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Chief Investment Office GWM
Investment Research

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) Recent strategic partnerships among key AI players reinforce our confidence in a robust capex cycle and greater revenue visibility. (2) With tariff risks receding, resilient US consumer demand and supportive fiscal policies, we believe the backdrop remains favorable for the rally to continue. (3) We expect a robust 3Q earnings season and raised our 2025 US equities earnings growth estimate from 8% to 10%.

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

Global

We expect continued gains for AI-linked companies to support broad market indices, especially in the US and China, where AI exposure is highest. More broadly, lower US interest rates, robust earnings growth, and solid economic fundamentals should drive further upside for global equities over the coming year.

US

Technology remains the key driver of US equity performance, and we expect this to continue as monetization and adoption accelerate alongside ongoing product innovation, fueling demand for compute. In addition, easing tariff risks, supportive fiscal policies expected early next year, and a resilient economy create a favorable backdrop for the US rally to extend further.

Opportunities beyond US tech

US health care: The sector has faced policy uncertainty over the past six months, but recent developments are bringing more clarity on drug pricing and pharma tariffs, which should support improved performance. Select companies should also deliver upside relative to earnings estimates. Promising new therapies in large markets, such as obesity and Alzheimer's, may help offset patent expirations. Health care's defensive characteristics can also be helpful in the event of a sharper economic slowdown.

US Utilities: Utilities remain a favored defensive sector, offering stability if economic growth slows. Around 20-25% of the sector now benefits from material exposure to AI power demand, which is an emerging growth driver. Stable cash flows and the ongoing buildout of digital infrastructure support a constructive outlook. Utilities combine defensive characteristics with upside from accelerating AI and data center trends.

Global banks: The global banks sector is benefiting from improved cost efficiency, lower credit risk, and excess capital, with recent trends pointing to a cyclical recovery that should support increased lending activity. Over the longer term, supportive regulation, healthy net interest income growth, and ongoing business model optimization offer further upside, reinforcing the investment case.

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Japan: While near-term volatility in Japanese equities may persist due to political uncertainty, we believe the structural market reform story remains intact. With consensus earnings estimates bottoming out earlier than expected, we see additional momentum supported by record share buybacks, ongoing improvements in corporate governance, and attractive valuations.

European IT: The sector is currently benefiting from strong AI-driven demand for semiconductor equipment and robust cloud software revenues. While valuations are above historical averages, defensive, high-quality, and visible earnings justify this, in our view. We believe improving guidance, removal of tariff risks, and recent market corrections offer attractive entry points, with limited excess inventory supporting a healthy upcycle.

European industrials: The sector trades at a discount to US industrials and is well positioned to benefit from higher European defense spending and a recovery in global manufacturing, in our view, supported by renewed demand from China. Looking ahead, long-term growth should be driven by reshoring, defense investment, the energy transition, and rising capital spending on AI data centers and power infrastructure.

European utilities: Utilities have already posted strong gains in 2025, limiting near-term upside. Nevertheless, structural growth drivers remain compelling as decarbonization and the energy transition accelerate, supported by robust policy backing. Rising electricity demand from data centers, EVs, and new technologies continues to underpin earnings resilience. With fair valuations and defensive characteristics, the sector maintains a balanced outlook.

Appendix

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