



Anchored to America?

► **Callum Conway examines whether rising US political uncertainty, market concentration, and ESG divergence are prompting UK pension schemes to reconsider their dependence on the world's largest capital market**

The US economy is the largest in the world, with a projected nominal GDP of around \$30-31 trillion in 2026 – more than a quarter of global output.

US capital markets are also deeper and more liquid than those of any other country, with companies dominating global equity benchmarks and accounting for roughly two-thirds of the MSCI World index.

Therefore, for UK DB and DC pension schemes, exposure to US assets is not a short-term allocation, but a core component in long-term investment strategies.

Yet, despite the size and results of the US market, a quiet discontent has grown over the past 18 months.

Political unpredictability, trade tensions, environmental, social and governance (ESG) policy reversals, and increasing market concentration have prompted questions about whether UK schemes are overexposed to US assets, and whether remaining so poses a risk.

Climate clash

One of the most immediate sources of unease relates to ESG divergence.

Since Donald Trump's return as President in January 2025, the US administration has overseen the rollback of several climate and regulatory measures, including renewed withdrawal from the Paris Agreement, efforts to reverse Environmental Protection Agency emissions rules, and support for expanded fossil fuel production.

For UK pension schemes that have formalised climate commitments

► Summary

- The US accounts for roughly two-thirds of global developed equity indices, making divestment structurally difficult for UK DB and DC schemes.
- Trustees face growing tension between ESG obligations and US policy direction.
- Market concentration in large-cap technology stocks and rising political risk premiums are increasing scrutiny, but a significant withdrawal remains unlikely.

over the past decade, this shift creates significant tension.

Isio chief investment officer, Barry Jones, describes UK schemes' exposure to US assets as an increasingly uncomfortable contradiction for trustees: "Pro-business policies, fiscal support and capital incentives all strengthen the investment case. However, fiduciary duty does not exist in isolation from the beliefs and frameworks trustees have committed to on behalf of members."

Jones adds that while leaving US assets is unrealistic given the market's scale, trustees must reassess how to apply ESG principles in practice.

"This is less about making dramatic allocation shifts and more about reassessing trade-offs," he says.

"Trustees need to be clear-eyed about where engagement, selective exposure or tilting can genuinely align portfolios with ESG objectives, and where tensions may need to be acknowledged.

"The US may be too big to ignore, but it is also too important not to scrutinise."

The People's Pension provides a recent example of this tension coming to the fore – the master trust cut back on its investments with US manager State Street, citing misalignment on climate stewardship as one of the factors influencing the decision.

It had previously led an initiative among long-term asset owners to push managers to uphold their climate pledges and align with the Paris Agreement goal.

By contrast, several US asset managers have stepped back from climate collaborations. BlackRock, Vanguard, State Street and Northern Trust have exited the Net Zero Asset Managers initiative and Climate Action 100+, amid growing anti-sustainability sentiment in parts of the US.

The Magnificent 7 dilemma

Alongside ESG tensions is the issue of market concentration. America's 'Magnificent 7' – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – have driven a significant share of recent global equity returns.

The 10 largest stocks now account for around 23 per cent of the MSCI World index, well above historical norms.

For UK DC schemes, this exposure is significant. Younger savers, often decades from retirement, can have the majority of their assets in global equities, meaning US large-cap performance plays a significant role in outcomes.

In this context, concerns have been raised about the scale of investment concentrated in a small number of US technology stocks, particularly given

their growing reliance on stakes in AI-related infrastructure and applications.

Some warn an 'AI bubble' could unwind sharply, exposing index-focused investors to severe sell-offs.

However, XPS chief investment officer, Simeon Willis, stresses that concentration risk is not new: "In the early 2000s, some schemes sought to manage the concentration risk of the UK market using 5 per cent capped indices. The thinking behind this was rudimentary, and ultimately it didn't catch on."

With this in mind, Willis argues that responses to concentration risk need to be more sophisticated than simply capping exposures.

"Concentration is a practical example of the limits of diversification. But the key is that this undiversifiable risk should be priced into the asset, and the overall risk level needs to be appropriate," he says.

LCP investment team principal, Anais Caldwell-Jones, acknowledges the inherent risks in market-cap weighted allocations, but claims the picture differs sharply between DB and DC schemes.

"For many UK DB pension schemes, their exposure to US stocks is now relatively low. Years of de-risking have reduced overall equity allocations significantly," she says.

"For schemes that retain meaningful allocations to growth assets, including equities, the concentration does present a risk, but we would characterise it more as a potential source of volatility rather than a fundamental structural threat."

Meanwhile, Isio head of portfolio management and research, Ajith Nair, warns that focusing solely on listing location can be misleading.

"What matters is where companies actually generate their revenues," he adds, noting that many US-listed firms derive substantial revenues internationally.

Echoing this, Zedra client director, Payam Kazemian, says that US exposure typically forms part of a diversified mix aligned to schemes' funding plans.

"Aside from specific cases where concentrated US market investments had been made specifically, which we believe would be a minority, these should not generally represent a structural risk for UK pension schemes at large," he argues.

Geopolitics in the portfolio

Donald Trump's second term has been characterised by assertive economic and geopolitical rhetoric, including tariff measures and renewed debate around US trade and foreign policy. These developments have increased perceptions of US political risk for investors.

Caldwell-Jones notes that geopolitical considerations are becoming more prominent in long-term strategy discussions: "We are operating in an environment where geopolitical events are more frequent and potentially more extreme," she says.

However, she stresses that it is neither possible nor practical to construct a portfolio fully insulated from every geopolitical shock.

"The US may be too big to ignore, but it is also too important not to scrutinise"

"What investors can do is avoid complacency," she suggests, advocating stress-testing portfolios against extreme scenarios and potential vulnerabilities.

Echoing this, Kazemian says that sovereign governance risk has historically been considered within broader strategy reviews, but indicates that explicitly incorporating it as a formal decision metric may become more common.

Nair, meanwhile, argues against making short-term macro or political calls as part of portfolio choices.

"Strategic decisions typically rest on long-term fundamentals – valuations, diversification, earnings growth, risk premia and liquidity – rather than reacting to political cycles."

Reducing US exposure, he warns, could increase tracking error relative to global market-cap benchmarks and create governance challenges if underperformance persisted.

Rebalancing, not retreat

In light of these challenges, a 2025 survey by WTW found that almost one-quarter of UK DB funds were reconsidering their investments in US assets amid tariff uncertainty and global volatility.

However, Caldwell-Jones says it is too early to identify a clear long-term reallocation trend, even though some clients and managers have begun tilting portfolios towards other regions.

Nair agrees, stating that he does not observe long-term strategic investors making significant reallocations purely in response to recent political developments, though he notes that interest in emerging markets and small-cap equities has increased, offering diversification away from large-cap US technology exposure.

Willis, though, says he is aware of at least two DC master trusts that have reduced their targeted US equity weights due to political risk, but agrees that we are not seeing broad swathes of capital reallocated away from the US.

"The debate isn't theoretical so much as nuanced, and could lead to allocation to different asset classes," he adds.

A measured response

The US remains the world's largest capital market, yet ESG divergence, geopolitical volatility and market concentration has led some schemes to trim equity exposure, introduce currency hedging or implement tail-risk strategies.

For UK pension schemes, the US is neither a straightforward risk to abandon nor a market to own without scrutiny.

Despite a clear increase in risk, the world's largest market remains, quite simply, too big to leave.

 **Written Callum Conway**