

Preparing for a Shift in US Exceptionalism

While US leadership remains largely intact, it may be wise to prepare now for a time in which it wanes, creating more opportunities for diversification and attractive returns outside the US.

What You Should Know

- US exceptionalism remains intact, but its advantages may be narrowing.
- Global markets are becoming less synchronized, creating more diversification opportunities.
- Elevated US valuations may make future outperformance harder to sustain.
- AI growth opportunities extend beyond US mega-cap technology companies, particularly in Asia.
- Earnings growth is broadening across sectors, company sizes, and regions.
- The US dollar may no longer provide the same tailwind it has in the past.
- Europe and Japan are becoming more self-reliant, creating new investment opportunities.
- Investors may benefit from maintaining US exposure while increasing allocations to non-US markets.

Insight From Sub-Adviser Wellington Management



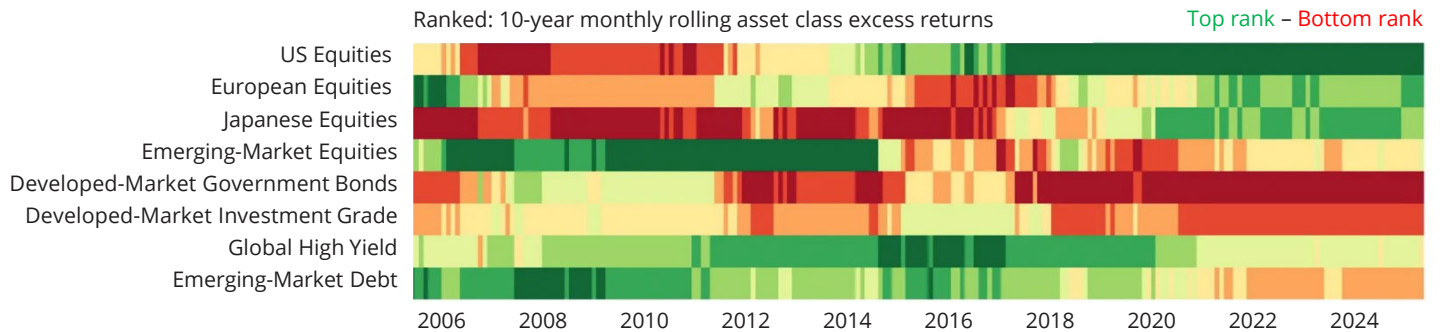
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Over the last 15 years, US public companies have achieved superior performance and faster growth than the rest of the world, while also almost always exceeding absolute-return expectations. Coupled with favorable starting valuations, these tailwinds have delivered a prolonged period of exceptional returns for US equities, well ahead of other asset classes and markets (**FIGURE 1**). For non-US investors, these returns were further enhanced by a consistently strengthening US dollar. Now, with valuations at much higher levels and growing doubts about US global leadership, investors have started to ask if this US exceptionalism can persist.

FIGURE 1
US Equities Have Enjoyed Years of Exceptional Returns



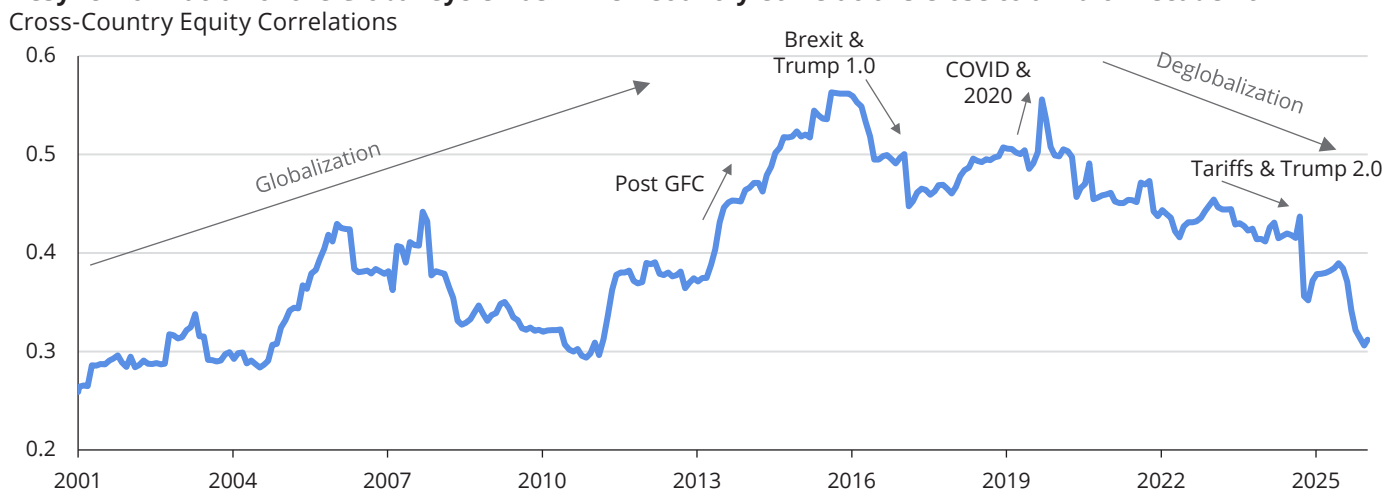
As of 12/31/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Total excess returns (over US 3-month cash) ranked on a 10-year monthly rolling basis; green indicates top rank, red indicates bottom rank. Representative Indices: US Equities - S&P 500 Index, European Equities - MSCI Europe Index, Japanese Equities - MSCI Japan Index, Emerging-Market Equities - MSCI Emerging Markets Index, Developed-Market Government Bonds - FTSE World Government Bond Index, Developed-Market Investment Grade Bonds - ICE BofA Global Corporate Index, Global High Yield - Bloomberg Global High Yield Index, and Emerging-Market Debt - JPM EMBI Global Diversified Index. See last page for representative index definitions. Sources: Wellington Management and Refinitiv.

