Add to equities

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- **Why?** 1) The Fed's resumed rate-cutting cycle should support stocks given historical precedent in non-recession periods. 2) We believe exposure to artificial intelligence will prove key to long-term portfolio growth. 3) Phasing-in strategies can help investors manage timing risks and position for long-term growth.
- **Why now?** 1) Despite valuation concerns, the solid financial position of leading tech companies and sustained demand for AI should continue to support the rally. 2) Resilient consumer spending and ongoing fiscal support provide a solid backdrop for markets. 3) We project S&P 500 earnings per share to reach USD 305 in 2026—up 10% year over year.

We think that investors underallocated to stocks should reallocate from cash, bonds, and high yield credit toward equities. Source: Pawel Czerwinski_Unsplash

Video: Add to equities: US tech, AI leaders, China tech, Eurozone & Japan

The US remains the core engine for global equities. We expect high profitability and the accelerating impact of the AI, power and resources, and longevity themes to drive 2026 performance. Healthy consumer demand, easier monetary policy, and fiscal support reinforce our positive outlook.

We forecast S&P 500 earnings per share to reach USD 305 in 2026—up 10% year over year—and see the index advancing to 7,700 by year end. The Magnificent 7 will continue to be major contributors, contributing to around half of our earnings growth expectations.

Within US equities, we also see compelling opportunities in health care, utilities, and banking, broadening the foundation for further gains.

Health care

We see the US health care sector emerging from a period of policy uncertainty and expect new clarity on drug pricing and pharma tariffs to support improved performance. We like select companies with exposure to large and growing markets such as obesity, while the sector's less correlated earnings profile could prove valuable if economic growth slows.

Utilities

We also favor US utilities, with the sector now benefiting from AI-driven power demand and ongoing digital infrastructure buildout. Electricity demand growth—driven by AI data centers and industrial manufacturing—is accelerating, prompting increased capital investment in power infrastructure and supporting robust earnings growth. With more than half the sector by market cap having significant leverage to these trends, and utilities trading at an 18% discount to the S&P 500 with a dividend yield of 2.7%, we see a compelling combination of growth and defensive income potential.

Banks

Banks—in the US and globally—are increasingly well-capitalized and profitable, with return on equity rising to 11.5% in 2025 and further gains expected. Supported by favorable net interest margin trends, improving loan growth, strong capital markets activity, and potential for deregulation in some markets, we think the sector offers both attractive valuations and potential for shareholder returns.

Opportunities beyond the US

Beyond the US, we also see opportunities in Europe, Japan, and China.

Europe

We upgrade European equities to Attractive, with a particular focus on the Eurozone. After three years of stagnant earnings, profit growth should accelerate to 7% in 2026 and 18% in 2027, driven by recovering goods spending, disciplined cost control, and supportive European Central Bank policy—including the 200bps in rate cuts already delivered. Germany’s plan to invest over 20% of GDP in infrastructure and defense strengthens the fiscal outlook and boosts capital investment. Banks are healthier, with rising loan growth, asset repricing, and fee income, while Eurozone equities offer meaningful exposure to power and resources, and longevity. Valuations remain reasonable: Eurozone stocks trade at 15.2x forward price-to-earnings—a 10% premium to the long-run average—and at a 22% discount to global peers. With investor enthusiasm subdued and the outlook improving, we see this as an opportune entry point. Within Europe, we favor industrials, technology, and utilities, as well as “European leaders” positioned to benefit from both policy and structural growth.

Japan

While political uncertainty may contribute to volatility in the near term, we expect more accommodative policies under the new government to support the market over the medium term. An earlier-than-expected recovery in corporate earnings, improvements in returns on equity, and valuations that are lower than in other regions should also prove supportive, in our view. Japanese companies’ efforts to improve capital efficiency and shareholder returns may also help the market sustain its upward trajectory.

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Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
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.
Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Appendix

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