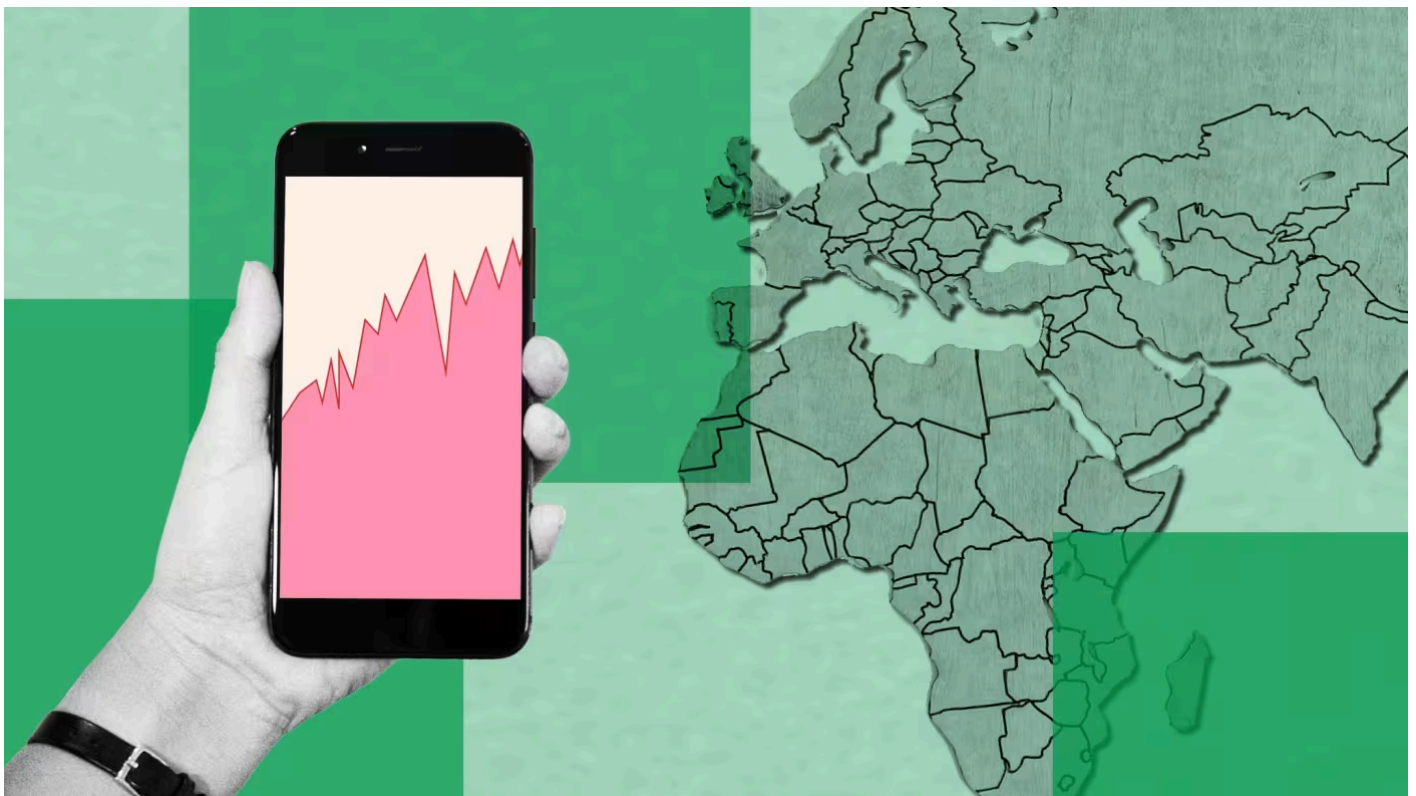


Opinion **Adventurous Investor**

## How to invest in global stocks – and not rely on US-heavy indices

It's hard to diversify when American stocks comprise more than 72 per cent of the MSCI World index

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Many investors adopt a “core/satellite” approach to their investing: in the core, they stick with simple, broad market exposure, while in the smaller satellite portion, they play with more speculative positions based around big themes such as AI or emerging markets.

If you care about long-term capital growth, the key is to get the core right — keeping investments diversified and low cost. For most investors, this translates into a heavy allocation in global equities — but what type (for example, value or growth) and which benchmarks to use?

