



# Investor resilience through market shifts & uncertainty: Evidence from long-term investors

March 2026



## **Sovereign & Institutional Investment View: 2026**

Institutional investors and Sovereign Wealth Funds enter 2026 with high equity exposure and lower US dollar holdings than a year ago. During 2025, many funds increased equity allocations.

Those exposures now sit near the upper end of recent ranges. Risk-taking has slowed, but portfolios remain tilted toward equities. The US dollar has weakened as interest rate gaps narrowed and monetary policy paths diverged. Funds reduced overweight dollar positions and increased exposure to the euro and selected developed market currencies. Currency movements now have a greater impact on overall portfolio returns. Several members have trimmed US exposure and increased allocations to other developed markets. They continue to back the strength of US companies, but they prepare for more balanced returns across regions. Artificial Intelligence remains an important investment theme. Respondents among sovereign wealth funds recognise strong earnings in leading firms but see high valuations in crowded parts of the market. Many diversify exposure across data centres, energy and related infrastructure rather than concentrate in a narrow group of listed technology stocks. Private markets remain strategic allocations. However, slower exits and weaker fundraising require tighter liquidity management and pacing. In 2026, resilience depends on broad diversification across regions and currencies, active management of liquidity and disciplined control of portfolio risk.

## Introduction

In 2025, financial markets navigated significant volatility, driven by geopolitical developments, international trade tensions, shifting monetary policy expectations, and technological changes.

Notably, an acceleration in interest and capital investment in Artificial Intelligence spurred strong equity market outperformance in the second half of 2025, supporting investor sentiment into early 2026. This optimism, however, has been tempered by growing caution, as investors continue to face heightened market volatility and potential divergence across asset markets as these key themes continue to unfold. This environment raises a central question: whether investor resilience has been expressed through continued risk-taking, or through more selective and sequenced portfolio adjustment in response to rising dispersion and fragmentation.

This report examines how institutional investors and sovereign wealth funds have responded to these changing market conditions, focusing on capital flows and portfolio reallocation decisions over the past year. The research is powered by State Street's proprietary indicators of institutional investor flows and holdings, derived from the anonymised and aggregated activity of institutional investors, representing more than \$53.8 trillion in assets<sup>1</sup>. This data is complemented by qualitative input from members of the International Forum of Sovereign Wealth Funds (IFSWF).

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<sup>1</sup> as of December 31, 2025

## Research Methodology

State Street analysed its unique suite of proprietary macroeconomic indicators, including aggregate trends in capital flows and portfolio positions by long-term institutional investors across multiple asset classes, sectors and countries.

The indicators provide a bird's-eye view of the activities of large and diverse global institutional investors such as sovereign wealth funds, collective funds, mutual funds, pension products, insurance products and others. These indicators are derived from security-level transactions, holdings, and borrowings and are aggregated and anonymised through a robust process to help preserve underlying client confidentiality. The indicators provide objective insights into demand and risk appetite derived from the aggregated activities of long-term institutional investors representing more than \$53.8 trillion<sup>2</sup> in assets under custody and administration at State Street. To complement the quantitative analysis, the IFSWF gathered qualitative insights from seven member sovereign wealth funds active in global markets, focusing on how they adjusted asset allocation over the past year.

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<sup>2</sup> as of December 31, 2025

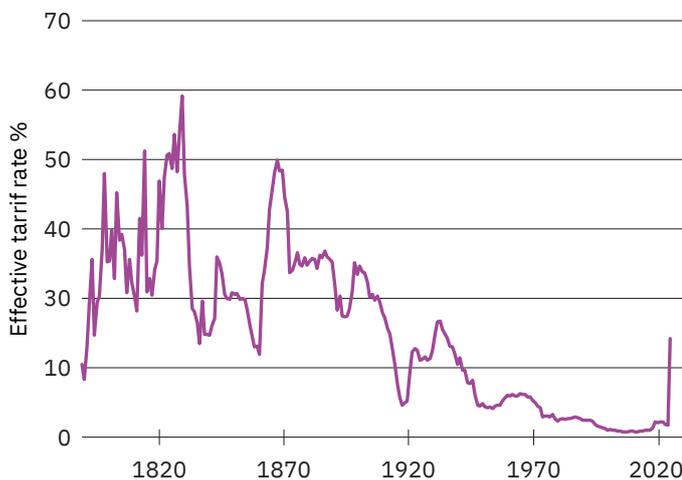
## Market narrative shifts: Trade, policy and AI

2025 started with the inauguration of President Trump’s second term in office and his instructions to his administration to review US trade policies with its international partners.

His new trade tariffs, announced on April 2nd and termed ‘Liberation Day’, brought US import tariffs to their highest levels since the 1930s (Figure 1A), causing significant financial market volatility and correction in global equity markets.

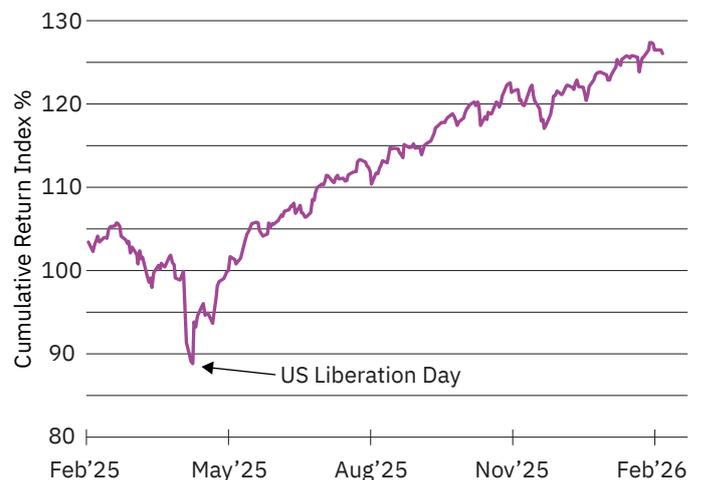
**Figure 1: US effective tariffs and equity market**

