



(UBS)

Reasons to believe the equities rally can go further

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The equity bull market is now entering its fourth year and more investors are becoming concerned that tech stocks have become overvalued. But we expect further gains and have recently upgraded global equities to Attractive.

CIO confidence is based on evidence of fresh momentum behind AI, supportive US fiscal and monetary policy, and recent data showing US growth exceeding expectations.

Stocks are currently trading above historical valuations.

- The MSCI All Country World Index of global equities has gained 17% so far in 2025 at the time of writing, adding to advances of 15.7% and 20.1% in 2024 and 2023, respectively.
- Current valuations are high compared to traditional measures' long-term averages. The S&P 500 forward price-to-earnings ratio and Shiller CAPE ratio are both in the 99th percentile over the past 20 years.
- The circularity of some AI investments prompting comparisons with the dotcom bubble.

But we see reasons to believe the rally can go further.

- Recent multi-billion-dollar partnerships between hyperscalers and AI chip firms have strengthened our confidence that AI-related capital expenditures will exceed expectations and remain robust for longer.
- The Federal Reserve resumed its rate-cutting cycle in September, and we see further cuts ahead.

- This week, Fed Chair Powell recognized this trend, stating that the US economy “may be on a somewhat firmer trajectory than expected” and that “people are spending.”

So, we view global equities as Attractive and recommend an exposure consistent with or modestly higher than strategic targets.

- We have raised our US earnings growth expectations for 2025 and 2026: We now expect S&P 500 earnings per share of USD 275 in 2025 (10% y/y growth) and USD 295 in 2026 (7% y/y growth), both a USD 5 increase over our previous forecasts.
- If investors are currently underallocated to equities, we believe they should reallocate excess cash, bond, or high yield credit holdings toward stocks.

Did you know?

- Price-to-earnings (P/E) ratios for today’s tech giants are far lower than for the tech firms at the peak of the dotcom bubble. For example, if we look at dotcom era market leaders—Microsoft, Cisco, Lucent, Nortel, and AOL—their average forward P/E in 1999 was 82x, substantially higher than the Magnificent 7’s 28x average forward P/E over the last 12 months.
- We think that over the medium term, even the almost USD 1 trillion of currently planned capex could still fall short of what appears to be needed. We therefore believe that investment growth is likely to continue over the next year.
- US fiscal policies—including measures such as capex and R&D expensing, cutting taxes on tips, and lighter regulation—should also provide a modest tailwind to cyclical sectors as we move into 2026.

Original report – [What's next for US equities?, 20 October 2025.](#)

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