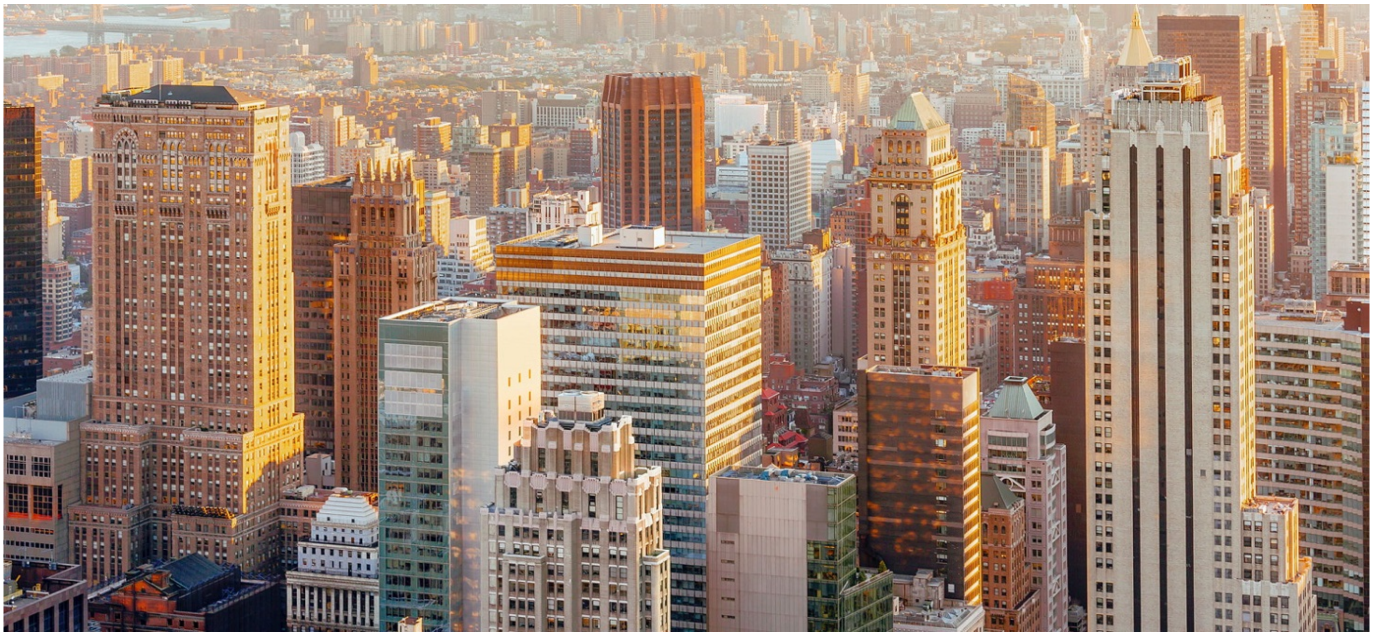

(UBS)

CIO's view on the overall US equity market remains unchanged

18 February 2026, 13:36 UTC, written by UBS Editorial Team

The four largest “hyperscalers” (Alphabet, Amazon, Meta, and Microsoft) plus Oracle will likely spend close to USD 700bn this year. This expenditure will consume nearly all of these companies’ operating cash flows and may increasingly rely on external financing.

As a result, we expect capex growth will likely decelerate. This means investors will have to be more selective and nimbler among the beneficiaries of this spending. To reflect this, and the heightened competition in the software sector, we recently downgraded the S&P 500 information technology sector to Neutral from Attractive.

But we also need to consider the broader implications.

Downgrading US communication services. The aggressive pace of capital spending reflects the fact that AI model developers operate in a very competitive space, racing to constantly improve their models and win market share. This is a crowded field and at this early stage of development, it is not clear who the leaders will be when the dust settles.

Competition looks poised to inflect even higher as private companies start to encroach on the core advertising business of public companies—OpenAI is introducing its own advertising and other players may follow suit. Meanwhile, investors' concerns may linger about free cash flow pressures from intense capital spending. To reflect these competitive risks, and our assessment that the risk-reward in the sector is becoming more balanced, we downgrade US communication services from Attractive to Neutral.

We believe the Power and resources opportunity remains both Attractive and broader than just supplying power to AI. While data center investment is growing quickly, it remains a small part of the overall market—the Energy Information Administration estimates data centers could account for up to 9% of total US electricity use by 2035 (compared to around 4% today). Many products sold by companies in the power and resources sector (e.g., transformers, switchgears, metals) can also be used across multiple applications, not just for data centers. We are therefore not overly concerned about the impact of slowing data center capex growth on power supply chain companies. Strong recent order growth and large backlogs suggest several years of profit growth ahead.

The Power and resources opportunity also has broader drivers including grid resilience, global transmission infrastructure, renewables, nuclear, building electrification, industrial automation, EV infrastructure, and critical minerals. We expect annual power generation investment to remain stable at around USD 900 billion, with total global electrical infrastructure spending forecast at USD 32 trillion over ten years. We believe Power and resources is a way for investors to broaden beyond tech, with industrial, utility, metals, and materials companies all likely beneficiaries.

Our view on the overall US equity market remains unchanged. Although we have a Neutral view on both information technology and communication services, we believe the macro backdrop remains supportive due to solid economic growth, which is driving healthy and broadening profit growth and should support the wider market. Even though the Federal Reserve has paused rate cuts for now, we believe the central bank will deliver two more 25-basis-point rate cuts later in the year, and a combination of solid growth and Fed rate cuts is typically a favorable environment for equities. We hold an Attractive view of the US stock market, expect 12% S&P 500 earnings per share growth this year, and maintain our year-end S&P 500 target of 7,700.

We also upgrade US industrials to Attractive. The sector's exposure to the stable growth provided by secular themes—such as electrification, US re-industrialization, and aerospace demand—underpins our positive view. But we also see a potential pickup in more cyclical segments like transportation. The recent increase in the ISM Manufacturing index is encouraging and suggests manufacturing may finally be improving after three years of sluggish demand. This should lead to solid earnings growth.

Overall, we think investors should review current exposures to US technology and communication services and consider hedging or diversifying exposures that are above benchmark levels. For reference, MSCI USA IT comprises 21% of the MSCI AC World index. Investors with excess exposure to US IT and communication services should consider diversifying toward preferred areas of the market where we see superior risk-reward, including industrials, banks, health care, utilities, and consumer discretionary.

Original report: **Downgrading US communication services and upgrading industrials,18 February 2026.**

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