(UBS)

A return to near-record highs is no reason to derisk in equities

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US equity markets have staged a powerful recovery over the past several weeks, climbing a mounting wall of worry with surprising agility. After falling for five straight weeks into late March, the S&P 500 has now risen for five consecutive weeks.

Alongside strong earnings and resilient fundamentals, the weeks-long rally has been encouraged by de-escalation in the Strait of Hormuz, a Federal Reserve still retaining its easing bias, and reported institutional positioning shifts to cover shorts, unwind hedges, and rerisk.

Yet the geopolitical backdrop remains unsettled. Energy flows through the Strait of Hormuz are still disrupted, and the outlook for a durable resumption in shipping remains uncertain. President Trump's "Project Freedom" plan to guide the movement of ships through the Strait was "paused" late Tuesday, amid military exchanges and attacks on ships, though the ceasefire itself appears to be holding. We continue to view the state of energy flows as a defining near-term macro factor, especially if the disruption lasts longer than markets now assume. Brent crude remains volatile, trading at elevated levels near USD 108 per barrel and implying a greater degree of stress than equities appear to reflect.

With US-Iran headlines challenging again this week, geopolitics could once again flare up and unsettle risk assets. But we think the more important story here is the strength of the earning engine that has underpinned the equity market rally.

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While it is important to monitor risks, whether stemming from Iran or the recovery in valuations, we think a return to near-record highs is no reason to derisk in equities. We retain an Attractive view on US stocks and expect the S&P 500 to move higher by year-end, supported by healthy profit growth and a still-supportive monetary backdrop. Within US equities, we continue to favor consumer discretionary, financials, health care, industrials, and utilities, while staying constructive on AI-linked areas of the market.

We also think investors should consider opportunities beyond the US for diversification. With accelerating earnings momentum and still deeply discounted valuations versus global equities, we continue to see a strong case for Asia-Pacific markets, including China, Japan, South Korea, and Australia. We hold an overall Neutral stance on European equities, though we see pockets of opportunity that should help investors navigate an uncertain environment, including the European health care sector and the Swiss market, given their solid dividend yields and defensive characteristics. At the portfolio level, we continue to see value in quality bonds, gold, and broad commodities as diversifiers that can help investors stay in the market while managing uncertainty.

Original report – **The case for buying into all-time equity highs amid elevated Iran tensions, 6 May 2026.**

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