**Figure 1A: US effective tariff rate**



Source: Yale Budget Lab Nov'25

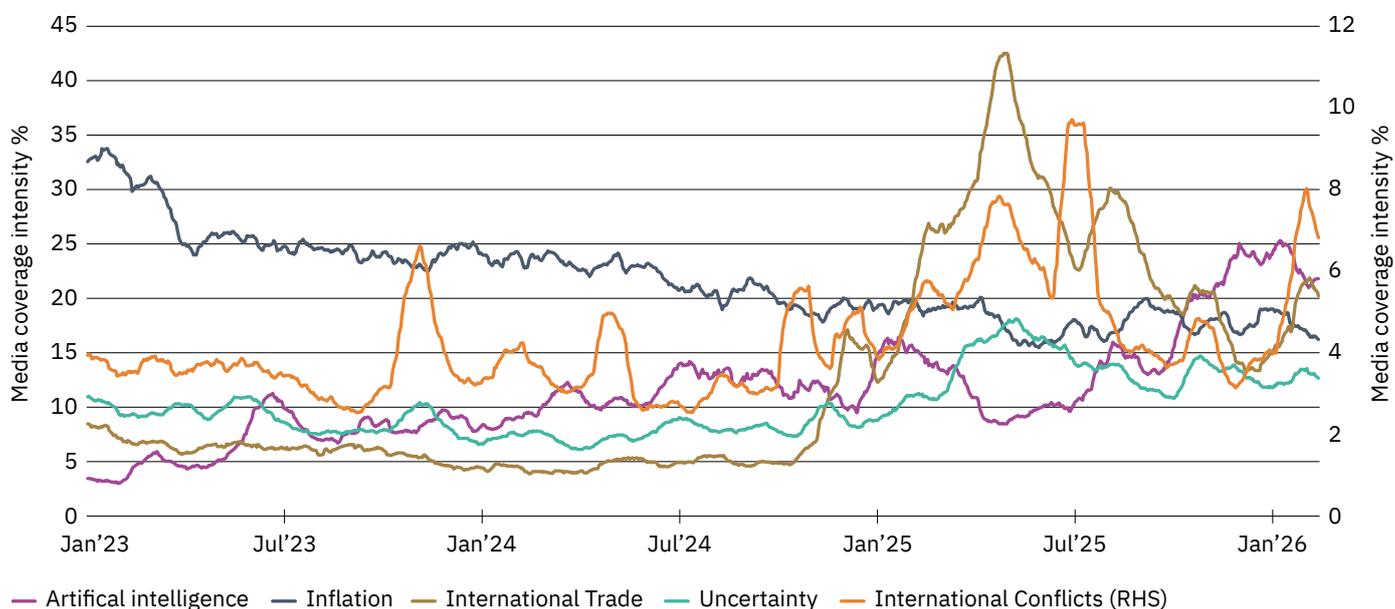
**Figure 1B: Global equity market (MSCI ACWI)**



Source: State Street Markets, Refinitiv

Furthermore, a more assertive second Trump administration internationally meant that geopolitics and trade remain top of mind for investors’ attention, as can be seen in State Street MediaStats Thematic Indicators (Figure 2), which measures the intensity of global media coverage relating to narratives. Coverage of International Trade accelerated to unprecedented levels during the past year, with elevated attention also paid to international conflicts. Global interest in Artificial Intelligence continued to rise to new highs, as attention to uncertainty and risk has, highlighting the potential for financial market contagion.

Sovereign wealth fund survey responses point to a broad interpretation of AI-related opportunity. Several funds highlighted expected spillovers beyond the technology sector into infrastructure, manufacturing, clean energy and other non-technology sectors, reflecting AI’s role as a general-purpose productivity enabler rather than a narrow sectoral theme.

**Figure 2: Intensity of narrative coverage in global media**

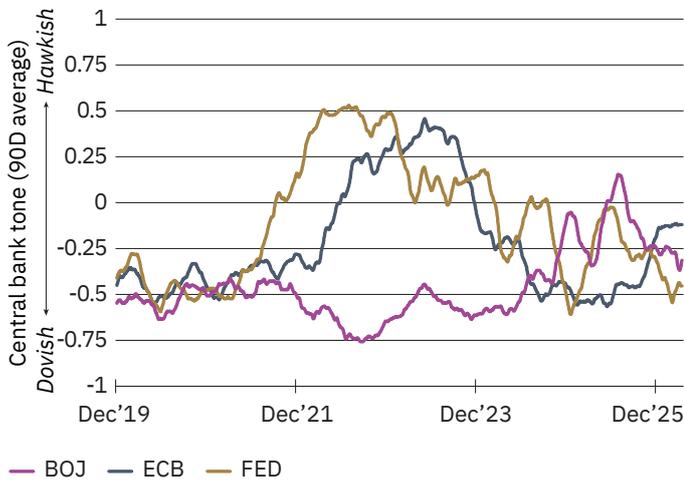
Source: State Street Markets, MKT MediaStats. As of February 2026.

Financial markets responded not only to assumptions of AI-driven returns in 2025 but also by shifting expectations around central bank interest rate policy. These expectations led to significant moves in both short- and long-term interest rates, with ripple effects across asset classes. State Street's real-time measures of central bank monetary policy sentiment, developed in partnership with MKT MediaStats, classify central bank statements and media coverage as "hawkish" (favouring tighter policy) or "dovish" (favouring easier policy), providing a systematic framework to track changes in policy stance. At the start of 2025, the European Central Bank (ECB) was the most dovish among the major central banks, but after its final rate cut in June, the ECB shifted its tone and now ranks as the least dovish of the G3 (see Figure 3A). Meanwhile, the Bank of Japan (BoJ) and the Federal Reserve shifted their tone more frequently during the year. The BoJ, after years of ultra-accommodative policy, is now only slightly more dovish than the ECB, reflecting tentative normalisation and a desire to avoid further yen weakness. The Fed, by contrast, became markedly more dovish from June onwards and has since delivered rate cuts at its final three meetings of 2025. This LLM-based tone analysis also quantifies the degree of disagreement among individual central bankers, revealing the highest levels of internal divergence in over four years at the Fed. Elevated disagreement increases the risk of policy surprises and market volatility and reinforces the Fed's emphasis on a "data-dependent" approach.

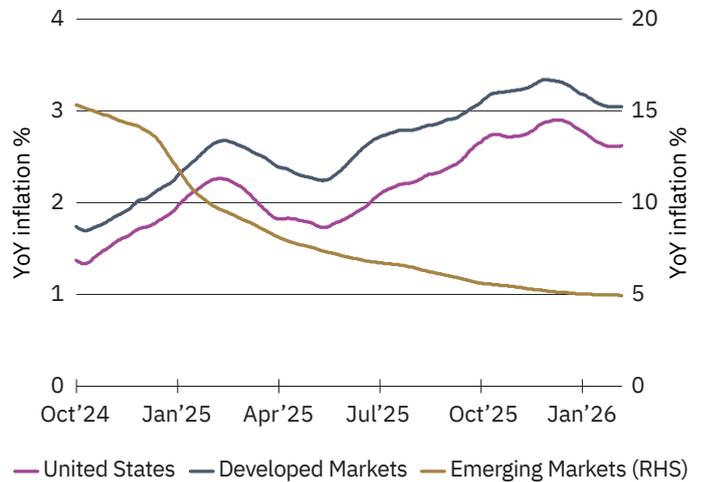
Accordingly, major developed market policy makers, including the US Federal Reserve, continued to ease monetary conditions, during which inflation, measured using State Street PriceStats high frequency indicators derived from online prices, rose gradually across developed markets through 2025, while emerging market inflation continued to fall from its peak in mid-2024 (Figure 3B).

