Investment briefing, May 2026
Responding to recent events in global equity markets

Recent events in global equity markets have served as a reminder of the inherent volatility of growth assets. While short-term market movements provide limited insight into future returns, they can act as a useful stress test of existing assumptions around risk, return and governance.

The key question for trustees and sponsors of Defined Benefit schemes is not how to respond tactically to recent equity market moves, but whether the current growth exposure remains appropriate and aligned with scheme objectives, funding position and end-game strategy in a changed market environment.

This briefing outlines the key issues trustees may wish to consider.

Using recent market events as a stress test, not a forecast

Sharp or unexpected equity market movements often prompt questions about whether changes are necessary to investment strategies. However, history shows that reacting to short-term events can be counterproductive.

Instead, the recent volatility can be used to assess:

- How market risk behaves in practice, rather than in modelling
- Whether downside risk is tolerable at the scheme's current level of funding
- Whether governance frameworks support considered decision-making under stressed conditions.

For well-governed schemes, recent events do not necessarily imply a need for immediate action, but they do create an opportunity for reflection.

Equity market concentration: a risk exposed by volatility

One of the most notable features of the current equity market is concentration. Global equity indices have become increasingly dominated by a relatively small number of very large companies.

The table below shows the proportion of a typical passive global equity fund represented by its largest holdings:

Largest holdings	% of total portfolio
Top 3	**10%**
Top 5	**15%**
Top 10	**25%**

During periods of market stress, equity market concentration can:

- Amplify falls
- Increase sensitivity to stock-specific or sector-specific shocks
- Reduce the diversification benefits typically associated with equities.

Many schemes access equities predominantly through market cap weighted passive funds, where this concentration can be a particular issue. Recent market events have highlighted the importance of understanding the risks that underlie index-level returns.

Valuations, volatility and return expectations

Equities are volatile by nature and trustees are generally accepting of this fact when schemes are reasonably compensated through long-term returns. However, recent market movements have reinforced an important asymmetry: while volatility remains a constant, forward-looking expected returns may be lower than long-term historical averages.

Starting valuations do not provide reliable short-term market signals, but over the longer term they are informative when setting expectations. The relevance of this is heightened as:

- Funding positions improve
- Schemes move closer to low dependency or buy-out
- Time horizons shorten

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- Recovery from future losses becomes less certain.

Trustees should consider whether current growth allocations are still expected to deliver sufficient rewards for the risks being taken, particularly in the context of more mature schemes.

Responding in a higher interest rate environment

Market conditions have changed materially over the recent past. Recent market events are landing in a very different economic and financial environment from that experienced in previous decades.



Source: Bank of England

With materially higher interest rates:

- Gilts and credit now offer meaningful levels of return
- Higher interest rates have improved funding positions and reduced the reliance on growth assets to achieve required returns
- The opportunity cost of equity risk has increased.

This does not remove the need for growth entirely. Equities can still contribute to long-term growth, inflation sensitivity and funding resilience. However, higher yields mean that a material growth allocation is no longer a default necessity and should be considered a deliberate risk choice.

Implications for mature and well-funded schemes

As schemes mature, the consequences of adverse market movements change. With a greater proportion of benefits being paid out and a shorter time horizon to recover from shocks, the focus shifts from maximising long-term return to protecting funding positions and ensuring liquidity.

Recent market events highlight the importance of sequencing risk. The impact of a sharp fall in markets close to buy-out or low dependency can be materially more significant than one occurring earlier in the journey.

Trustees should reflect on:

- Whether growth asset risk remains consistent with their end-game objectives
- How much downside risk a scheme can tolerate at its current funding level, given cashflow demands
- Whether existing governance processes are appropriate to respond to future market events.

Key questions for trustees

Recent events do not dictate a particular course of action. However, they do provide an opportunity to revisit a number of fundamental questions:

- What is the role of growth assets in the current investment strategy, in light of the current funding position?
- Is growth risk within the portfolio at an acceptable level?
- Is this risk being appropriately rewarded, given the yields?
- How would a material fall in equities affect the journey plan?
- Does the existing governance framework support measured, deliberate decision-making?

The answers to these questions will be different for each scheme.

The most important consideration is that exposure to growth assets should remain intentional, understood and aligned with a scheme's objectives.

Get in touch with our experts

To explore the issues raised in this briefing further, please contact our investment team.

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