

Q4 2026

ETF Outlook: getting more from core



Smarter solutions for core exposure

Amid rapid shifts in market leadership and geopolitical uncertainty, attention is returning to core exposures.

But not all core strategies are the same. In this quarterly update we're focusing on the smart solutions that we believe can enhance core exposures, providing diversification¹ and potential for enhanced returns.

- Our first article considers how a multifactor overlay could provide a way of tapping historical sources of excess returns, as well as the possible role of dividend strategies in identifying financially resilient holdings
- The second explores the case for an equal-weight approach to core equity, considering the potential benefits in terms of diversification, valuation and income
- Our final article provides an overview of systematic active strategies, which aim to combine some of the core advantages of both active and passive

I hope these articles provide a fresh perspective on a crucial, but sometimes overlooked, part of every portfolio.



Elena Cardella,
Head of Index & ETFs Investment Specialists

¹ It should be noted that diversification is no guarantee against a loss in a declining market.

Back to core: navigating market uncertainty

For investors seeking enhanced market participation or a more income-oriented approach, modern index-based strategies are redefining core equity exposure.

Key takeaways:

- Rapid changes in market leadership and policy uncertainty strengthen the case for “core” allocations offering broad market exposure.
- Modern core strategies may offer opportunities to enhance these foundational exposures.
- Dividend income provides another way of approaching core, by prioritising sustainable income and financial resilience.

After several years dominated by a narrow group of market leaders, investors are entering a different environment. Market leadership is evolving, while policy uncertainty, shifting rate expectations and geopolitical risks continue to create volatility.

Against this backdrop, investors may increasingly look to “core” allocations. For many, market-cap-weighted indices are the default choice. But modern index-based strategies may present compelling opportunities to enhance these foundational exposures.

The factor edge

Institutional investors have long looked beyond traditional benchmarks, seeking to systematically capture characteristics associated with improved risk-adjusted returns.

Factors such as quality, value and momentum have historically been associated with return premia over certain periods, although outcomes can vary across market environments.

Today’s market backdrop may highlights the potential benefits of combining these characteristics. As leadership shifts, investors may benefit from exposure to businesses with strong fundamentals, attractive valuations or improving earnings.

Importantly, seeking exposure to these factors does not need to come at the expense of core market exposure. Modern institutional strategies can combine multiple factor signals while applying ESG considerations and risk controls designed to maintain consistency with global equity benchmarks. The result is an approach that maintains global equity characteristics from a regional, sector and risk perspective, while incorporating targeted tilts designed to improve long-term outcomes.

For investors using global equities as their core allocation, this can provide an appealing middle ground: remaining anchored to the broad market while adding disciplined sources of potential return enhancement and sustainability integration.



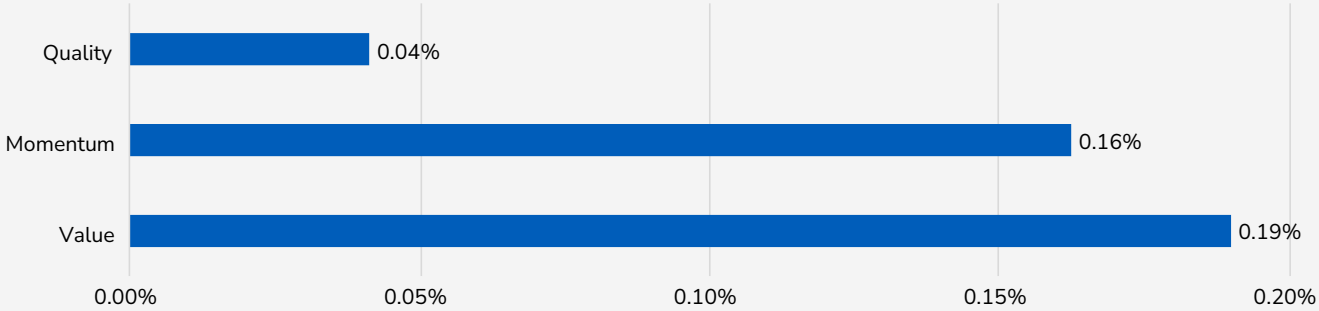
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Global exposure with targeted enhancements