**Figure 3: Monetary policy rate adjustments and online price inflation**

**Figure 3A: Central bank monetary tone**



**Figure 3B: Online price inflation**



Source: State Street Markets, MKT MediaStats, State Street PriceStats. As of February 2026.

Despite volatility, US inflation ended 2025 close to mid-year forecasts, and as 2026 begins, State Street PriceStats shows US annual inflation, particularly in goods, plateauing and starting to roll over in line with forecasts. If the labour market continues to soften, this should reduce Fed disagreements and pave the way for further Fed easing, moving rates back toward neutral as the consensus expects. What is perhaps an even more revealing finding from State Street PriceStats is the recent re-acceleration of inflation in Europe, and deceleration in Japan (albeit from an elevated level). This divergence mirrors the shifts in central bank tone and points to a more fragmented global economic outlook and divergence across asset classes.

Together, these developments point to a shift from a synchronised global cycle towards a more fragmented environment, with greater dispersion across regions, policy paths and asset classes.

## Robust markets and investor optimism

The market backdrop that prevailed during the past year led to investor action. While the market risk environment was ripe with shifting narratives, it was also defined as a predominantly supportive environment based on asset price behaviour.

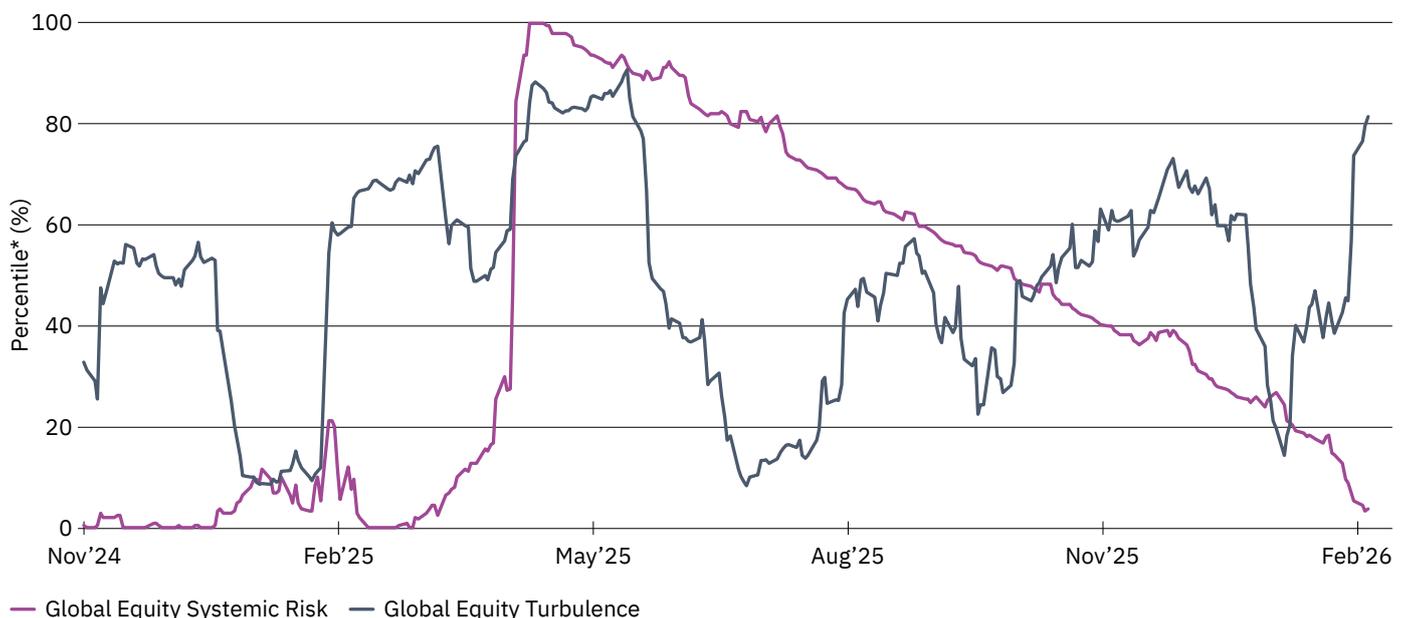
Global equity market fragility – measured by State Street’s Systemic Risk Index – trended lower from its peak since Liberation Day, while there have been moderate episodes of financial turbulence – reflecting the unusualness of market volatility and asset correlations (Figure 4A). Meanwhile, global institutional investors spent the majority of 2025 adding risk exposure to their portfolios.

Sovereign wealth fund responses suggest that this supportive risk stance should not be interpreted solely as directional optimism. Several funds noted that greater dispersion across markets, policy paths and earnings outcomes has expanded the opportunity set for relative value, macro and alternative strategies, even in an environment of heightened volatility.

State Street’s Behavioural Risk Scorecard (BRS) – an aggregate measure of risk appetite derived from the capital flows and portfolio holdings by global institutional investors across multiple asset classes and factors showed persistent evidence of risk taking from May to December 2025. Since then, investors appear to have returned to more of a neutral stance after initial optimism in early 2026, while global equity turbulence has also started to rise (Figure 4b).