Yet, as we look to the second half of 2026, perhaps the more accurate question to ask is not whether, but how US exceptionalism might evolve? And what can investors do to prepare? The first half of the year offers us some indication. Here we share a few observations.

With The World Shifting from Multilateralism to Unilateralism, Dispersion Has Returned

The prior economic regime of expanding globalization was characterized by synchronized global growth, high correlations¹ in economic cycles and equity markets, low dispersion,² low inflation, and falling interest rates. In a highly synchronized environment, investors were incentivized to reduce diversification and concentrate exposure into whichever asset class (or market) was delivering the best growth. Diversification does not ensure a profit or protect against a loss in declining market. During this period, anything an investor did to hedge or diversify away from the US equity market or the US dollar generally increased volatility and lowered returns. But as **FIGURE 2** illustrates, global markets are no longer moving together in the same way. The correlation of global equity markets rose steadily from 2000 to hit a peak in 2016—a period that in retrospect has come to signal the beginning of the fracturing of globalization. The desynchronization of the global cycle has now driven country correlations close to a multi-decade low.

FIGURE 2
Desynchronization of the Global Cycle Has Driven Country Correlations Close to a Multi-Decade Low



As of 3/11/26. **Past performance does not guarantee future results.** Monthly rolling 5-year correlation of the S&P 500 Index, MSCI Canada Index, MSCI China Index, MSCI UK Index, MSCI Japan Index, MSCI Germany Index, MSCI India Index, MSCI France Index, MSCI Mexico Index, and MSCI Sweden Index. Source: Bloomberg Finance L.P.

The Starting Point For Valuations Does Matter

The US equity market today is very different than it was 50 years ago. Then, capital-intensive manufacturing and industrial sectors were the beating heart of the American equity market. When the capital-light tech sector took off, the runway for growth increased exponentially, helping to fuel US exceptionalism. But now, the rapid growth in AI-related capital expenditure is drawing into question the future returns on this invested capital.

Moreover, US equities have historically earned their higher valuations through consistently delivering faster growth and outcomes that beat expectations. Now, valuations imply a bigger hurdle for future beats at a time when the positioning of the US relative to the rest of the world may be changing, while, overall, US earnings expectations remain at a multiyear high.

The US Is Increasingly Not the Only AI Game in Town

Exceptional US companies may continue to excel, but in this nascent stage of AI, we see plenty of room for new competitors—in the US and elsewhere—to grow, succeed, and even displace incumbents. Prudent investors will look for opportunities among new and established companies alike, both in historically dominant markets like the US, and in others, like Asia, where innovative, new AI-focused companies have long runways to thrive.

It's worth underscoring that while US mega-cap technology companies dominate the application and platform layer of AI, Asia plays a critical role in enabling the infrastructure behind it, and the region's role in the semiconductor ecosystem serves as a good example. The region holds leading positions in materials, memory, and advanced manufacturing capabilities that we think are difficult to replicate at scale. Japan owns a significant proportion of the critical materials and tools, Korea leads memory, and Taiwan still sets the bar in advanced fabrication and packaging.

Earnings Growth Continues to Broaden, Even Outside of AI-Driven Growth

While for the most part today's US market leaders are still expected to deliver superior growth, especially in the broader tech space, there are reasons to look elsewhere, both in the US and beyond. Against a backdrop of stronger-than-anticipated economic growth and ongoing fiscal support, we continue to see signs of a broadening in earnings growth across sectors, market cap, and regions. This points to the potential for a wider set of beneficiaries, suggesting that investors may wish to position for more diversified sources of growth.

The US Dollar Remains in a Tenuous Position

One of the major factors supporting US exceptionalism has been a consistently strengthening currency, delivering not just enhanced returns but also "risk off" diversification benefits. This trend of persistent dollar strength has now come to an end as evidenced by the significant weakening we saw prior to the US-Iran conflict. Since then, the dollar has rallied somewhat but, longer term, we think it remains vulnerable to growing uncertainty about the US's long-term fiscal position and the role of the dollar as the world's reserve currency. The attractiveness of the dollar may be further undermined if investors start to view it as a source of risk amplification rather than risk mitigation.



