

Is it time to reduce equity exposure?

CIO Essentials

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- While high equity valuations and market concentration are concerns, we do not see them as a reason to remain underinvested in equities.
- Stronger-than-expected US economic growth, lower interest rates and AI tailwinds have led us to overweight US and global equities.
- Outside the US, we have a preference for equities in Japan, EM, China and Brazil. At the sector level, we favor technology, utilities, global banks, US financials, US health care, European industrials and European real estate.



Source: Getty

Equity markets performed strongly in the third quarter, appearing unfazed by a long list of concerns. However, sentiment has shifted in recent weeks. The announcement of Nvidia's plans to invest up to USD 100 billion in OpenAI, followed by Oracle's partnership with OpenAI, has raised questions about circularity within the AI ecosystem. These developments evoke memories of the late 1990s, when similar practices contributed to the formation and subsequent collapse of the dotcom bubble—making comparisons between then and now inevitable.

Many clients are now asking whether it is time to reduce their AI and equity exposures. The UBS CIO office advises against acting hastily, for two main reasons. First, AI capital expenditure trends remain robust and closely aligned with adoption rates. The industry is expected to reach a 10% adoption rate by year-end, with further acceleration likely. While it is still early days for a market projected to reach USD 1.5 trillion by 2030, early adopters are already seeing tangible economic benefits.

Of course, risks remain. No boom in history has perfectly matched supply and demand, nor avoided the use of leverage and financial engineering to enhance returns. While AI circularity is currently limited, it is a risk that warrants monitoring.

The second reason for our constructive view on equities is the supportive macroeconomic backdrop. US economic growth has exceeded expectations, and the prospect of lower interest rates into early 2026 should be positive for stocks—we now forecast the S&P 500 to reach 7,300 by June 2026. Importantly, this is not just a US or AI story. Historically, Fed rate cuts have benefited emerging markets, with China likely to be a primary beneficiary as liquidity conditions improve, targeted policy measures are implemented, and consumer spending rises.

Beyond Asia and technology, we favor global banks, which stand to benefit from improved cost efficiency, lower credit risk, and excess capital following years of deleveraging. Normalized yield curves, deregulatory tailwinds, and a resilient macro environment make global banks attractive at current valuations. The sector is well positioned for cyclical recovery, with increased lending activity and healthy net interest income growth.

We also see long-term opportunities in US health care, supported by recent policy clarity on drug pricing and pharma tariffs. The sector should benefit from structural growth driven by rising demand for products and services that extend healthy lifespans. Promising new therapies in markets like obesity and Alzheimer's may offset patent expirations, while defensive characteristics could provide resilience during economic downturns.

Utilities—in both the US and Europe—and the broader power and resources theme also offer durable potential gains, underpinned by accelerating demand for electricity and grid infrastructure. OpenAI's deals are fueling global investment, with USD 3 trillion expected annually across power generation, energy storage, grid infrastructure, and data centers by 2030. Utilities combine defensive qualities with growth from AI and data center trends, and fair valuations (at least in the US) make the sector appealing for balanced portfolios.

In Europe, the industrials sector presents further opportunities. European industrials trade at a discount to US peers and are set to benefit from increased defense spending, reshoring, and the energy transition.

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, commonly known indexes, 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.

Appendix

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