



CIO continues to believe that positive market fundamentals will likely drive equities higher in the coming months. (UBS)

Positive market fundamentals will likely drive US equities higher

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With markets having recently focused on the implications of a lower-rate environment, any doubt over the Fed's future easing path could stoke volatility. But the Chief Investment Office (CIO) continues to believe that positive market fundamentals will likely drive equities higher in the coming months.

The Fed is likely to lower rates further, creating a favorable backdrop for stocks. While Powell made clear that policymakers remain mindful of inflation risks despite the 25-basis-point rate reduction last week, CIO believes the Fed overall will prioritize labor market weakness over what is still likely to be a temporary increase in inflation. Powell has said he is expecting an only one-off price increase from tariffs, and both market and survey measures of longer-run inflation expectations remain at levels consistent with the Fed's 2% target. With the federal funds rate still above the average estimate of "neutral," CIO thinks the Fed has room to cut more before running the risk of stoking higher inflation. CIO expects 75 basis points of additional rate cuts between now and the end of the first quarter of 2026.

Solid earnings growth and healthy consumption are supportive of markets. Recent corporate results showed that that earnings strength was broad-based, with nearly 80% of S&P 500 companies beating sales estimates. With an estimated earnings per share growth of 8% this year and 7.5% in 2026, CIO expects solid corporate profits to underpin further equity gains. In addition, corporate and aggregate household balance sheets are in good shape, while the administration's focus on deregulation should also be generally supportive for stocks.

Transformational innovation like artificial intelligence (AI) should continue to drive market performance for the long term. The latest US Census Bureau survey tracking AI adoption across more than a million firms in the US showed a steady sequential improvement in the AI adoption rate, and CIO thinks the industry is poised to enter the next phase of

growth where penetration accelerates. This, in CIO's view, is underpinned by strong and rising global capex, continued innovation in reasoning models, a growing AI ecosystem, and an expanding scope for monetization.

So, CIO expects the S&P 500 to reach 6,800 by June 2026, while in a bull case, they believe the index could reach 7,500. Investors looking to manage timing risks should consider phasing in and using market dips to add exposure to preferred areas.

Original report – [**Market fundamentals point to further upside, 25 September 2025.**](#)

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