



(UBS)

A period of market consolidation would not come as a surprise

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Tech stocks lifted US equities to a fresh record on Thursday, after NVIDIA said it would invest USD 5bn in Intel and that the two companies plan to co-develop chips for PCs and data centers.

The rise in the wider stock market also comes on the back of the 25-basis-point interest rate cut by the Federal Reserve, which signaled further easing ahead at its policy meeting on Wednesday. The S&P 500, Nasdaq 100, Russell 2000, and the Dow all closed at record highs for the first time since 2021.

We have highlighted that a Fed easing cycle in a non-recessionary environment has historically helped support stocks, and we see further gains underpinned by AI, earnings, and consumption.

AI advances should continue to drive market performance. Without taking any single-name views, Intel's jump and recent share price performance of the likes of Broadcom and Oracle show the potential for a combination of idiosyncratic AI-related developments at individual companies to support markets. But more broadly, we believe the long-term potential for AI to drive performance is strong. We expect global AI capex to grow 67% year over year to USD 375bn in 2025 and by 33% y/y to USD 500bn in 2026. Recent data suggests demand for AI compute capacity remains strong, while monetization trends are encouraging amid accelerating AI adoption.

Corporate earnings growth is solid. S&P 500 corporate profits grew 8% in the second quarter, ahead of our initial estimate of 5%. The strength was also broad-based, with nearly 80% of the companies beating sales estimates and a median earnings per share (EPS) beat of 4.3%, compared to a typical 3.5%. We expect S&P 500 earnings per share growth of 8% (to USD 270) this year, and 7.5% (to USD 290) in 2026.

Consumer resilience should underpin the health of the US economy. Consumer spending accounts for around 70% of total US economic output, and the resilience in spending has provided a buffer against recession risks. In fact, retail sales have risen for three consecutive months, with the increase in August beating consensus estimates. While the labor market is weakening, corporate and aggregate household balance sheets remain in good shape. With the US government starting to tilt its focus beyond trade and toward deregulation, stocks should continue to be supported.

Of course, there are reasons to be mindful, given the current high valuations compared to long-term averages. After such a strong recent run, a period of consolidation should not come as a surprise, in our view. Our base case calls for the S&P 500 to reach 6,800 by June 2026, while in a bull case we believe the index could reach 7,500. Investors should consider phasing in and using market dips to add exposure to our preferred areas, including the IT, financials, health care, communication services, and utilities sectors.

Original report – [US stocks hit new highs amid Fed support, 19 September 2025.](#)

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