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- **Why?** (1) Despite a strong recovery in stocks following the recent easing of trade tensions, we still see scope for equities to move higher into 2026. (2) Markets should be supported by structural earnings growth, a more stable policy environment, and lower Fed interest rates. (3) Structured investments and phasing-in strategies can help investors manage near-term volatility while capturing longer-term gains.
- **Why now?** (1) Market volatility is likely to pick up in the near term amid uncertainty about the economic impact of tariffs, threats to Fed independence, and geopolitical complexity. (2) However, market swings are likely to be temporary. Hedges and investing gradually now can help avoid poor market timing and ensure portfolios are positioned for potential gains in 2026. (3) US technology, health care, utilities, and financials; select Asian markets; and quality and thematic opportunities in Europe all offer attractive growth prospects, in our view.



We think that investors already invested in line with strategic benchmarks should consider short-term hedges, while those under-allocated to stocks should prepare to add exposure on potential market dips.

At times of heightened uncertainty, a core investment strategy is essential to keep financial plans on track through volatility. This means either building a well-diversified portfolio or maintaining a target long-term asset allocation and staying disciplined despite market swings.

While we expect market volatility to pick up in the near term after a strong run for equities—and given the lingering risks around tariff policy and the macroeconomic outlook—we believe the bull market remains intact. We see the S&P 500 reaching 6,500 by June 2026 amid a likely easing of US policy uncertainty, Federal Reserve rate cuts, and continued growth in structural themes like AI.

Capital preservation strategies and/or gradually putting cash to work now can help manage near-term volatility while positioning portfolios for potentially stronger future returns.

We see opportunities in equity markets across regions:

US: Technology, health care, utilities, and financials

In the US, we expect the strongest performance to come from the technology, health care, utilities, and financial sectors:

Technology: AI investment and adoption remain key drivers. Despite concerns about a slowdown, early second-quarter earnings and management commentary underscore that supportive trends are intact, and we see a long runway for AI-driven growth. While potential semiconductor tariffs later this year could introduce some volatility, the sector remains high quality and continues to generate the highest return on capital across all sectors.

Health care: We rate the sector as Attractive. Policy clarity, compelling current valuations, and upside to earnings estimates for select companies should drive a rebound. Promising new therapies in large, untapped markets—

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such as obesity and Alzheimer's—should help offset patent expirations. We believe the sector's defensive characteristics can also provide ballast if the US economy slows.

Utilities: The sector's defensive characteristics should offer ballast in a portfolio if economic growth slows further. In addition, roughly 20-25% of the sector has material exposure to AI power demand.

Financials: Easing regulation, early signs of a pick-up in capital markets activity, and improving net interest margins and income should support a recovery. Ongoing growth in payments, driven by digital adoption and robust transaction volumes, adds further momentum. We believe these positive trends, alongside solid fundamentals, position the sector well for the months ahead.

Asia: Singapore, India, and China's tech sector

Singapore: Singapore stands out as a relative "safe haven," backed by its strong currency, high dividend yields, and local equity market reforms. Easing trade tensions also bode well for its trade-reliant economy. For global investors, the market offers improving earnings and currency diversification benefits.

India: India has been one of the more aggressive Asian economies in easing monetary policy and continues to boast a strong structural story, giving it defensive qualities as the cyclical recovery begins to emerge. We expect earnings per share growth to accelerate from mid-single digits to low- to mid-double digits for FY26 and FY27.

China tech: We continue to favor China's tech sector, which is being increasingly supported by new advancements, growing AI adoption, bottom-up fundamental improvements, and domestic policy support. The sector's valuations are still reasonable, earnings growth is expected to be strong (26% for 2025E), and there is additional potential upside from currency appreciation. We prefer leading names in online gaming, cloud services, and online travel agencies.

Europe: Quality and thematic plays

Swiss high-quality dividends and income strategies: We think Swiss dividend-paying equities are attractive, as the average dividend yield, at around 3%, is higher than that of Swiss franc bond yields. Historically, dividend yields have been similar or lower than bond yields. With robust balance sheets and profitability, we think this suggests that market-wide distributions are sustainable.

European quality: We rate European quality stocks as Attractive. Recent underperformance has brought valuations back below their 10-year average (MSCI Europe Quality), creating a more appealing entry point. These companies' strong profitability, resilient earnings, and solid balance sheets make them well suited to a late-cycle, volatile environment. Historically, quality stocks have outperformed

during periods of slow growth and uncertainty, and much of the direct tariff risk now appears priced in. We see a compelling risk-reward for broad-based exposure at current levels.

Six ways to invest in Europe: We see value in companies benefiting from market volatility, policy shifts in Germany, increased defense and cybersecurity spending, the rebuilding of Ukraine, and global firms with limited trade risks. A diversified approach across these topics can help investors navigate Europe's more challenging outlook. For more, see our "Six ways to invest in Europe" list.

Brazil: Still constructive despite Trump's 50% tariff threat

Brazil is a relatively closed economy, with exports to the US representing less than 2% of GDP. We also think the threatened tariffs are unlikely to become permanent given the possible legal hurdles, and the US runs a goods trade surplus, not a deficit, with Brazil. The direct impact on economic activity and corporate earnings will likely be contained, and Brazilian stocks should continue to be supported by a weaker US dollar, ongoing interest in geographic diversification by global investors, improving corporate returns on equity, and the prospect of central bank rate cuts.

Appendix

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Version A/2025. CIO82652744

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