

UBS House View

Monthly Letter | 22 January 2026 | Chief Investment Office GWM, Investment Research

A new world

We live in a world where the rivalry between major powers is growing, geopolitical risks are rising, and governments may play a bigger role in markets.

A broader rally

Tactically, we expect the evolving AI innovation cycle and the robust economic backdrop to support a continued broadening of the equity rally.

A diversified approach

Strategically, we believe diversification across regions and asset classes is all the more important in a polarized world, where risks are higher and outcomes less predictable.


Asset allocation

We rate equities as Attractive, and like the US, Europe, China, and Japan. We like quality bonds, and upgrade emerging-market bonds to Attractive. We also favor gold.



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Nostalgia is not an investment strategy

To paraphrase Canadian Prime Minister Mark Carney's Davos speech, we live in a world of increasing Great Power rivalry. Nostalgia for the old international order is not an investment strategy.

So what is?

With political slogans dominating the headlines, it feels only fitting to borrow from the rhetorical toolkit of the day. So in the remainder of this letter, I'll discuss why we believe that tactically, it is time for "One Big Beautiful Broadening"—where market leadership expands beyond a handful of stocks. Strategically, it is time to "Make Portfolios Diversified Again."

The US administration's new "Donroe Doctrine," strained relations between China and Japan, violence in Iran, and fractures within the NATO alliance over the future of Greenland and Ukraine all point to a more volatile world, with geopolitical blocs seeking greater strategic autonomy.

Meanwhile, the Trump administration's heightened focus on "affordability"—including potential regulation of credit card rates and intervention in the mortgage and real estate markets—and questions about the future direction of fiscal and monetary policy around the world have also drawn investor attention.

For governments everywhere, the challenge of funding strategic autonomy and delivering on voters' priorities—despite aging populations, rising electricity demand, resource scarcity, and labor market disruptions—will ensure that debates over fiscal and monetary policy, as well as rising government intervention in markets, remain prominent features of the investment landscape for years to come.

In the near term, we believe it's important not to overreact to political headlines. We retain a positive stance on markets as resilient economic growth, low or falling interest rates, and structural tailwinds from artificial intelligence should all provide support and more than offset the volatility, in our view.

We recommend that investors broaden their equity market exposures.

To position for further upside potential, we recommend investors broaden market exposures. The bull market so far has seen relatively concentrated gains favoring a few "AI leaders." From here, we expect growth-friendly policies in the US to lift cyclical sectors and AI trade leadership to shift from the "enabling layer" to the "application layer." Beyond US stocks, we also see appealing and reasonably valued opportunities in Asia and Europe.

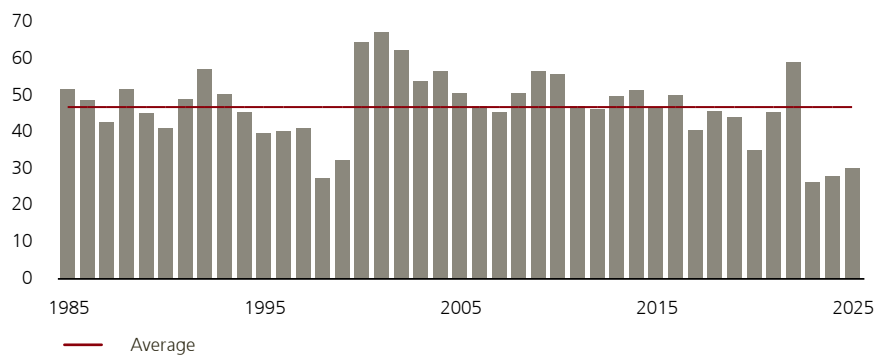
Strategically, we think geopolitical polarization and government intervention in markets increases the imperative to diversify. While there will be some outperformers from these trends, they will also heighten risks for certain countries, sectors, and companies. And because governments picking winners and losers in markets can lead to a wider range of outcomes, the changing environment underscores the importance of building well-diversified core portfolios, incorporating effective portfolio hedges, and taking a thoughtful approach to currency allocation.

"One Big Beautiful Broadening" for stocks

The equity rally in recent years has been led by a handful of AI-linked stocks.

The equity rally of recent years has been narrow. In the US, the so-called "AI7"¹ have dominated returns, appreciating roughly 200% over three years—about five times the gain of the rest of the S&P 500.

Figure 1
The equity market rally in recent years has been concentrated
Percentage of S&P 500 companies that outperformed the index



Sources: Bloomberg, FactSet, UBS, as of January 2026

¹ This group (NVIDIA, Broadcom, AMD, Micron, Alphabet, Amazon, and Microsoft) overlaps with but is not the same as the Magnificent 7.