**Figure 4: Market risk and institutional investor activity**

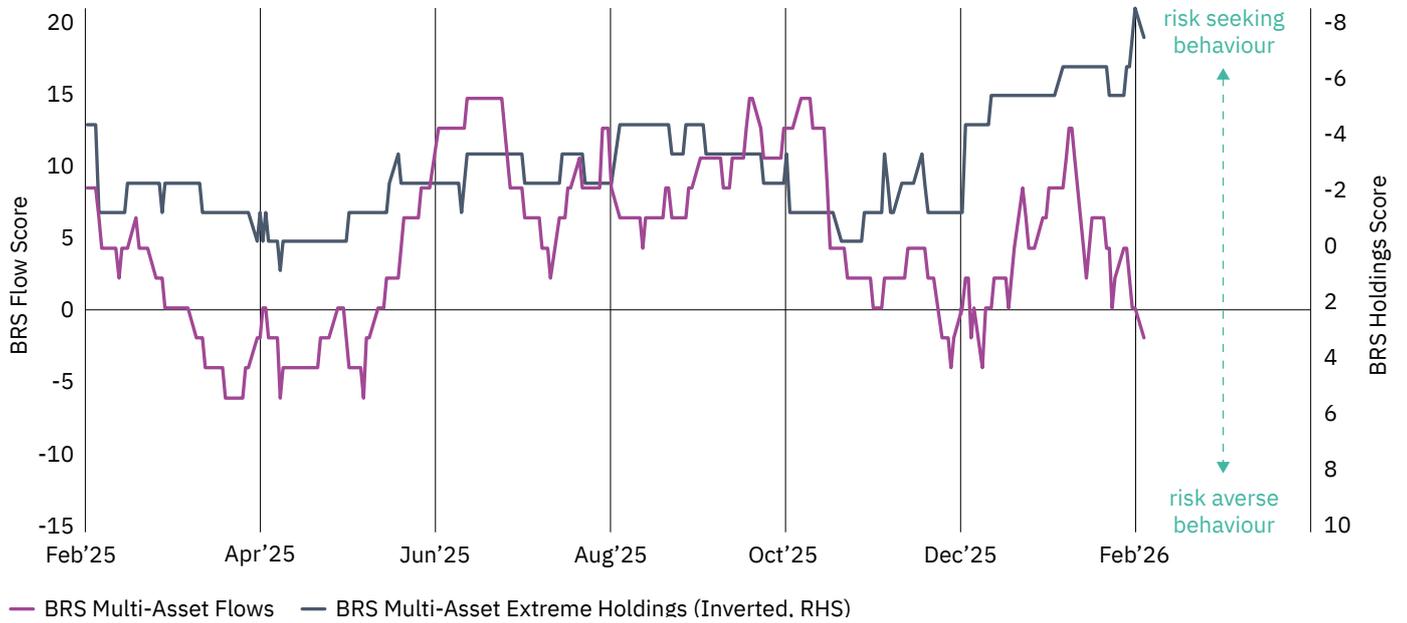
**Figure 4A: Global equity market turbulence and fragility**



Source: State Street Markets. As of February 2026.

\*Five-year percentile rank of 30-day average turbulence and one-year percentile rank of systemic risk.

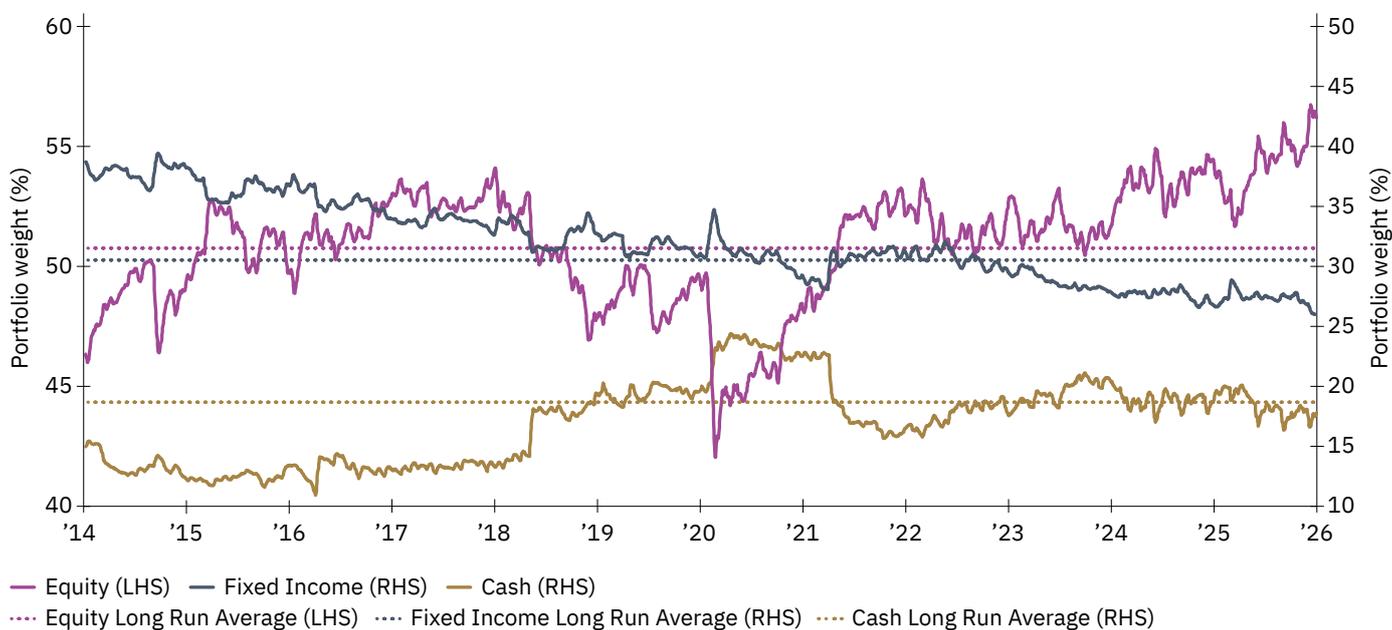
**Figure 4B: Investor flow and holding across risk assets**



— BRS Multi-Asset Flows — BRS Multi-Asset Extreme Holdings (Inverted, RHS)  
 Source: State Street Markets. As of February 2026.

This stance is also reflected in global institutional investors’ asset allocation preferences. Allocations to equities continued to rise in 2025, extending their increases in 2024, to their highest levels in the past decade at the expense of fixed-income assets (Figure 5) and cash reserves relative to their long-term average levels. While equity-heavy positioning has benefited from recent market performance, elevated exposure increases sensitivity to valuation, concentration and policy-related shocks. One might assume that, having passed the stress tests of 2025, confidence for 2026 should be even higher. Nevertheless, episodes of equity market volatility since peak optimism in October are a reminder that with such elevated levels of equity holdings comes added market vulnerability.

**Figure 5: Investor asset allocation trends**



Source: State Street Markets, As of February 2026.

