

Buy on dips in equities

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Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

- **Why?** (1) The Fed's resumed rate-cutting cycle can 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 market timing risks while capturing longer-term gains.
- **Why now?** (1) In our base case, we see the S&P 500 reaching 6,800 by June 2026, while in a bull case, we believe the index could reach 7,500. (2) US corporate earnings growth is solid, with profits growing by 8% in the second quarter. (3) Beyond the US, we see value in select Asian markets and favor quality and thematic European opportunities.



We think that investors underallocated to stocks should consider phasing strategies and/or prepare to add exposure on potential market dips. Source: Unsplash

US: Technology, health care, financials, and utilities

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

Technology: Technology remains a key driver of US equity performance, supported by strong AI investment and adoption. Second-quarter earnings were resilient for AI-exposed companies, with management commentary confirming supportive trends. While potential semiconductor tariffs could introduce volatility, recent policy and antitrust developments have been mostly supportive. Overall, technology stands out for its high-quality companies, its secular growth prospects, and for having the highest returns on capital. We also see further potential upside from robust AI spending.

Health care: The sector has faced policy uncertainty, but current valuations are compelling and policy clarity is emerging. Select companies should 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.

Financials: Financials look set to benefit from easing regulation, improving bank profitability, and secular growth in payments. Rising capital market activity and an improvement in net interest margins and income should lift valuations. Robust transaction volumes and digital adoption may also add momentum. These trends, alongside solid fundamentals, position financials well for the months ahead.

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.

Asia: Japan, China tech, India, and Singapore

Japan: We have upgraded Japan equities to Attractive, anticipating more accommodative fiscal policy as political leadership changes. Consensus earnings estimates are bottoming out earlier than expected. We see further

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momentum driven by record share buybacks, improving corporate governance, and reasonable valuations.

China tech: We remain positive on China's technology sector, with recent results showing strong monetization, profit growth, and rapid advances in AI adoption and development. While short-term pressure from competition in areas like food delivery poses some risk, we think it is mostly priced in. We forecast over 30% earnings growth for the sector overall for the 2025-26 period, making it one of the most compelling global technology opportunities.

Singapore: Singapore equities have outperformed this year, pushing valuations above their historical average. We see room for more gains, with defensive flows seeking shelter in the Singapore dollar's stability and the Singapore equity market's high dividend yields anchoring performance. Anticipated fiscal support should drive further upside, while periods of US soft-landing rate cuts have also historically supported Southeast Asian markets.

India: With US trade talks continuing, India's relatively closed economy should keep it sheltered from tariffs. Strong private consumption and government spending continue to support the economy, and we expect earnings per share growth to accelerate from mid-single digits to low- to mid-double digits for FY26 and FY27.

Europe: Quality and thematic plays

While the outlook in Europe is beginning to improve, we retain a Neutral stance on Europe and remain focused on select areas within the market:

European quality: After underperformance and flat earnings, the valuations of quality European companies are now below their ten-year average, offering a more attractive entry point. Strong profitability and solid balance sheets make these companies well suited to a late-cycle, volatile environment. With currency headwinds already reflected in second-quarter results, we expect earnings growth to improve next year. Quality stocks have historically outperformed in periods of slowing growth and uncertainty, presenting a compelling risk-reward ahead of an anticipated rebound in earnings.

Six ways to invest in Europe: We see value in companies benefiting from market volatility, policy shifts in Germany, increased defense and cybersecurity spending, Ukraine's reconstruction, and in global firms with limited trade risk exposure. Diversification across these themes can help manage Europe's challenging outlook. European industrials and IT firms exposed to transformational innovation, such as demand for data centers and electrification, are well positioned for growth, in our view. See our "Six ways to invest in Europe" list.

Appendix

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