AI is likely to remain a key driver of equity market performance.

We expect AI to remain a key engine of overall equity performance. While AI capex growth is likely to slow in percentage terms, we still expect robust spending and significant absolute growth in the coming years. We see global AI capex rising at an average annual rate of 25% from 2025 to 2030 (although we acknowledge growth may not be smooth), reaching a run rate of USD 1.3 trillion per annum. And AI adoption and monetization continue to advance. The Ramp AI Index (which estimates the percentage of US businesses with paid subscriptions to AI models, platforms, and tools) rose to 47% in December, roughly doubling from a year earlier.

However, we do expect the rally to broaden from here. Historical innovation cycles show a performance handover from the enablers of a new technology to those that are able to generate revenue from it.

We expect leadership in AI to broaden toward the application layer.

Following this template, we believe that the leadership of the AI trade will broaden, from the semiconductor firms in the enabling layer that have led the rally in recent years, toward the companies in the application layer selling AI solutions to consumers and businesses. The third-quarter earnings season provided early indications of this: Markets responded more positively to the results of tech (and tech-related) companies that are showing progress on monetizing AI, and those that are less reliant on debt to finance their investments.

In the US, we also expect fiscal expansion, loose financial conditions, and AI productivity gains to lift other sectors that have lagged over the past year.

We think US consumer discretionary stocks are likely to benefit from an environment of growing wages, tailwinds from the One Big Beautiful Bill Act, and potential policy actions to support lower- and middle-income groups linked to the “affordability” agenda. We upgrade the sector to Attractive.

We also see appealing opportunities in equity markets beyond the US. European stocks should benefit from the improving global growth backdrop, looser fiscal policy in Germany, and a pickup in corporate earnings.

In China, we expect tech advances, targeted policy support, improving liquidity conditions, and robust capital markets activity to boost equities. DeepSeek’s likely launch of its new model next month will also be closely watched by investors. In Japan, the House of Representatives election scheduled for early February could be positive for equity markets if the Liberal Democratic Party secures a majority, enabling a stable Takaichi administration to be formed. We also expect an earnings recovery and corporate reforms to support Japanese stocks in 2026.

The risks and opportunities from government intervention

In the US, affordability is a key focus.

One of the near-term risks to markets is government intervention. A Politico poll conducted in late 2025 highlighted that 56% of Americans consider the high cost of living one of the top issues facing the country. As a result, investors should

prepare for more affordability-focused policy announcements in the run-up to the US midterm elections in November.

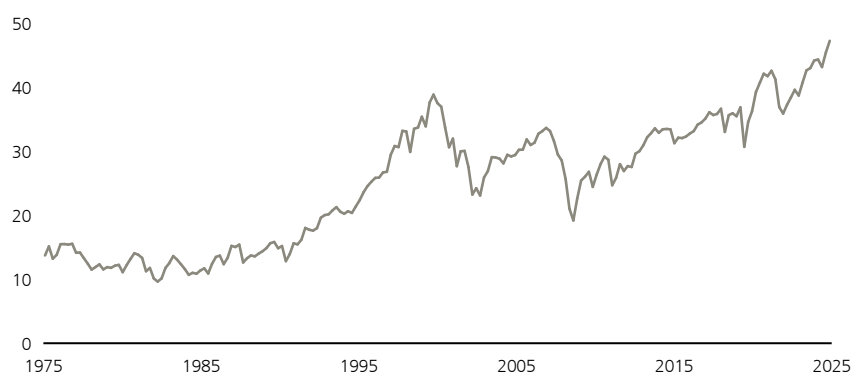
Mooted areas of intervention in the US domestic economy include consumer finance (such as capping credit card and personal loan rates) and housing (including mortgage market intervention and regulation over institutional buying of single family homes).

The US administration is likely to be mindful of market-negative policy measures.

However, with 62% of American households owning stocks in one way or another, according to a 2025 Gallup poll, we believe the administration will be mindful about taking policy measures that can have a broad negative market impact. And the sector-specific impact of such announcements will require a nuanced assessment.

Figure 2

A large portion of US household wealth is held in the stock market
US household holdings of equities as a % of total financial assets



Source: US Federal Reserve, UBS, as of January 2026

For example, even if a cap on credit card rates were to be imposed (assuming it was for one year, applying only to new loans rather than existing books), we would expect the overall effect on US financials to be limited, despite some smaller-weighted companies within the sector facing significant impacts. In addition, at Davos, President Trump said he would instruct Congress to work on a rate cap, which signals that an Executive Order or some other unilateral effort is unlikely, and we see little appetite in Congress to work on the initiative. So given support from healthy capital market activity and improving net interest margins, we would view sharp pullbacks in the largest bank stocks as potential buying opportunities.