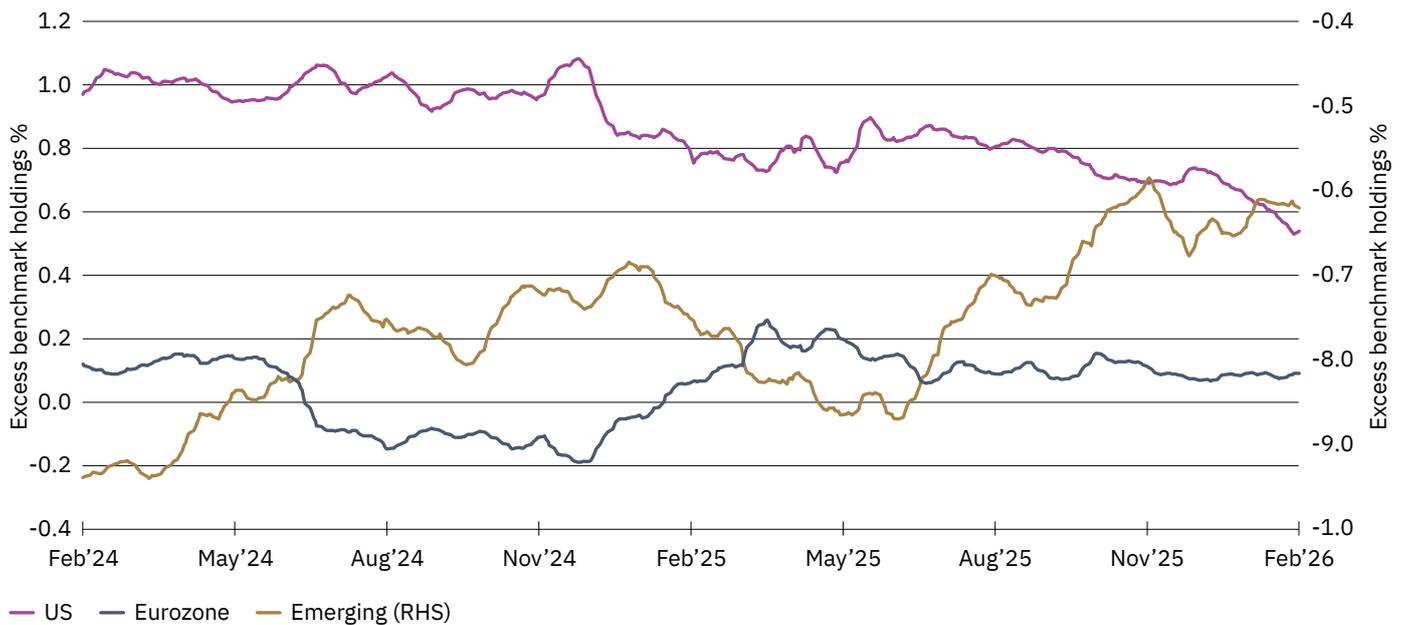
For much of the past decade, global investors have favoured United States stocks. In an environment of subdued global growth, markets have rewarded stocks with resilient earnings, and the US has had the most profitable companies. As a result, it is no surprise that US stocks have led equity markets for over a decade now. However, this outperformance has pushed valuation and positioning risks to elevated levels, indicating that earnings dominance remains critical for US stocks to continue to outperform looking forward.

State Street’s indicators of capital flows and portfolio holdings show that global institutional investors have reduced their overweight holdings in US equity in favour of emerging markets (Figure 6A) and have largely maintained their holdings in Eurozone equity close to benchmark allocations. From a sectoral perspective, institutional investors have retained overweight positions in Information Technology and Communication Services, whereas they reduced their overweight in Financials by more than half over the course of 2025 (Figure 6B). Health Care and Consumer Staples remain the largest underweight positions held by institutional investors.

Sovereign wealth fund responses provide important context for these trends. The responses point to a selective reassessment of geographic equity exposure rather than a wholesale shift in regional preference. Several sovereign funds highlighted opportunities arising from relative repricing across developed markets, including reweighting from the US towards Japan and parts of Europe, alongside continued interest in Asia-Pacific integration and China’s longer-term economic transformation. Overall, expectations for US equity performance in 2026 are centred on gradual normalisation rather than continued linear outperformance. While structural advantages—such as innovation capacity, deep capital markets and corporate profitability—remain recognised, several sovereign investors reported a measured reduction in US-linked exposure in favour of broader regional diversification and preparation for a wider distribution of return outcomes.

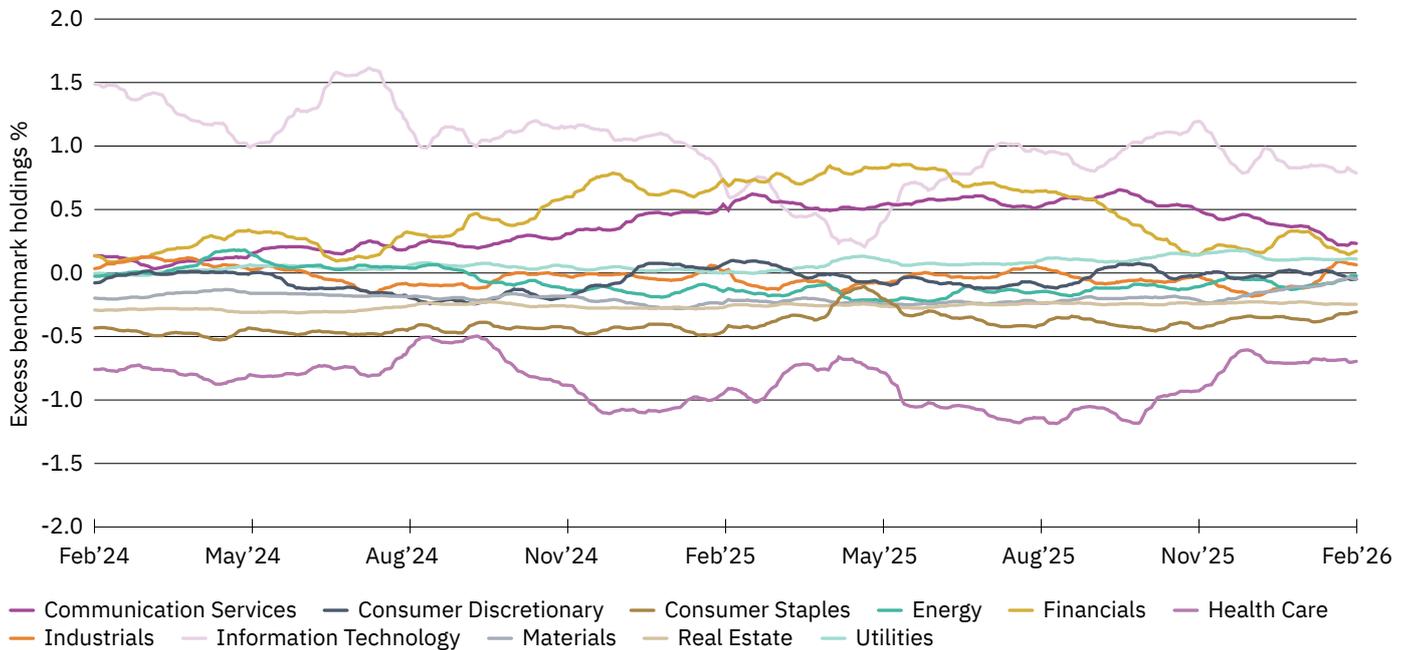
**Figure 6: Equity allocations**

**Figure 6A: Out of US and into Emerging Markets**



Source: State Street Markets. As of February 2026.