For a start, the profusion of indices all share the same problem to varying degrees: they are heavily concentrated in the US, particularly in the handful of tech giants. This handful of stocks is exceptionally successful — but absolutely not diversified.

According to Dr Torsten Slok, chief economist at asset manager Apollo, Nvidia now has the biggest weight in the S&P 500 of any individual stock since the data began in 1981, which has a knock-on impact on global indices. For example, US stocks in the MSCI World index comprise about 72 per cent in market cap value, while the FTSE All-World is about 64 per cent and the MSCI ACWI index is roughly 61 per cent.

With this in mind, which index or benchmark should you use to keep your long-term exposure to global equities broad and diversified, with lots of different regions and sectors? If you want lower fees, you may also want to invest directly in a low-cost index tracking fund — but you will still have to choose a benchmark.

Despite only covering 1,300 to 1,600 stocks in developed world markets, with a heavy US concentration, the most common choice is the MSCI World index. A more comprehensive choice is the MSCI ACWI index, which includes emerging markets among its 2,500 constituents, or the FTSE All-World index, which has the most stocks, about 4,000.

There are also what can be called “style” indices that focus on a particular strategy, be it value (decent fundamentals), minimum volatility (less turbulent share prices), quality (decent financials and solid earnings growth) and momentum (strong relative strength).

These tend to have about 300 stocks each, with the exception of the value index, which has about 800 to 1,000 stocks. US exposure varies from around 60 per cent for the minimum volatility index to more than 75 per cent for the momentum.

I would also highlight a group of benchmarks that focus on stocks with solid valuations and a good dividend history. These have performed quite well in recent years, and their exposure to the US tends to be much lower, ranging from about 40 per cent for the FTSE All-World High Dividend Yield Index, 20 per cent to 25 per cent for the S&P Global Dividend Aristocrats index to my favourite, the Morningstar Developed Markets Dividend Leaders index, tracked by an ETF from VanEck in the UK, where US exposure is only 14 per cent.

Given current valuations and the heavy focus on the US, I'd consider dividend-weighted indices for diversified global exposure — they won't be exciting like tech stocks, but they tend to represent better value and that dividend will help soften any bearish blows.

What about funds? In the passive index-tracking ETF space, one option worth thinking about is to invest in a fund hedged to sterling, eliminating dollar risk since all major benchmarks are denominated in the greenback. Also there are a few tracker funds that offer global exposure, excluding either the US or even the UK (you probably already have significant UK exposure).

There are global subsector indices within the MSCI World, which are very interesting. Apart from obvious momentum candidates, such as the MSCI Technology index, which is heavily US dominated and trades at around 30 times earnings, investors might consider much cheaper sectors such as global financials, energy and industrial indices.

In my experience, these sectors and sector ETFs tend to be broader and more diversified than narrow thematic indices and ETFs. Sticking with ETFs, I'd also note some more adventurous options, such as the Invesco Global Buyback Achievers Index, which focuses on companies with, you guessed it, substantial buyback programmes.

For value-oriented investors, I also like the Invesco RAFI All-World 3000 index, which has significantly lower US exposure with cheaper stocks — its price-to-earnings ratio usually ranges from 13 to 15 times earnings. A word of warning, though: the MSCI World index has tended to outpace the RAFI index over the past few years.

And finally, what about actively managed funds? Most active fund managers tend to be underweight US stocks and overweight other geographies as well as large cap names outside the Mag 7. Top of my list would be investment trusts, largely because they are easy to access, charge low fees because of their size and usually boast a long record.

The default choice for most investors would be Alliance Witan, but the F&C Investment Trust and the AVI Global Trust in particular have a stronger recent performance. The AVI Global invests mostly in undervalued holding companies and other funds and thus has very low US exposure.

Over in unit trust land, apart from some of the more obvious candidates in global equity investing — namely Artemis Global Income (US exposure below 30 per cent) and Royal London Global Equity Select — I'd highlight two smaller, up-and-coming funds that take a radically different approach (I own units in both).

The first is the Nutshell Growth Fund, which uses a systematic approach to finding high-quality growth stocks (usually around 30) with strong underlying price momentum (US exposure is up at 65 per cent). The Latitude Global Fund has a similar number of stocks (around 25) but takes a more contrarian, dare I say value-driven approach, and has a much lower exposure to US stocks with top holdings including Tesco and Ryanair.

*David Stevenson is an active private investor. He owns units in both Nutshell and Latitude as well as MSCI ACWI and the RAFI index*

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