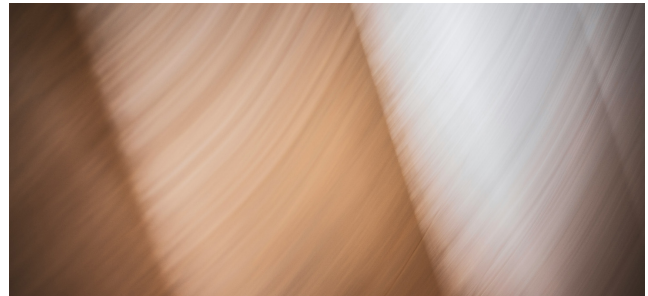


Diversify across equities

Diversify across equities

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- **Why?** 1) We expect equity markets to move higher over the medium term, driven by continued strength in AI capital expenditure, a resilient US economy and ongoing fiscal spending. 2) High index concentration means portfolios are increasingly exposed to a narrow group of stocks, raising positioning risk. 3) We think the next phase of returns is likely to come from broader leadership, greater rotation, and more selective exposure across the equity market.
- **Why now?** 1) With equities resilient, investors have an opportunity to rebalance from a position of strength. 2) Potentially large-scale IPOs in AI and adjacent sectors could increase competition for capital, making now a good time to reduce concentration before new supply tests market leadership. 3) As leadership broadens beyond AI, investors can find compelling opportunities, different regions, sectors and themes without losing exposure to the underlying drivers of the cycle.



With return dispersion high and leadership narrow, a broadly diversified core equity portfolio remains the best way to balance opportunity and risk. Source: Georgi Kyurpanov_Unsplash

Equity markets have continued to reach new highs in the first half of the year, driven by strong momentum in AI-linked semiconductor, semiconductor equipment, and memory stocks. While we remain constructive on the outlook for further gains, widening performance gaps across individual stocks are increasing the risks of concentrated single-name exposure.

We see three ways investors can reduce concentration risk without stepping away from the underlying drivers of the current cycle:

Diversify single-stock exposure across regions and sectors

Investors with concentrated stock positions should consider broadening their core equity allocation across our preferred markets and sectors to reduce reliance on a small number of names. We currently favor the US, Asia ex-Japan, Japan, emerging markets, Singapore, Switzerland, and Germany,

alongside sectors such as health care, industrials, and European consumer discretionary.

Add exposure with differentiated return drivers

Investors can also reduce reliance on a narrow group of stocks by adding exposure to preferred themes that broaden the sources of equity returns. We currently favor the following tactical opportunities: “European leaders,” supported by structural growth opportunities; “Luxury and lifestyles,” driven by cyclical earnings improvement; and “Automation and robotics,” where demand is recovering and AI is lowering barriers to broader adoption.

Use periods of strength to rebalance into broader equity exposure

We expect continued optimism around AI to drive periodic rallies in megacap stocks. Investors can use these rallies to rebalance some concentrated positions into multifactor strategies, which can help improve downside protection

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and diversify portfolios, while yield-generating structured investment strategies can broaden sources of return within an equity allocation by adding an income element.

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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