**Figure 6B: Overweight IT and Communication Services, underweight Health Care**

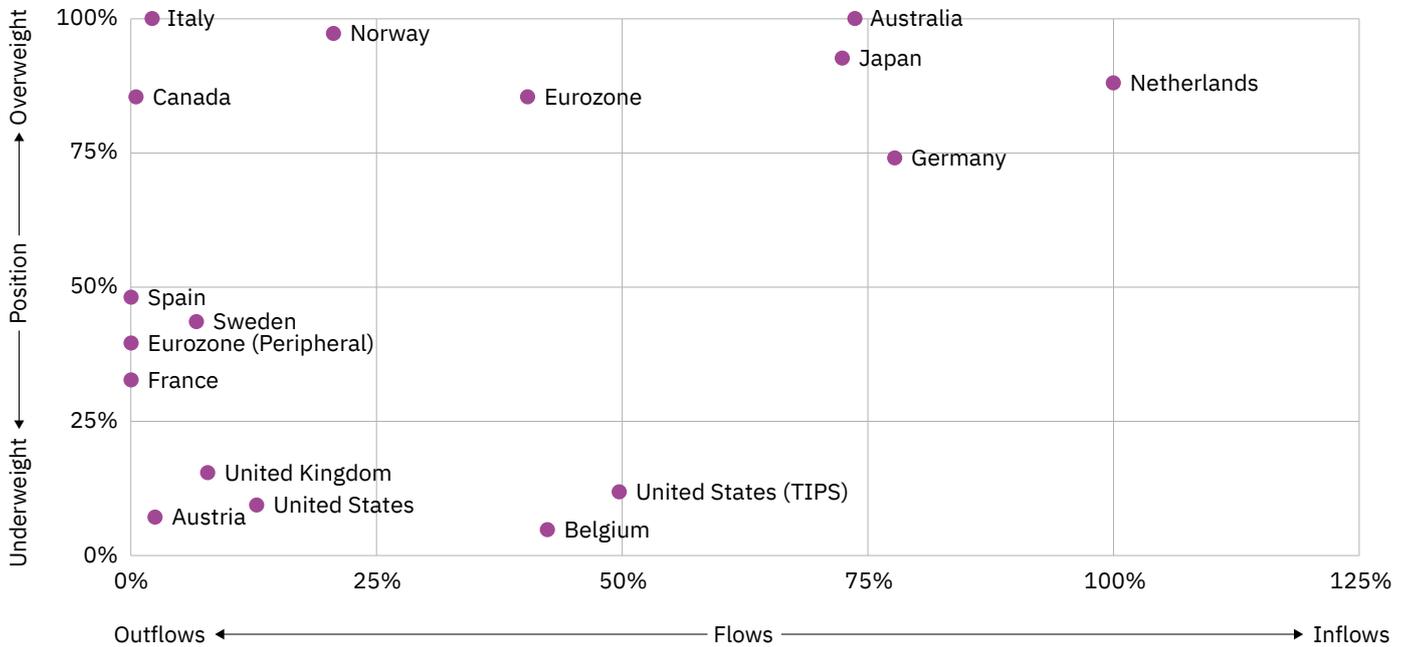


Source: State Street Markets. As of February 2026.

In fixed income markets, we observe differentiation in institutional investors preferences across sovereign markets. Investor allocations remain underweight in US Treasuries, TIPS, and UK government bonds and show no signs of starting to buy into these debt markets. Investors show a positive stance towards Australia, Japan and core Eurozone debt markets (Figure 7). Meanwhile, within commodity-exposed economies, institutional investors are selling their overweight in Norway and Canada whilst adding further to their large allocations in Australia.

Surveyed sovereign wealth funds emphasised that fixed income positioning remains influenced by valuation discipline and the sequencing of policy normalisation, rather than signalling a structural reduction in the role of sovereign bonds within long-term portfolios.

**Figure 7: Fixed income capital flows and portfolio allocations**

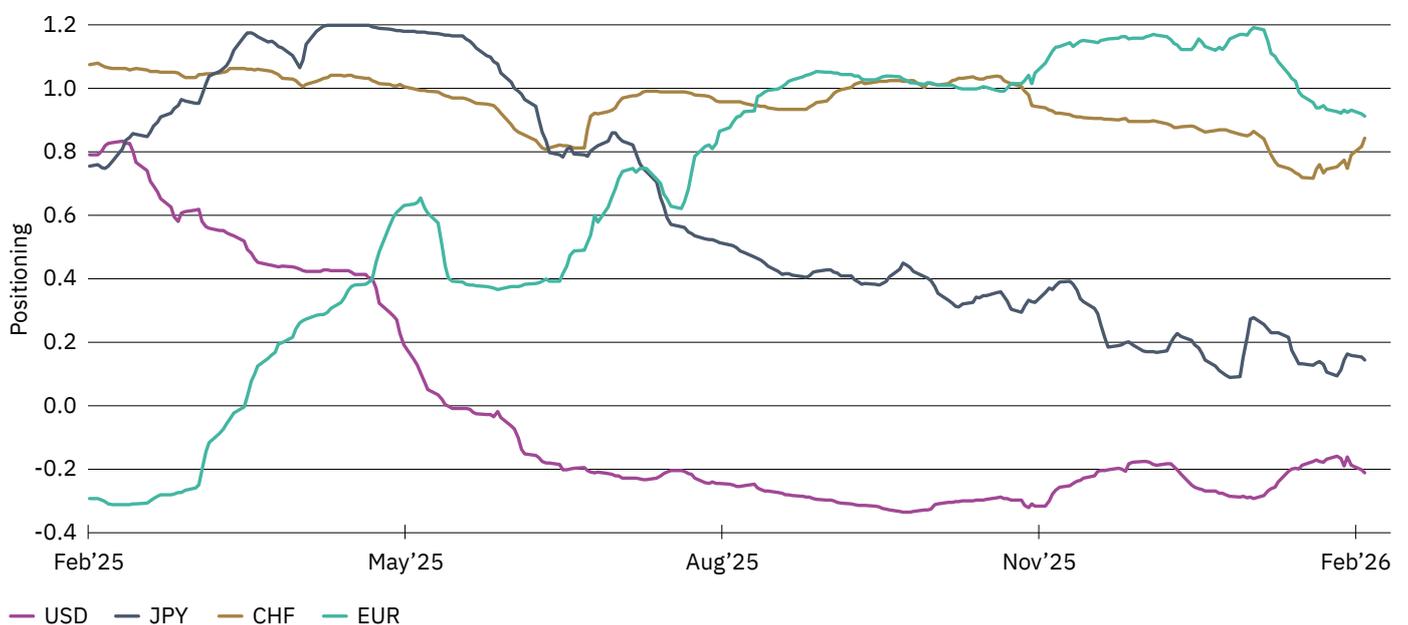


Source: State Street Markets. As of February 2026. 5-year percentile rank of 20-day flows and excess holdings.