Meanwhile, proposed restrictions on institutional purchases of single-family homes have recently weighed on sentiment. However, as opposed to an outright prohibition, President Trump's comments at Davos suggest a focus on restricting government agency financing of such purchases by institutions and providing priority for individuals over institutions in buying federally owned assets. In addition, his proposals appear to contain a number of carve-outs including exempting build-to-rent operators.

The push for strategic autonomy will create beneficiaries.

The drive for strategic autonomy, both in the US and globally, is also likely to create beneficiaries:

- *Global efforts to achieve tech independence* have accelerated, driven by supply chain risks and geopolitical tensions. This month, the US reached a trade deal with Taiwan that will see the latter invest USD 500 billion in the US, including USD 250 billion in direct investment in semis and AI capacity, and USD 250 billion in credit guarantees to support firms in moving operations to the US. Meanwhile, Europe's Chips Act aims for a 20% global market share by 2030.
- *Mainland China's drive for tech self-sufficiency* is a key part of its new Five-Year Plan, with Beijing offering support for homegrown AI models and chipmaking advancements.
- *Energy security and grid modernization* is a key focus. Europe's REPowerEU plan is targeting 600 GW of installed solar photovoltaic capacity and over 500 GW of wind energy by 2030. China's new Five-Year Plan includes a four-trillion-yuan investment (a 40% jump from the previous Five-Year Plan) for the state grid to integrate more wind and solar power.
- *Defense spending* is ramping up, especially in Europe through the ReArm Europe plan and Security Act For Europe (SAFE) loans. Germany's defense outlays are projected to rise to 3.5% of GDP by the end of the decade. In the US, President Trump has called for a military budget of USD 1.5 trillion in 2027, up from USD 901 billion in 2026.

Investment ideas for "One Big Beautiful Broadening"

AI, power and resources, and longevity continue to offer growth opportunities.

Invest in transformational innovation. We continue to expect transformational innovation to be a key driver of equity market returns in the years ahead. We see further upside in AI-linked stocks—a core driver for our positive equity market view—albeit with market leadership likely transitioning away from the enabling layer increasingly toward applications. Investors heavily concentrated in AI enabling layer stocks should therefore consider spreading exposure. Meanwhile, the surge in data center demand is continuing to fuel investment in power and grid infrastructure. And we expect companies pioneering treatments and

technologies to extend healthy lifespans (including by utilizing AI) to emerge as new market leaders.

Figure 3
Diversification across the AI value chain is important
Key segments within the application and intelligence layers of the AI value chain



Source: UBS, as of January 2026

Investors who are underallocated to stocks should consider adding to equities.

Position for a broadening rally. We expect global equities to rise over 10% by the end of 2026, with the rally continuing to broaden beyond the direct leaders of the AI infrastructure buildout. Investors who are underallocated to stocks should consider adding to equities, while those with concentrated positions in individual stocks or US tech can benefit from diversifying into underappreciated tech stocks or sectors like health care, utilities, and banking.

We like US financials for their improving profitability and increased capital market activity, with upward-sloping yield curves and stronger net interest margins also providing a potential boost. Health care should benefit from clarity over Most Favored Nation policy, M&A activity, and strong demand driven by aging demographics. Longer term, both sectors are also well placed to deploy AI to improve efficiency and business outcomes, in our view.

In our base case, we see the S&P 500 rising to 7,700 by the end of the year and expect earnings per share growth of 12% for 2026.

We also see upside in Europe, Japan, China, and emerging markets, making a broad global equity allocation increasingly attractive. Incorporating long-only multifactor quantitative strategies can further enhance diversification and help manage risk, particularly amid ongoing political and macroeconomic uncertainty.

In Europe, after three years of earnings stagnation, we forecast acceleration of 7% in 2026 and 18% in 2027. Over our tactical horizon we expect stocks in the Eurozone to outperform those in the UK.

We see compelling opportunities in China and broader Asia.

Seek opportunities in China. For those seeking diversification beyond the US and US tech, China and broader Asia present compelling opportunities, in our view. AI innovation and spending are driving growth in China's tech sector, where we expect earnings to rise significantly in 2026. This is fueling Chinese equities more broadly, supported by healthy liquidity and reasonable valuations. Expanding exposure to Asia, including India and Singapore, can help improve portfolio balance.

