New SMI constituents: More health care stocks make diversification even more important

CIO Essentials

Author: Alessandro Bee, Economist, UBS Switzerland AG

- In September, two new companies—Galderma and Sandoz—will be added to the Swiss Market Index (SMI), the Swiss stock market's benchmark index. Both companies operate in the health care sector.
- This will further increase the health care sector's dominance of the SMI. In our view, this reinforces the need to invest beyond the SMI, as the health care sector's dominance makes the SMI more vulnerable to volatility and risks than a broadly diversified portfolio.
- In our view, investors should not focus solely on the SMI, but should diversify their equity investments more broadly. At present, we see opportunities in listed Swiss mid-cap companies that could benefit from the ongoing economic recovery.

Source: Getty UBS

Normally, the annual adjustment to the composition of the Swiss Market Index (SMI)—the benchmark index of the Swiss equity market, comprising Switzerland's 20 largest companies—attracts little attention. This year, however, is different. On 21 September, two well-known companies, telecommunications provider Swisscom and logistics group Kühne+Nagel, will be removed from the SMI. Based on market capitalization and liquidity, they no longer rank among Switzerland's 20 largest listed companies. They will be replaced by two health care companies: Galderma, a global leader in skincare and aesthetic products, and Sandoz, a specialist in generics and biosimilar medicines.

Swiss benchmark index is heavily weighted toward health care

The change in composition will also affect the sector weightings of the SMI. The health care sector's weighting will rise from around 36% currently to approximately 40%. So far, this overweight has not detracted from performance: the SMI has gained around 8.5% since the beginning of the year, while its two health care heavyweights, Roche and Novartis, have risen by around 13% and 15%, respectively. Nevertheless, the health care sector's dominance makes the SMI more exposed to sector-specific volatility and risks than a broadly diversified portfolio.

In our view, investors should not focus solely on the SMI but diversify their equity investments more broadly. One option is to invest globally, as we argued in our March 2026 CIO Essentials, because global markets are significantly more diversified than the Swiss market. The global equity market also has a greater allocation to the IT sector than the Swiss equity market. Historically, IT has been a major driver of global equity-market performance and is likely to remain central to the economy in the age of artificial intelligence.

Diversify into mid-sized listed companies

In addition, investors may wish to consider exposure to Swiss equities beyond the SMI. As of mid-September, the index of mid-cap Swiss companies, the SMI Mid, is significantly less concentrated in health care stocks. Adding mid-caps may therefore improve diversification. Mid- and small -cap Swiss companies are also supported by other factors. Their valuations remain higher than those of SMI companies, but the gap has narrowed significantly, which appears attractive in light of their earnings-growth outlook.

This report has been prepared by UBS Switzerland AG. **Please see important disclaimers and disclosures at the end of the document.**

The SMI Mid may also benefit more from an economic recovery in the coming quarters, given its greater exposure to economically sensitive industrial companies. Despite geopolitical risks in the Middle East, the outlook for an economic recovery remains constructive. This is reflected in the improving purchasing managers' indices in the US and Europe, which are closely watched economic indicators of economic activity in financial markets.

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. Note that 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.
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
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.
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."

Appendix

Risk Information
UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates.
The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.
Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.
In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with

trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.
Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it.
The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.
Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.
This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.
Important Information About Sustainable Investing Strategies: This terminology refers to definitions in the UBS Sustainable Investing Framework and does not refer or relate to any product-specific regulatory labelling regime or naming conventions. Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or sustainable investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or sustainable investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.
External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.
USA: This document is not intended for distribution into the US and / or to US persons.
For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.
Except as otherwise specified herein and/or depending on the local entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).
Version C/2026. CIO82652744
© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.