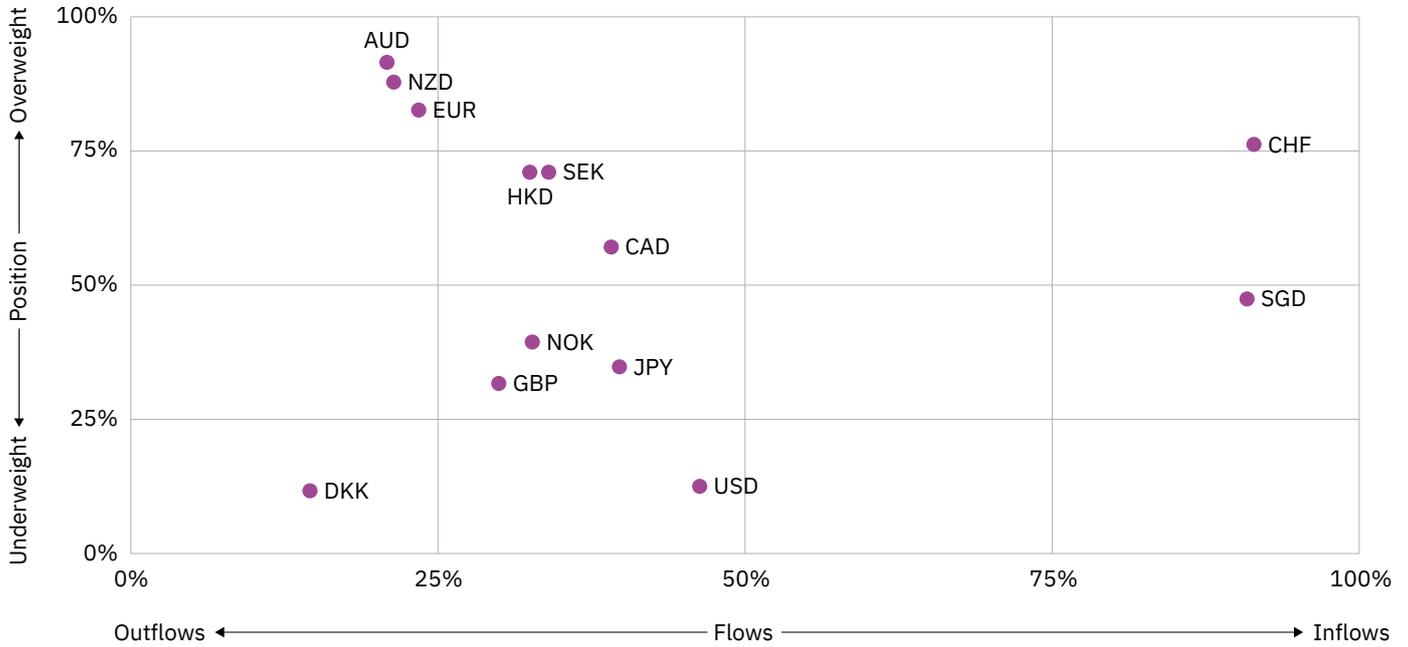
From a foreign exchange perspective, institutional investors have unwound their overweight exposure in safe-haven currencies of USD, JPY and to a lesser extent CHF in favour of the EUR (Figure 8A). Meanwhile, investors are off-loading their exposures to commodity-sensitive currencies by selling AUD, NZD, CAD and NOK (Figure 8B).

**Figure 8: Foreign exchange flows and positioning**

**Figure 8A: Safe-havens vs EUR**



**Figure 8B: Developed markets FX flows and positioning**



Source: State Street Markets. As of February 2026. 5-year percentile rank of 20-day flows and excess holdings.

Sovereign wealth fund responses indicate that fixed-income and foreign exchange positions continue to play a central role in managing liquidity, valuation risk and policy divergence within diversified portfolios.

## Private market trends

Private assets have continued with positive performance in recent quarters. Responses suggest that private markets serve primarily as strategic allocation tools rather than tactical return enhancers, reinforcing the importance of pacing, liquidity management and valuation discipline.

Sovereign wealth fund responses highlight infrastructure as a central channel for deploying long-term thematic convictions in 2026, including Artificial Intelligence adoption, energy transition, manufacturing capacity and supply-chain restructuring. Several funds also pointed to emerging market and Asia-Pacific infrastructure as offering diversification benefits amid a more fragmented global economic environment.

According to State Street's Private Capital Indices, derived from underlying investor cash flows representing \$6.0 trillion in committed capital to private equity and private debt,<sup>3</sup> the global private equity market recorded a 2.91% return in the latest available quarterly data for Q3 2025 (Figure 9A). The positive performance was supported by broad-based strength across all strategies, led by Venture Capital at 6.78%, followed by Private Debt at 2.45% and Buyout at 2.0%. However, private equity markets continued to lag U.S. large-cap equities over both short-and long-term horizons (Figure 9B).

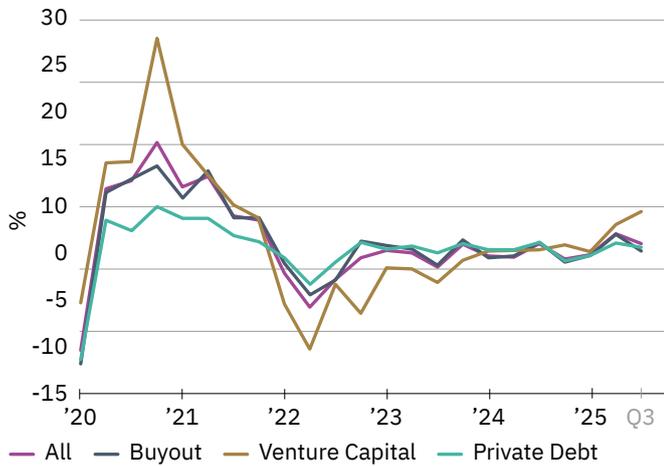
Constrained by heightened competition from public markets and persistent uncertainty surrounding trade and monetary policy, total funds raised in the first three quarters of 2025 concluded with \$234 billion in commitments. At this pace, full-year fundraising is projected to total approximately \$312 billion, significantly below the \$443 billion raised in 2024, marking a continued downward trend since the 2021 peak (Figure 9C).

