Position for a broadening rally

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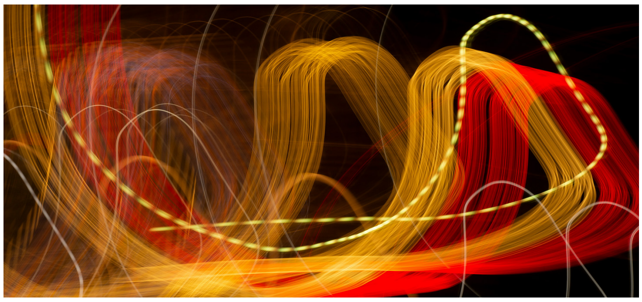
- **Why?** 1) Global economic growth is resilient, monetary and fiscal policies are supportive, and earnings growth is robust. 2) There are signs of potential recovery in manufacturing and the industrial cycle. 3) The push for strategic autonomy globally will likely create beneficiaries across geographies.
- **Why now?** 1) In the US, fiscal expansion and further Fed easing should drive a healthy and broadening trend of corporate profit growth. 2) European equities should benefit from an improving cyclical outlook and a favorable backdrop. 3) Chinese stocks are likely to be supported by tech advances, while Japan stands to gain from earnings recovery and corporate reforms.



With global equities (MSCI AC World) expected to climb over 10% by end-2026, diversifying across regions—especially Europe, APAC, and emerging markets—can help investors capture returns and manage risk. Source: Unsplash

US

While 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. We expect 12% S&P 500 earnings per share growth this year and maintain our year-end S&P 500 target of 7,700. In particular, we see attractive opportunities in financials, health care, utilities, consumer discretionary, and industrials.

Europe

The Stoxx 600 has outperformed the S&P 500 index so far this year, and we anticipate further gains supported by an improving cyclical outlook, a more favorable structural backdrop, and reasonable valuations. Germany's plan to invest over 20% of GDP in infrastructure and defense strengthens the fiscal outlook and should boost capital investment. Banks are healthier thanks to rising loan growth, asset repricing, and fee income, while Eurozone equities offer meaningful exposure to structural trends like power and resources and longevity. With consensus expectations looking for earnings growth of 7% this year and 18% in 2027, we see appealing returns from the region. We favor banks, industrials, technology, and utilities, as well as our "European Leaders" selection of companies we believe will benefit from both policy and structural growth.

APAC

We believe Asia Pacific markets offer compelling opportunities for diversification. For example, we see further upside ahead for Japanese stocks amid a supportive policy environment, despite strong gains year-to-date. Historically, strong political mandates in Japan—such as the one today—have attracted global capital. With a recovery expected for the global manufacturing cycle and corporate governance reforms scheduled for this year, we forecast double-digit earnings growth for the coming financial year.

China, meanwhile, continues to offer both growth and yield opportunities amid Beijing's policy support, and the recent market consolidation has made valuations more appealing. We especially like the tech sector and see opportunities in health care, brokers, materials, power equipment, high-yield financials, and select consumer stocks.

We continue to like Singapore. The ongoing "Value Unlock" initiatives and a regime shift in Singapore's equity capital market should prompt a structural upward rerating of valuations, in our view. We see attractive opportunities in

India on the back of robust macroeconomic fundamentals and proactive policy support on growth measures.

We also rate Australian equities as Attractive. We are optimistic about steady earnings growth, led by the materials sector, as well as strong private demand, a stable housing market, and a rising Australian. We like materials, consumer discretionary, housing, financials, and those related to AI growth.

Quant exposure
Investors can also benefit from including quantitative strategies into their equity allocation. The main advantages of quantitative strategies are: 1) diversification, as the main performance drivers are only weakly linked to macro fundamentals, if at all, and 2) their unsentimental nature, which leaves them unaffected by common behavioral biases often displayed by individual investors. We believe incorporating long-only multifactor quantitative strategies can help enhance risk-return for investors diversifying beyond tech.

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 and commonly known indices, 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
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."

Appendix

Risk information
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