"Make Portfolios Diversified Again"

2026 has already brought geopolitical flashpoints.

The start of 2026 has brought a series of geopolitical flashpoints: the capture of Venezuelan President Maduro; heated discussions over the future of Greenland; protests in Iran; tensions between China and Japan; and a stalemate in diplomatic efforts in the Russia-Ukraine war. Meanwhile, US-China frictions persist, especially around trade in technology and critical materials.

These developments point to a world that is less predictable, less "global," and increasingly fragmented. Regions are prioritizing "strategic autonomy," forming economic and security blocs to shield themselves from external shocks and to pursue their own agendas.

It is not my role to say how I think the world *should* work but to try and understand how it *does* work, and guide investment accordingly.

While the impact of geopolitical crises on global equity markets has historically tended to be short-lived—and investors who exited markets owing to such concerns have often missed out on subsequent recoveries—it is important to recognize that escalation of conflicts, sanctions, or policy shifts do have the potential to affect investors over the longer term.

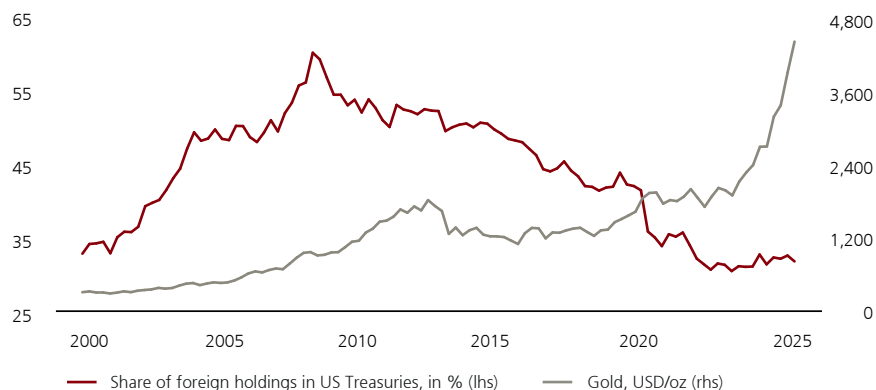
Geopolitical concerns have contributed to demand for gold.

For example, mounting concerns that geopolitical tensions could expose overseas holdings in government debt to capital controls, sanctions risk, or asset freezes have contributed significantly to the sustained rally in gold since 2022.

Figure 4

Foreign holdings of US Treasuries have fallen while gold has risen

Share of foreign holdings in US Treasuries, % (lhs) vs. COMEX gold prices, USD/oz (rhs)



Source: US Federal Reserve, US Treasury, Bloomberg, UBS, as of January 2026

The quest for strategic autonomy could put additional pressure on government finances.

Meanwhile, we expect the quest for strategic autonomy to add to government spending at a time when deficits are already elevated. This month's sell-off in longer-term government bonds in Japan and, to a lesser but still notable extent, in the US demonstrates the kind of pressures that can arise when fiscal policy is questioned.

The impact of geopolitical events on wider financial markets tends to be smaller when the resolution is quick and conclusive. A prolonged standoff or a retaliatory tariff escalation between the US and Greenland/Denmark/the EU, with both sides exerting economic and political pressure on one another, would in our view have the most damaging effect on risk assets—in particular in Europe. Markets welcomed President Trump's comments in Davos that he would not use force in Greenland and his decision not to impose fresh tariffs on Europe since a framework for negotiation had been established with NATO. This is consistent with our base case that tensions over Greenland are not a reason to change our overall positive view toward risk assets, though we are mindful of potential short-term volatility, since the outcome remains uncertain.

For more on our views on the potential scenarios stemming from the geopolitical developments around the world, please see our latest [Global Risk Radar publication](#), published on 22 January 2026.

Building a well-diversified core portfolio is all the more important in a polarized world.

Against this backdrop, building a well-diversified core portfolio becomes more essential than ever. Portfolios concentrated in a single region, sector, or currency are increasingly vulnerable to sudden shocks and shifts in policy direction. Strategic diversification means thoughtfully spreading exposures across geographies, asset classes, sectors, and currencies, so that no single event or

policy shift can derail overall performance. Periods of volatility triggered by bond sell-offs—before potential central bank intervention—may also present tactical opportunities.

Investment ideas to “Make Portfolios Diversified Again”

Quality bonds, gold, and capital preservation strategies can help insulate portfolios.

