouraging greater domestic resilience and economic strength. As a result, global equity-market correlations may continue to break down, increasing dispersion and creating potential opportunities for stock selection. Within the technology sector, as AI drives greater capital intensity among incumbents, some companies may adapt effectively, while others may begin to lag.

Together, these dynamics support the case for an active approach to equities. The flexibility of active management may better position investors to capitalize on opportunities created by rising dispersion, while avoiding companies or sectors that risk going stale in today's evolving market environment.

Fixed Income and the Limits of Dollar Strength

Amar Reganti, Fixed-Income Strategist

For me, the theme of US exceptionalism is closely tied to the USD and the US Treasury market. Over the past year, the general trend has been a gradual weakening of the USD, representing an erosion of the status quo that many investors have experienced since the GFC.

Here, too, there are two truths at play. The USD's status as the world's reserve currency is supported by the world's largest and most liquid financial markets, a deep supply of safe assets in the form of US Treasuries, strong institutional credibility, and its entrenched role in global trade, commodities, and financial infrastructure. At the same time, the infrastructure and foundations for future multilateral currency arrangements are being established.

Investment Implications

Against this backdrop, fixed-income investors might consider diversifying beyond the US through global sovereign and currency strategies, including those found in traditional global bond markets. Another potential avenue is emerging-markets local currency debt (EMD), which posted a strong year in 2025 and may offer return opportunities for fixed-income investors.

That said, if investors choose to allocate to EMD, it should be driven by fundamentals and yield considerations, not solely as a play on USD weakness. In any case, given the uncertainty and heightened anxiety in this space, adaptable and actively managed approaches may be worth considering.

Why the World Feels More Unsettled—and What It Means for Markets

Thomas Mucha, Geopolitical Strategist

It's no coincidence that US exceptionalism has coincided with a period of US geopolitical dominance. For years, the US led the world in infrastructure, military capability, and diplomatic influence. That stability gave US financial markets room to grow and outperform global peers.

Today, we appear to be in the midst of a transition, moving from a relatively stable geopolitical cycle to one marked by turbulence and uncertainty. There may be no clearer example than the recent conflict in the Middle East. Such events are likely to accelerate global fragmentation, reduce policy cohesion, and reinforce a worldwide policy focus on national security.



The gradual weakening of the US dollar reflects an erosion of the post-GFC status quo.

Several additional factors are contributing to this geopolitical shift. Intensifying competition between the US and China is challenging America's role as the world's leading power. The number of active conflicts worldwide is unusually high, many of them in climate-sensitive regions. Supply chains are also being reconfigured. When considered together, these dynamics suggest that market risk is structurally higher today than it has been in recent memory.

Investment Implications

Geopolitical cycle shifts like the one unfolding today tend to occur only once per century, and they are often disruptive. But they can give rise to ongoing and novel opportunities to identify potential winners and losers. In our view, investors may be better positioned by focusing less on headlines and social-media commentary, and more on observable signposts and underlying structural change.

Great-power competition and shifting supply chains are supporting several notable investment themes across both public and private markets. These include defense and defense technology, critical minerals and rare earth elements, biotechnology, cyber defense, and climate and energy resilience. We're also likely to see greater dispersion across regions, countries, asset classes, industries, and individual companies—conditions that have historically been well suited to active management.

To learn more about how changing global leadership could impact your portfolio, talk to your financial professional.

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