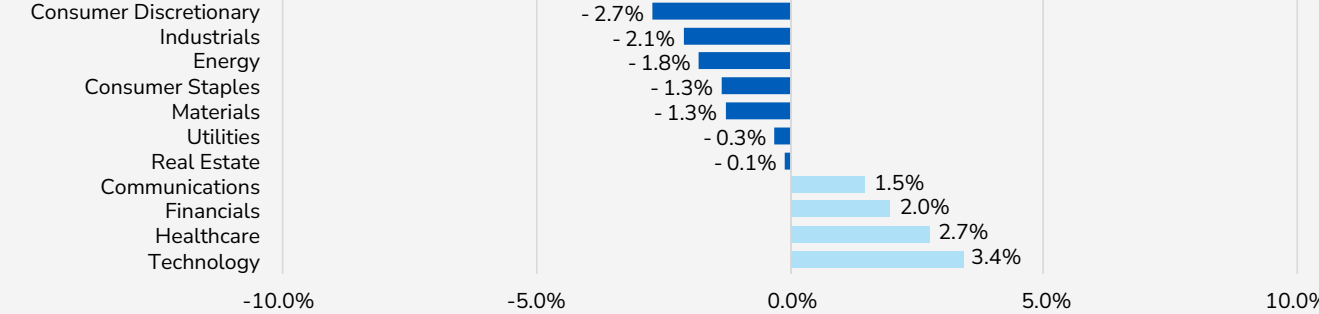
Key takeaway:

- Investors can obtain institutional-style factor and ESG enhancements while retaining global equity characteristics suitable for core asset allocation purposes.

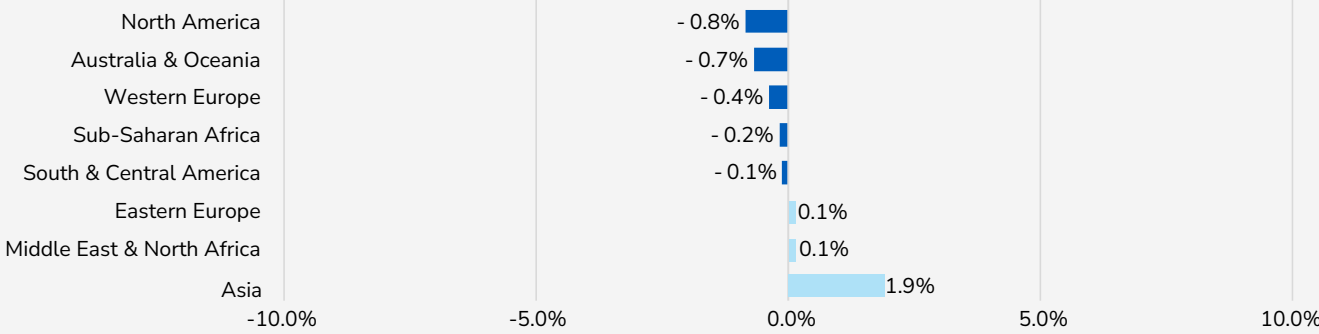
Style tilt



Sector tilt



Region tilt



Charts show how factor tilts shift the exposure of an illustrative multifactor global equity strategy versus the MSCI ACWI index without meaningfully changing geographical or sector distributions. Source: Bloomberg as at 25 August 2026.

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

Looking beyond yield: dividends as a signal of corporate health

Dividend-focused strategies present another potential way of enhancing core equity exposure.

Dividends can serve two purposes. They provide a source of income, but they can also act as a signal of corporate health. Businesses that consistently generate sufficient profits to support shareholder distributions are often demonstrating resilient business models, cashflow discipline and financial strength.