Hedge market risks. Rising geopolitical and political risks against a backdrop of still-low volatility provides investors an opportunity to diversify and hedge potential market risks. Combining capital preservation strategies and structured investments can help lock in gains and maintain upside potential during periods of low volatility. We also believe quality bonds offer attractive yields and can buffer portfolios, while gold’s diversification benefits remain appealing, in our view. Holding sufficient liquidity can also help investors avoid forced selling in the event of a market drawdown.

Favor commodities. We believe that recent strong performance from industrial and precious metals has scope to continue, and we see commodities set to play a more prominent role in portfolios in 2026, with returns driven by supply-demand imbalances, geopolitical risks, and long-term trends. For investors with substantial allocations and significant unrealized profits in gold, broadening commodity exposure to include copper, aluminum, and agricultural assets can help diversify sources of future return.

Seek diversified income. Tight credit spreads and concerns about government debt suggest a nuanced approach to yield generation. We like high grade and investment grade bonds, see attractive return potential in emerging-market bonds, and also like diversified income strategies across equities, fixed income, and structured investments.

We see emerging-market bonds as Attractive.

We have upgraded emerging-market bonds to Attractive. Yields remain appealing, fundamentals (external balances and ratings) have been on an improving trend, and the macro backdrop is supportive, in our view.

We also believe this is an important time for investors to review currency allocations and ensure that they are broadly consistent with expected personal future spending. The behavior of the US dollar in response to recent geopolitical tensions demonstrates the changing nature of currency performance, and investors should try to reduce the risk that currency swings undermine their financial goals.



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Global forecasts

Economy

Real GDP y/y, in %

	2025E	2026E	2027E
US	2.2	2.4	2.1
Canada	1.5	1.8	1.8
Japan	1.2	1.1	0.9
Eurozone	1.4	1.1	1.4
UK	1.4	1.1	1.4
Switzerland	1.2	1.3	1.2
Australia	1.9	2.3	2.2
China	5.0	4.5	4.6
India	7.4	6.5	6.5
EM	4.6	4.2	4.4
World	3.4	3.2	3.3

Inflation (average CPI), y/y, in %

	2025E	2026E	2027E
US	2.7	2.7	2.3
Canada	2.0	2.1	2.0
Japan	3.2	1.8	2.2
Eurozone	2.1	1.8	2.0
UK	3.4	2.0	2.0
Switzerland	0.2	0.3	0.6
Australia	2.8	3.5	2.7
China	0.0	0.4	0.8
India	1.9	3.7	4.0
EM	3.8	3.3	3.2
World	3.3	2.9	2.7

Source: Haver, CEIC, National Statistic, Bloomberg, UBS, as of 22 January 2026. Latest forecasts available in the Global forecasts publication, published weekly.

Asset classes

	Spot	June 2026	Dec 2026
Equities			
S&P 500	6,876	7,300	7,700
Eurostoxx 50	5,883	6,400	6,600
FTSE 100	10,138	10,300	10,500
SMI	13,157	13,800	14,000
MSCI Asia ex-Japan	957	1,030	1,065
MSCI China	87	100	102
Topix	3,590	3,700	3,800
MSCI EM	1,480	1,580	1,640
MSCI AC World	1,232	1,310	1,370

	Spot	June 2026	Dec 2026
Currencies			
EURUSD	1.17	1.20	1.20
GBPUSD	1.34	1.36	1.35
USDCHF	0.79	0.79	0.79
USDCAD	1.38	1.36	1.35
AUDUSD	0.68	0.71	0.73
EURCHF	0.93	0.95	0.95
NZDUSD	0.58	0.58	0.59
USDJPY	158	152	148
USDCNY	6.97	6.90	6.80

	Spot	June 2026	Dec 2026
Benchmark yields, in %			
USD 2y	3.58	3.25	3.25
USD 10y	4.24	3.75	3.75
CHF 2y	-0.12	0.00	0.00
CHF 10y	0.27	0.40	0.50
EUR 2y (Germany)	2.09	1.75	1.50
EUR 10y (Germany)	2.88	2.25	2.25
GBP 2y	3.69	3.50	3.50
GBP 10y	4.46	4.25	4.25
JPY 2y	1.23	1.10	1.20
JPY 10y	2.29	2.00	2.00

	Spot	June 2026	Dec 2026
Commodities			
Brent crude, USD/bbl	65.2	65.0	67.0
Gold, USD/oz	4,831	5,000	4,800

Source: SIX Financial Information, Bloomberg, UBS, as of 22 January 2026. Latest forecasts available in the Global forecasts publication, published weekly.

Disclaimer / Risk Information

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions

The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities

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