Meanwhile, cash flow trends derived from State Street's Private Capital Index also show that cash flow activities, particularly distributions, have been showing signs of recovery, leading to net positive cash flows with distributions exceeding contributions – particularly for buyout and private debt funds, while venture capital funds continued to report negative net cash flows (Figure 9D).

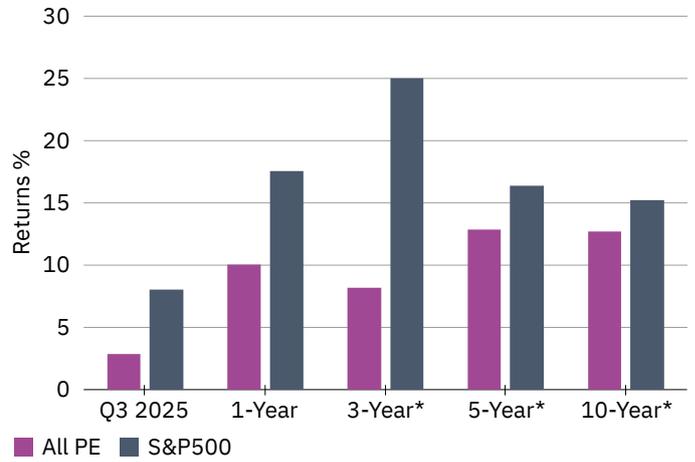
<sup>3</sup> Source: [State Street Private Capital Index](#). As at Q3 2025.

**Figure 9: Trends in private equity and debt**

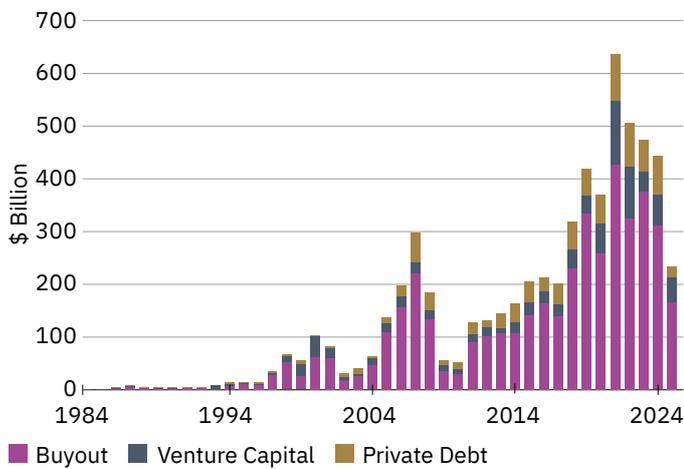
**Figure 9A: Historical quarterly returns (%)**



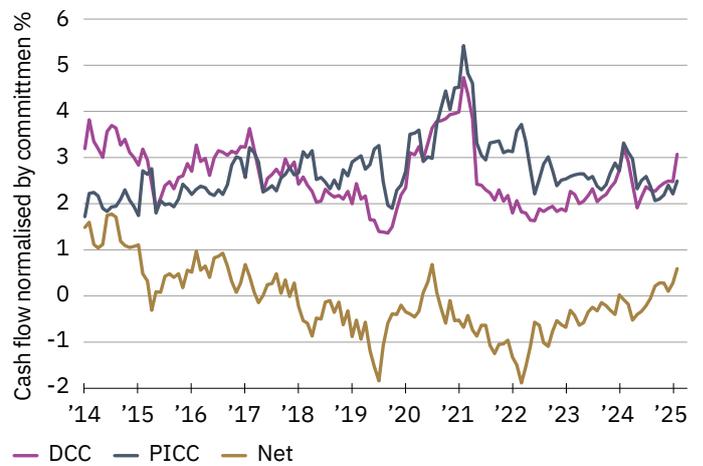
**Figure 9B: Private Equity performance vs S&P500**



**Figure 9C: Total fund size by strategy**



**Figure 9D: Quarterly cash flows normalised by committed capital**



Source: State Street Markets, as of Q3'2025. \*Annualised return.

## Conclusion

Despite heightened uncertainty and market volatility during 2025—driven by developments in international trade, geopolitics and Artificial Intelligence—institutional investors maintained a supportive risk stance for much of the year, with equity allocations remaining elevated relative to historical ranges.

Sovereign wealth fund responses frame opportunity in 2026 as emerging from increased dispersion and fragmentation in the global economy. Rather than pursuing broad directional shifts, funds emphasise selective, relative and long-horizon deployment, supported by valuation discipline and flexibility in implementation.

These responses point to a measured recalibration rather than a regime reversal. Expectations of return normalisation, heightened sensitivity to valuation and concentration risks, and recognition of structural forces reshaping the global economy have reinforced the importance of diversification, liquidity management and governance discipline within long-term portfolio frameworks.

Entering 2026, institutional investor behaviour shows signs of moderation. Risk appetite has moved towards a more neutral stance, with allocation decisions reflecting early evidence of geographic rotation across equity and bond markets. At the same time, portfolios remain aligned with several of the dominant themes of the past year, including the continued strength of US corporates and technology-related sectors supported by AI-driven productivity gains. In private markets, although fundraising activity remains constrained, recent improvements in performance and cash flow dynamics have provided partial relief, with positive momentum emerging across several strategies.

Looking forward, persistent geopolitical uncertainty and the potential for policy surprises are likely to sustain elevated market volatility and a more fragmented global economic outlook. As equity market turbulence has begun to rise since peak optimism in late 2025, high aggregate equity exposure increases portfolio sensitivity to adverse shocks. In this environment, diversification, liquidity optionality and disciplined portfolio construction will remain central to maintaining resilience.

## Contributors

### About the International Forum of Sovereign Wealth Funds (IFSWF)

The International Forum of Sovereign Wealth Funds (IFSWF) is a global network of sovereign wealth funds established in 2009 to enhance collaboration, promote a deeper understanding of sovereign wealth fund activity, and raise the industry standard for best practice and governance.

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