The challenge is that not all dividends are created equal. A high dividend yield can represent opportunity, but it can also signal concerns around earnings quality, leverage or the sustainability of future dividend payments, often referred to as the dividend trap.

Diversification² is one defence against this. An equal-weight approach can reduce dependence on a small number of companies and sectors by spreading allocations more evenly across the portfolio. This can help reduce the impact of individual dividend cuts or changes in corporate policy.

Focusing on dividend sustainability rather than simply dividend size is also critical, in our view. Analysing profitability, balance-sheet strength and financial quality can help identify companies whose dividend payments are supported by healthier fundamentals.

Market outlook: income and resilience in an uncertain environment

Periods of uncertainty can place greater value on companies with durable cashflows, strong balance sheets and established dividend policies.

In this environment, dividend investing is not just about generating income. By focusing on dividend sustainability rather than simply chasing the highest yields, investors may be better positioned to seek income while maintaining resilience against changing market conditions.

A diversified approach that combines dividend income with valuation awareness and global market access may also help investors capture opportunities across different market segments, including areas that

have been overshadowed by recent growth-driven market leadership.

Conclusion: rethinking what “core” means

Today’s market environment highlights that “core” investing has no single definition. As market leadership shifts and investors look beyond the dominant winners of recent years, factor-enhanced approaches can help capture a wider opportunity set while maintaining benchmark-aware exposure.

At the same time, ongoing economic and policy uncertainty continues to support the case for dividend strategies that prioritise sustainable income and financial resilience.

Whether investors are seeking enhanced market participation or a more income-oriented approach, modern index-based strategies offer multiple ways to redefine what core equity exposure can deliver while maintaining the breadth, transparency and efficiency that many investors value.

² It should be noted that diversification is no guarantee against a loss in a declining market.

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Equal weight and the broadening US earnings cycle

As earnings growth spreads beyond a handful of technology companies, equal weighting may offer a way to access the next phase of the US equity market.

Maria Kapetaniou, Senior Index and ETF Investment Specialist

Key takeaways:

- Earnings growth is increasingly spreading beyond mega-cap tech companies into industrials, financials and other sectors.
- The largest companies continue to account for a significant share of traditional index performance, leaving investors exposed to a narrow group of stocks.
- By increasing exposure to sectors linked to the wider capex cycle, equal-weight indices may be better positioned to benefit from a more diversified earnings backdrop.

For several years, returns in US equities have been dominated by a relatively small group of mega-cap technology companies. The rapid adoption of AI and digital infrastructure spending reinforced this trend, with investors rewarding companies seen as the primary beneficiaries of the AI investment boom.

However, the market environment entering late 2026 looks different. While AI continues to support corporate earnings and investment, capital spending is no longer confined to a handful of technology companies. The AI buildout is increasingly creating demand for power infrastructure, industrial equipment, electrical systems, data-centre facilities and supply-chain investment.

In other words, the benefits are beginning to spread beyond the technology sector. As this broader investment cycle develops, market leadership has widened and investors have started to look beyond the largest benchmark constituents.

A broader earnings cycle emerges

One of the defining characteristics of 2026 has been the improvement in market breadth. Although technology remains an important earnings driver, sectors such as industrials, financials and energy have increasingly contributed to returns.



At the same time, gains within technology have become less dependent on the largest names, with a wider group of companies participating in the AI value chain. This shift is important because broadening earnings growth has historically been associated with healthier and more durable market advances.

Recent trends suggest that the current investment cycle is evolving from a narrow technology story into a broader economic story. Increased investment in data centres, electrification and infrastructure is supporting demand across multiple sectors, creating opportunities beyond the traditional mega-cap winners.

