



CIO believes that Fed rate cuts, robust corporate earnings, and the AI growth story will sustain the equity rally into 2026. (UBS)

Why a period of derisking should not come as a surprise

21 November 2025, 14:41 UTC, written by UBS Editorial Team

The latest S&P 500 pullback should be assessed in a wider context. The index has risen as much as 38% since its early-April low, while geopolitical tensions between Japan and China and negative private credit headlines have aggravated investor angst. In this context, a period of derisking should not come as a surprise—we note that equity segments with limited exposure to the AI capex story have also seen sharp drops in recent weeks.

Looking forward, we believe that Fed rate cuts, robust corporate earnings, and the AI growth story will sustain the equity rally into 2026.

The Fed has room to cut rates further. According to the latest Fed minutes, “many” Fed officials suggested that it would likely be appropriate to keep interest rates steady for the remainder of this year. But we still expect a softening labor market to allow the Fed to deliver two further 25-basis-point interest rate cuts by the end of the first quarter of 2026. While the US economy added more jobs in September than markets had expected, the unemployment rate also rose to the highest level since October 2021, which should help keep inflationary pressures in check. Fed officials noted last month that longer-term inflation expectations remained well anchored, and we believe the Fed’s focus will remain primarily on the downside risk to employment, rather than on the recent gradual increase in inflation.

Growing evidence of AI monetization points to the vast potential. There is little doubt that AI capex remains strong, as megacap tech firms have recently further raised their spending plans in the coming year. What is more encouraging, in our view, is the growing evidence of AI monetization. Leading cloud platforms have reported accelerating revenue growth and even faster backlog growth, and management teams have highlighted growing monetization potential. For example, Google recently raised the prices it charges for its AI services by 20%. With AI

increasingly integrated into existing applications and workloads, we believe the revenue potential is vast. Looking ahead, we expect value will increasingly shift from the enablers to the application layer.

Earnings strength across the broader market should expand the foundation for further gains. In addition to robust earnings from the tech sector during the third-quarter reporting period, there were signs of strength across the board. The median S&P 500 company beat earnings per share (EPS) expectations by close to 5%, which was higher than normal. We now expect S&P 500 EPS to grow by 11% this year and 10% in 2026, higher than our previous estimates. With the S&P 500 likely reaching 7,700 by the end of 2026, we see compelling opportunities not only in tech, but across the health care, utilities, and banking sectors.

So, despite potential volatility as markets assess fresh data and headlines, we maintain the view that the bull market remains intact. While market movement can be subject to shifts in sentiment, investor portfolios do not need to be completely beholden to them. We recommend investors build a clear plan, deploy excess cash, construct a strong core portfolio across equities, fixed income, and alternatives, as well as selectively hedge risks.

Original report – [Bull market intact despite volatility from derisking, 21 November 2025.](#)

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