(UBS)

Remaining constructive, emphasizing diversification

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While equity markets are near record highs, the UBS Chief Investment Office continues to recommend that investors stay the course and remain invested through volatility.

The conflict in Iran is not showing signs of immediate de-escalation that would allow oil flows to quickly rebound to pre-conflict levels. However, markets remain buoyed by 1) the Federal Reserve's easing bias remaining intact following the onset of the conflict, and 2) continued strong profit and earnings growth of US firms into the latest earnings season.

On the macro front, we still expect US growth to run above-trend in 2026, front-loaded in the first half before slowing near trend in 2H26. Consumption remains robust owing to higher net worth levels, while AI-related investment and OBBBA tax cuts provide additional tailwinds. Tariff-related inflation pass-through added 0.8% to core PCE, but inflation should trend lower in 2H26 as tariff effects fade and contained wage growth and softer shelter prices support service disinflation.

Given our constructive macro outlook, we keep our Attractive view on global equities, US equities, international developed market equities, and emerging market equities. However, the risks of portfolio concentration are high, and we expect future gains to come from a broader set of sectors beyond the megacaps. We therefore recommend investors **diversify across equities**. This includes adding to global industrials and health care and building exposures overseas. We remain constructive on US equities overall and maintain our December 2026 S&P 500 EPS estimate of USD 310 (+11% growth) S&P 500 price target of 7,500, respectively.

Within US equities, we remain Neutral on value versus growth and maintain our sector preferences. We keep our attractive views on industrials, financials, health care, consumer discretionary, and utilities. Beyond the information technology sector broadly (which we keep Neutral), we continue to view AI as a key driver of equity returns over the coming years and recommend a diversified and active approach across the enabling, intelligence and application layers. We also specifically advise **investing in transformational innovation**. Our favorite themes are *AI, Power and resources,* and *Longevity*.

We believe investors should continue to **favor commodities**, which remain a useful portfolio diversifier. Gold should remain supported by central bank demand and concerns over rising global debt levels, while industrial metals offer exposure to themes such as electrification and energy transition.

Given the uncertainty around resolution to the conflict in Iran, we stress that investors should look to **hedge market risks**. As markets continue to digest the implications of higher energy prices, rising AI competition and signs of stress in parts of the bond and credit markets, hedging strategies can help preserve capital. We advocate for government debt up to 10 years or replacing linear equity exposure with strategies that offer a degree of downside protection to reduce the risk of sharp drawdowns and maintain upside participation.

Lastly, we think the market continues to overprice the risk that central banks like the Fed will hike, or not cut, interest rates. That presents an opportunity for investors to **lock in yields** by adding to quality bonds, particularly in the short- and medium-duration segment. Maintaining diversified exposure to various income sources remains critical and can also be achieved by considering equity income strategies and yield-generating structured strategies.

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