Concentration risk has not disappeared

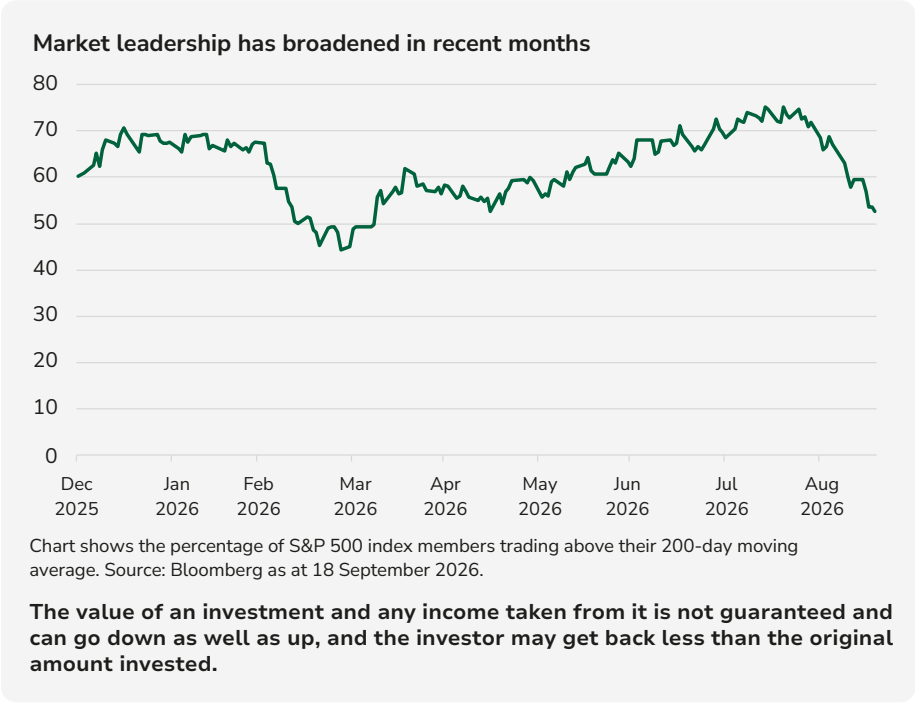
Despite this improvement in market breadth, concentration remains elevated across major US equity benchmarks. For several months, the top 10 holdings represented more than half of the weight of the S&P 100.³ As a result, index performance remains heavily influenced by the fortunes of a small number of companies.

This is not necessarily a problem when those companies continue to deliver earnings growth. However, it does mean investors become increasingly reliant on a narrow set of return drivers.

Equal-weight indices approach this challenge differently. By allocating the same weight to each constituent at rebalance, they reduce dependence on individual stocks and allow a broader range of companies to contribute to portfolio returns.

Accessing the physical economy

One potentially overlooked benefit of equal weighting is sector composition. Compared with market-cap-weighted indices, equal-weight approaches typically have lower exposure to mega-cap technology and greater exposure to sectors such as industrials, financials, healthcare and consumer staples.



These sectors are increasingly benefiting from the broader capital expenditure cycle currently underway in the US economy. Investment linked to infrastructure, reshoring, power generation, grid upgrades and industrial expansion is creating opportunities across a wider range of industries

than those typically captured by a heavily concentrated benchmark. As a result, equal-weight strategies may offer a more direct way of accessing the wider economic benefits of the current infrastructure and capital expenditure cycle, rather than focusing primarily on the companies funding it.

³ Source: Bloomberg as at 11 August 2026.
⁴ It should be noted that diversification is no guarantee against a loss in a declining market.

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Diversification, valuation and income

The diversification benefits of equal weight remain relevant. The reduced concentration in mega-cap stocks leads to more balanced sector exposures and can help mitigate the impact of company specific disappointments. At the same time, lower exposure to the market's most highly valued companies has historically resulted in more attractive valuation multiples.

The income profile also remains supportive. Equal weight indices typically maintain higher dividend yields than their market cap-weighted counterparts due to their lower allocation to low yielding mega-cap technology stocks.

