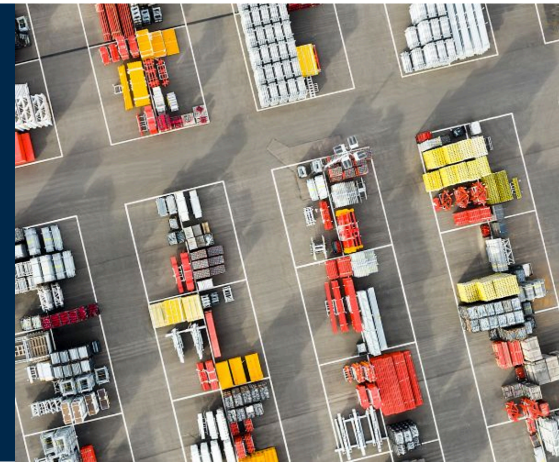
COLUMBIA THREADNEEDLE INVESTMENTS®

Article 6-minute read

# Deliberate diversification in an uncertain world

**October 23, 2025** | Simon Haines, CFA, Portfolio Manager, Global Equities; Nitisha Bosamia, CFA, Portfolio Manager, Global Equities

Global shifts challenge U.S. equity dominance, reinforcing the case for diversified international investing.



## KEY POINTS

1. Recent geopolitical shifts and trade policies have accelerated a reassessment of U.S. equity leadership, raising concerns around concentration risk and valuation sustainability.
2. Elevated political risk and declining cross-country correlations underscore the importance of diversifying equity exposure beyond the U.S., particularly toward Europe, Japan and China.
3. Structural reforms, fiscal stimulus and corporate governance improvements in select regions present compelling opportunities for long-term capital deployment.

A positive outlook for global equities anchored expectations heading into 2025. From the second half of the year, however, we look back at a period of heightened uncertainty and volatility. Political decisions in the U.S. — a slew of tariff announcements with stark global ramifications— have dictated macroeconomic and market events globally. We explore the factors reshaping the global equity landscape and highlight opportunities beyond the U.S. for selective investors in an increasingly uncertain world.

**Reassessing U.S. exceptionalism**

For over a decade U.S. equities have dominated global equity returns and, as a result, portfolio allocations. A range of contributing factors have driven this U.S. exceptionalism — not least among them the performance of a narrow cohort of mega-cap technology names generating impressive earnings growth and turbo charging broader market returns. Underpinned by a culture of innovation, a flexible labor market and business-friendly environment, it was hard to see any emerging challenge to the U.S.'s leading position.

The reassessment of this exceptionalism, however, has been rapid and stark. In January, DeepSeek's release presented an unexpected challenge to U.S. dominance in the artificial intelligence (AI) space — could China be able to produce comparable models for a fraction of the cost? Perhaps investment professionals and strategists voicing concerns around concentration risk and valuation levels were right in doing so. Early April's trade tariff announcements had a more fundamental impact, especially when combined with rhetoric that challenged perceived geopolitical norms and alliances. The tariff environment has continued to evolve although investors have seemingly become more sanguine, which in turn has helped markets recover to record levels. There has, however, been a fall in correlations between countries. With political risk seemingly set to remain elevated, geographic diversification is of arguably increased importance going forward.

**Diversifying regional equity exposure**

Against this backdrop, investors have moved to rapidly reassess threats and opportunities. Points for consideration will include the implications of tariffs on established trading relationships and supply chains as well as the prospects for economic growth and company earnings.

At the company level, businesses have been reluctant to provide granular guidance around future expectations. Yet, it is evident that those with pricing power should be better placed to pass on tariff impacts through price rises, particularly in business-to-business scenarios. Some tariff impacts may be absorbed through enhanced efficiencies in company operations, but in terms of relocating bases, the cost, effort and resources required to relocate manufacturing from low-cost centers may lead businesses to forgo relocation and pass price increases on to consumers instead. In other instances, we are already seeing capital expenditure plans in the U.S. as companies aim to service U.S. customers from those sites.

From a regional perspective, interest in Europe has increased significantly — not least because of the region's strong collective response to shifts in the geopolitical backdrop. In addition to the perceived attractiveness of valuations, there have been firm commitments made around fiscal loosening to bolster economies and reduce dependence on the U.S.

- **Germany** enacted a historic constitutional amendment to reform its debt brake with areas of focus for increased spending including defence, infrastructure and climate-related initiatives. The moves are seismic in nature and could transform Europe's growth (and investment) potential.
- **China** has also taken significant steps to stimulate industrial activity, bolster digital infrastructure and diversify supply chains. In a seemingly fragmenting global economy, it has been keen to assert its leadership and strengthen regional relationships.
- **Japan** has also been a significant beneficiary of investors reassessing the global opportunity set — and with good reason. Valuations are attractive on a geographic and historical basis, as evidenced by the high incidence of merger and acquisition activity, and Japanese equities look set to be an ongoing beneficiary of structural factors such as continued corporate governance reform.

