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Refocus equity exposure

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Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** 1) We expect resilient economic activity and continued AI investment to support corporate profits and further equity gains in 2027. 2) Earnings growth should be broad-based, with forecasts of around 15% for both the US and Eurozone and 20% for Asia ex-Japan. 3) Eurozone equities, industrials, and health care offer opportunities to diversify portfolios across regions and earnings drivers.
- **Why now?** 1) High earnings expectations and elevated US market concentration leave indices more sensitive to disappointment from a small number of companies. 2) We believe AI investment is set to rise from around USD 1.0tr in 2026 to USD 1.4tr in 2027, but differences in companies' ability to monetize AI should lead to greater earnings dispersion. 3) Investors should maintain diversified equity exposure, reduce excess concentration, and focus on financially strong tech companies.



We expect global equities to remain supported in 2027, though high expectations and concentrated leadership call for more diversified equity exposure.
Source: Pexels_Cottonbro

These forecasts set a high bar. Companies will need to sustain profitability, while AI adoption should create greater earnings dispersion as businesses vary in their ability to generate revenues, productivity gains, and higher margins.

Market concentration increases the impact of disappointment. The 10 largest companies represent around 40% of the S&P 500, giving revisions to a small group of earnings forecasts an unusually large effect on index returns.

We have moved global equities to Neutral. We still expect markets to rise, with end-2027 price targets of 8,200 for the S&P 500, 7,000 for the Euro Stoxx 50, 1,170 for MSCI Asia ex-Japan, and 1,460 for MSCI AC World.

Prefer the Eurozone

The Eurozone is our preferred regional equity market. We forecast 15% earnings growth in 2027, matching the US, from a lower starting valuation and with less dependence on a few concentrated AI-linked companies.

Listed European companies earn substantial revenues globally, while recovering manufacturing and investment in defense, infrastructure, automation, and electrification should support profits. Healthier banks, relatively low private sector debt, and a broader mix of earnings drivers add to the region's appeal. To benefit from these dynamics, investors can also consider our "European leaders" stock list.

Moved the US to Neutral

We have moved US equities to Neutral after a period of exceptional earnings growth and a strong market advance. Although we forecast a further earnings increase in 2027, markets are increasingly focusing on whether the current investment cycle can support profits into 2028.

Cannibalization, financing, and execution risks around AI have increased while expectations and index concentration remain high. The market is therefore more sensitive to earnings disappointment or a further rise in discount rates.

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While we expect gains, the path could be volatile. Investors should retain their strategic US exposure but use market strength to reduce excess concentration.

Moved Asia ex-Japan and emerging markets to Neutral

We have also moved Asia ex-Japan and emerging market equities to Neutral. Despite high earnings, their opportunity sets are heavily weighted toward semiconductors, memory, and technology hardware, leaving earnings and valuations more exposed to the AI capital-spending cycle.

Within the region, we favor financials in China, Japan, and Singapore for income, rate normalization, and balance sheet strength; China health care for structural innovation and less AI-dependent growth; and domestic-demand beneficiaries in India, Japan, and Singapore.

Diversify sector exposure: Industrials and health care

We favor industrials and health care as two ways to broaden earnings exposure beyond technology.

Investment in automation, defense, transport infrastructure, power networks, and electrification should support industrial earnings. We prefer companies that serve several end markets and have established positions and visible orders over businesses heavily dependent on data center construction.

Health care offers medical innovation and long-term demand. New therapies, obesity treatments, diagnostics, and medical technology should support revenues, while earnings are less tied to corporate investment.

Investors with concentrated US megacap exposure can also diversify with equal-weight strategies, reducing the influence of the largest companies.

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.
Absolute view
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.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
In line: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: 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.

Appendix

Risk information
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