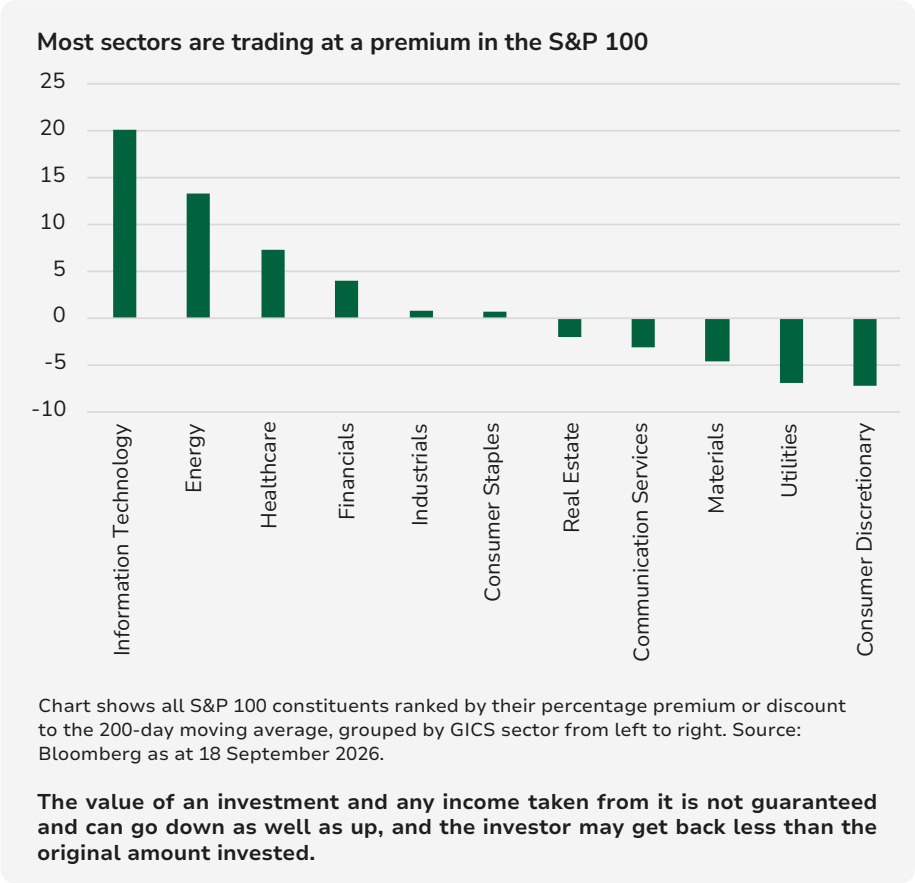
A balanced approach to US equities

The case for equal weight today is not necessarily a negative view on large technology companies. Rather, it reflects the belief that the next phase of the US equity cycle may be characterised by broader participation across sectors and companies.

As capital spending extends beyond a small group of market leaders and into the wider economy, investors may increasingly benefit from exposure to a broader set of return drivers.

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For those seeking continued participation in US large-cap equities while reducing concentration risk and increasing exposure to the emerging capex cycle, equal weighting may provide a potential solution.



Systematic active investing – combining active insights with systematic discipline

Systematic active funds aim to combine the benefits of active and passive, offering the possibility of outperformance and the opportunity to incorporate qualitative research within a disciplined framework.

Ryan Clatworthy, Index & ETFs Investment Specialist - Fixed Income

Wei Yang, Head of Active Quantitative Solutions

Tony Fan, Head of Active Fixed Income Quantitative Strategies

Key takeaways:

- Systematic active is an active approach to investing that follows a rules-based approach aiming to generate outperformance.
- Although these funds can leverage discretionary analyst input, their construction means deviation from benchmark returns is typically modest, aiming for more consistent sources of return.
- These strategies aim to offer transparency and consistency of sources of active returns.