Year to date, Europe and Japan have enjoyed significant capital inflows, often through broad-based ETF strategies that facilitate cost-effective access to those wishing to swiftly realign portfolios from a geographic perspective.

However, we are firm proponents of an active approach — especially during periods of economic uncertainty and when sector/industry and trade linkages/relationships are in a state of flux. Against such a backdrop, a selective focus on quality companies capable of compounding returns is more prudent than a broad index strategy.

**Players with pricing power**

Our investment approach is driven by finding durable competitive advantage in companies. With tariffs set to remain a feature from here, those businesses that can adjust prices without overly impacting demand should be better positioned to withstand pricing pressures.

In the following case studies, we highlight a selection of compelling global stories.

**Pole position in auto supply chains: Sekisui Chemical.**

A diverse multinational with a high-performance plastics division. Sekisui is strategically ramping up the premium nature of its products by leveraging technological advancements to create unique customer solutions. It has developed sophisticated films for automotive applications including head-up display units. These initiatives make it a key partner with automotive original equipment manufacturers (OEMs) and allow it to better pass on costs to customers.

### Improving businesses

Alongside recognized compounders, we believe in the potential of identifying businesses ahead of the pack as they emerge or turnaround previously underperforming operations. This 'improver' category typically forms around a third of our portfolios, and Adidas typifies this type of business.

**Earning its stripes: Adidas on an improving trend.**
Up until November 2022, sentiment around German sportswear giant Adidas was negative. However, under new CEO Bjorn Gulden, the firm has performed a remarkable reversal through a strategic plan aimed at accelerating 'brand heat,' improving the product engine, regaining shelf space and enhancing speed to market. It has navigated challenges and gained market share with a strong product pipeline, especially in performance segments. Today, the firm is in much better shape and has the potential to achieve double-digit margin growth.

### Themes for thought

While the merits of individual companies are the key determinants of our investment decisions it is important to understand the broader environment in which businesses operate. Thematic drivers can be potent tailwinds for well-placed quality names.

**Powering up for energy efficiency: Schneider Electric.**
A French digital automation and energy management specialist, Schneider is well-positioned in energy efficiency and decarbonization, especially as data usage and centers drive increasing electricity demand. With an extensive geographic footprint, Schneider's smart and sustainable energy systems make it a key enabler of buildings and industrial efficiency.

### The bottom line

With its deeply engrained culture of innovation, business-friendly environment, efficient capital markets and leadership in key themes like AI, the U.S. is set to maintain an important position in many areas (and portfolios). Recent events and likely developments from here, however, serve as a reminder around the perils of overreliance on single geographies and sectors. In light of these circumstances and recognizing broader potential opportunities, we strongly advocate for maintaining a more geographically balanced portfolio than has been common in recent years.

PORTFOLIO MANAGER, GLOBAL EQUITIES

## Simon Haines, CFA

*Member of the investment community since 1998*

Simon Haines is a portfolio manager within the Global Equities team. Simon joined the company in 1999 and the Global Equities team in 2013. He is the lead portfolio manager across the desk's EAFE. Simon holds the CFA® designation.

PORTFOLIO MANAGER, GLOBAL EQUITIES

## Nitisha Bosamia, CFA

*Member of the investment community since 2013*

Nitisha Bosamia is a deputy portfolio manager in the Global Equities team for the Global Developed ex-US (EAFE) Strategy. She joined Columbia Threadneedle Investments through the acquisition of BMO GAM (EMEA) in 2021, having previously been with BMO since May 2015. In addition, she holds an Investment Management Certificate and holds the CFA® designation.

**To find out more,**
**visit columbiathreadneedle.com**

Diversification does not assure a profit or protect against loss.

International investing involves certain risks and volatility due to potential political, economic or currency instabilities and different financial and accounting standards.

The views expressed are as of the date provided and are subject to change without notice at any time based upon market and other factors. There is no guarantee that investment objectives will be achieved or that any particular investment will be profitable. **Past performance does not guarantee future results.**

The Information contained herein is for informational purposes only and should not be considered a solicitation or offer of any investment product or service to any person in any jurisdiction where such solicitation or offer would be unlawful.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

Columbia Management Investment Advisers, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission.

© 2025 Columbia Threadneedle. All rights reserved.

CTBPZZF (10/25) CTNA8505154.1