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US Policy Actions Continue to Drive “Reflexive” Responses from The Rest of the World

Political drivers and objectives are now shaping economic decisions. This means investors increasingly need to look at the direction policymakers are headed in order to understand risks and opportunities.

As US policies shift away from the prior global order, other countries may have reflexive responses that could encourage their own domestic resilience and economic strength. Over time, this could narrow the gap for US growth expectations relative to the rest of the world.

Europe and Japan: Going Their Own Way

Europe and Japan, in particular, appear to be stepping up efforts to insulate their economies from external shocks. After decades of relying on external demand, imported energy, and US-provided security, these regions are now reassessing the sustainability of that model. First, both are net energy importers and are likely to accelerate efforts to reduce reliance on fossil fuel imports. Second, Europe and Japan have historically relied not only on the US security umbrella but also on US defense technology. With future US support less certain, domestic defense capabilities are likely to become a greater priority. And finally, as major beneficiaries of globalization, both regions have long depended on exports. However, with China exporting excess capacity and the US raising trade barriers, we’re likely to see an increased focus on boosting domestic demand and protecting local industries to offset external headwinds.

In our view, these regime shifts in both Europe and Japan could create winners and losers, potentially expanding the opportunity set for active managers. Moreover, European and Japanese equities are likely to offer improved diversification as their drivers increasingly decouple from the US cycle.

Putting This All Together: Two Truths—US Exceptionalism Is Intact, But Also Waning

The problem equity investors face now is how to deal with a world in which US exceptionalism appears to be both intact and waning. An 80-year history of US economic, geopolitical, and military dominance—one that’s driven dollar primacy, powered US financial markets and, for the most part, supported global stability—is being challenged. While most of these dynamics still hold, it’s also true that the world and the US face growing turbulence in many forms: expanding regional conflicts, economic instability, and diminishing policy cohesion. The effects of this emerging dichotomy on capital markets are beginning to take shape, and asset allocators need to understand what the two truths of US exceptionalism may mean for them.

Because we believe US exceptionalism remains largely intact, investors should consider staying invested in US equities but potentially look to broaden their exposure. However, we think that they should also be prepared to accept lower risk-adjusted returns relative to what they’ve grown accustomed to in the last 15 years, but also compared to the rest of the world, especially given high starting valuations. And because US exceptionalism is simultaneously waning, we also believe investors should consider balancing investment in the US with increased allocations to non-US markets, both to effectively diversify US exposure and add to the potential for higher risk-adjusted returns.



The problem equity investors face now is how to deal with a world in which US exceptionalism appears to be both intact and waning.

To learn more about opportunities in equities, please talk to your financial professional.

¹ Correlation is a statistical measure of how two investments move in relation to each other, 1.0 indicates the investments have historically moved in the same direction; -1.0 means the investments have historically moved in opposite directions; and 0 indicates no historical relationship in the movement of the investments.

² Dispersion is a statistical measure of how much individual asset returns deviate from a broader market index or average. It indicates the range of potential investment outcomes.

Representative Index Definitions:

Bloomberg Global High Yield Index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

FTSE World Government Bond Index is a market-capitalization-weighted index consisting of government bond markets. Country eligibility is determined based on market capitalization and investability criteria. All issues have a remaining maturity of at least one year.

ICE BofA Global Corporate Index tracks the performance of investment-grade-rated corporate debt publicly issued across major domestic and Eurobond markets.

JPM EMBI Global Diversified Index tracks total returns for traded external debt instruments in the emerging markets. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding.

MSCI Canada Index is designed to measure the performance of the large- and mid-cap segments of the Canada market. The index covers approximately 85% of the free float-adjusted market capitalization in Canada.

MSCI China Index MSCI China Index is a free-float adjusted market-capitalization index that is designed to measure equity market performance in China.

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.

MSCI Europe Index is a free-float adjusted market-capitalization-weighted index designed to measure the equity market performance of the developed markets in Europe.

MSCI France Index is designed to measure the performance of the large- and mid-cap segments of the French market. The index covers about 85% of the equity universe in France.

MSCI Germany Index is designed to measure the performance of the large- and mid-cap segments of the German market. The index covers about 85% of

the equity universe in Germany.

MSCI India Index is designed to measure the performance of the large- and mid-cap segments of the Indian market. The index covers approximately 85% of the Indian equity universe.

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

MSCI Mexico Index is designed to measure the performance of the large- and mid-cap segments of the Mexican market. The index covers approximately 85% of the free float-adjusted market capitalization in Mexico.

MSCI Sweden Index is designed to measure the performance of the large- and mid-cap segments of the Swedish market. The index covers about 85% of the equity universe in Sweden.

MSCI UK Index is designed to measure the performance of the large and mid cap segments of the UK market.

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

Important Risks: Investing involves risk, including the possible loss of principal. • Foreign investments may be more volatile and less liquid than US investments and are subject to the risk of currency fluctuations and adverse political and economic developments. These risks may be greater, and include additional risks, for investments in emerging markets. • Focusing on one or more sectors may subject investors to increased volatility and risk of loss if adverse developments occur.

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