Should an investor go active or passive? Historically, investors often felt they had to choose between the alpha potential of active management and the discipline associated with passive investing.

Active investing meant giving a fund manager discretion to use their experience and judgement to try to identify hidden value or future growth. Passive investing meant attempting to replicate a target market with as little tracking error as possible.

Today, approaches such as systematic active aim to bridge that divide.

In this article we'll explore systematic active – an approach that sits squarely in the middle of the spectrum, aiming to combine some of the core advantages of both active and passive.

Discretionary active and systematic active compared

Just like active – or perhaps more accurately 'discretionary' – funds, systematic active strategies aim to generate returns above those of their relevant investment universe. But the way they approach this is different from a traditional discretionary fund.

In a traditional active fund, a fund manager or manager team has discretion over which securities to buy and sell. While the manager often receives extensive information from a large research team, and their decisions can be framed by robust processes and guidelines, their discretion is a key part of the decision making.

Systematic active strategies, in contrast, use predefined rules to translate investment insights into portfolio decisions. This creates a more systematic and repeatable investment process while retaining the objective of generating excess returns by tilting the fund towards specific investment attributes.

These approaches are not mutually exclusive. Increasingly, we have seen discretionary managers complement their process with quantitative aspects, as well as passive strategies that aim to correct for potential inefficiencies in the construction of traditional indices.

Combining the benefits of active and passive

A useful way to think about systematic active investing is as the combination of active insights and systematic implementation. Investment views may come from a range of sources, including research, quantitative analysis or market signals, but portfolio construction is governed by a disciplined framework designed to maintain consistency and risk control.

The inputs fed into these rule-based frameworks can be diverse and can include 'truly' active security research that combines quantitative data interpretation with human qualitative analysis.

But the way these funds are constructed means they nonetheless have some broad similarities with index funds – they are usually competitively priced and offer diversification⁵ as a result of their exposure to a large number of securities. Views are expressed through hundreds of small, incremental positions rather than a handful of concentrated bets. The aim is to diversify sources of active return while maintaining a high degree of risk control.

While systematic active strategies go beyond straightforward market replication in pursuit of outperformance, risk can be managed within defined parameters, meaning deviation from the benchmark is relatively modest. Within fixed income systematic active strategies, for example, duration, sector and credit exposures can closely align with the index, meaning any excess returns come largely from bond selection alone.

Adding behavioural discipline to active insight

Discretionary active portfolio managers are typically supported by research teams, structured processes and investment guidelines. Even so, no decision-maker is completely immune to behavioural influences. Overconfidence can make a view appear more certain than the evidence supports; confirmation bias and anchoring can make it harder to reassess an existing thesis; and recency bias can place too much weight on the latest market developments. Loss aversion may also contribute to the tendency to retain an underperforming position for too long or realise a gain too quickly.

These are not criticisms of discretionary investing, but well-documented features of decision-making that can affect investors regardless of their expertise or experience.

Systematic active investing can help moderate these effects by determining in advance how investment insights will be translated into portfolio positions. Predefined portfolio-construction rules can apply the same criteria consistently across securities, while transparent position-sizing, diversification and risk constraints can limit the influence of any single conviction.

Rules governing monitoring, rebalancing and exits can also make it easier to respond consistently when markets move, rather than allowing the treatment of a position to depend on how gains or losses feel at the time. This does not eliminate behavioural risk, but it can make implementation more repeatable, observable and open to review.

Crucially, this need not mean choosing between judgement and discipline. Research and qualitative assessment can still provide forward-looking insights and context, while the systematic framework determines how those insights are sized, diversified and monitored within the wider portfolio.

In this sense, discretionary and systematic approaches can be complementary: one contributes investment insight and adaptability; the other aims to provide consistency, transparency and risk control in how those views are expressed.

⁵ It should be noted that diversification is no guarantee against a loss in a declining market.

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