



(UBS)

CIO expects US growth to re-accelerate into the second half of 2026

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Global equities pulled off an impressive turnaround last week as investors regained confidence in further Federal Reserve interest rate cuts.

The market-implied probability of a December rate cut has climbed to over 87%, from below 40% just over a week ago.

A softening labor market keeps the Fed's easing bias intact. Despite the recent divided rhetoric from Fed officials, we believe policymakers will remain data dependent when they meet next week. The latest available data suggest that the Fed is more likely to proceed with a 25-basis-point cut. The unemployment rate in September rose to the highest level in nearly four years, while consumer confidence for November fell to its lowest level since April amid job and economic concerns. The Fed's Beige Book also pointed to a slight decrease in employment, with more districts reporting hiring freezes. Additionally, whether the Fed cuts this month or pauses until January would only change the timing, in our view, not the overall easing bias or the likely final destination for the fed funds rate. And that is what matters most for a constructive medium-term investment outlook.

The current soft patch in the US economy is likely temporary, and global growth should accelerate in 2026. While US retail sales in September came in below consensus estimates, household balance sheets remain healthy. High-frequency credit card data indicate that overall spending remains solid, and US consumers now have the lowest debt burden in over 40 years, excluding the COVID pandemic period. We expect US growth to re-accelerate into the second

half of 2026, supported by fiscal policy measures such as targeted tax cuts. Globally, fiscal stimulus and infrastructure investment in major advanced economies are also likely to support an acceleration of growth, providing a supportive backdrop for risk assets.

Robust earnings growth expectations should drive further equity gains. While global equity valuations remain elevated by historical standards, the premium is largely driven by the growth of highly valued sectors in benchmark weighting. We also believe that earnings growth is a more important indicator of forward returns, and our earnings growth estimates for major markets in the coming year are in a solid range of 7% and 14%, supporting near-term upside potential.

So, as the current favorable backdrop continues into 2026, we believe investors underallocated to stocks should add to equities. We favor tech, health care, utilities, and banking in the US, and believe “European leaders” are well positioned to benefit from both policy and structural growth. In Asia Pacific, we like Australia, Japan, China, and particularly China’s tech sector.

Original report: [Favorable backdrop should support global equities further, 1 December 2025.](#)

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