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Focusing on what matters

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From mid-January, markets are expected to refocus on the earnings season. While geopolitical issues remain present, corporate earnings and economic policy decisions are often more decisive for medium- to long-term investors. For 2026, we expect earnings growth of around 12 percent in the S&P 500. That's solid once again; nevertheless, international diversification is likely to continue gaining importance, with attractive opportunities in Europe, Asia, and Switzerland.

While geopolitical issues dominate the headlines, markets are expected to turn their attention back to the earnings season for the fourth quarter of 2025 from mid-January. Especially for investors with a medium- to long-term investment horizon, corporate earnings and profitability, along with economic policy decisions, are often much more decisive for the success of their investment strategy than (geo-)political developments and events.

The US earnings season is particularly relevant for investors, as US companies account for about two-thirds of global market capitalization. Last year, the S&P 500 recorded double-digit earnings growth in each of the first three quarters—and even more importantly, on average, results were about 6 percentage points above expectations, according to estimates from Goldman Sachs. For the fourth quarter, consensus estimates point to an earnings increase of around 7 percent; we believe this forecast may also be too conservative.

For 2026, we forecast earnings per share growth of 12 percent in the S&P 500—equivalent to about USD 310. While technology stocks are likely to remain solid, we expect investors to increasingly look for opportunities beyond the large US tech companies this year: European equities (also supported by new stimulus programs in Europe, especially Germany) and Asian or Chinese stocks should be considered for stronger diversification. In particular, fiscal incentives and a marked acceleration in earnings growth could create new momentum in Europe. In Asia and China, we see opportunities to broaden portfolios and benefit from different growth drivers. Chinese technology stocks remain an exciting theme for us, and after a rather weak year, India may offer long-term investors an interesting entry point, even though stocks remain relatively expensive. In Switzerland, our focus continues to be on dividend stocks.

Valuations are one of the few drawbacks: they are high—the MSCI World is at the 90th percentile of its 25-year average, and the US is even higher. Emerging market equities are also somewhat more expensive compared to their historical levels. This may make it harder for markets to rise sharply. However, thanks to the outlook for solid corporate earnings, we expect equities to remain attractive compared to defensive assets, such as bonds, in the US, Europe, and Asia, and especially in Switzerland, where interest rates are close to zero.

Our conclusion? Those who focus on corporate earnings and economic policy frameworks—and do not let themselves be guided solely by geopolitical headlines—should also have good prospects for solid returns in equity markets in 2026. And although we again expect double-digit returns for the US—thanks in part to the ongoing boom in artificial intelligence—international diversification is likely to remain a key theme. This favors Europe, selective stocks in Asia, and also Switzerland, which should again offer similarly high return potential in 2026.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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