Diversify across equities

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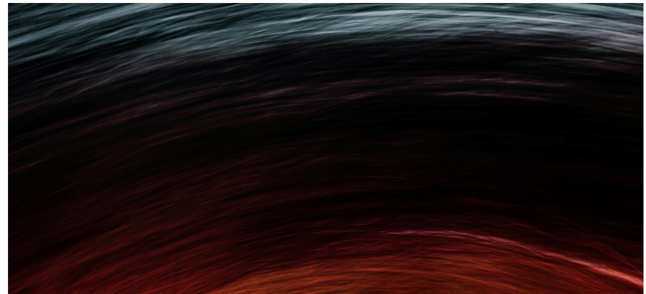
- **Why?** 1) Concentrated equity positions can heighten portfolio swings and impair wealth growth during times of volatility. 2) In a world of geopolitical uncertainty and long-term strategic rivalries, diversifying stock exposure across geographies, sectors, and investment approaches may support returns and portfolio stability. 3) Low bond yields in select economies and fiscal concerns may warrant income-seeking investors looking at choice equity income exposure.
- **Why now?** 1) AI disruption fears have not abated, so we like reviewing US tech and communication services positions and trimming excess exposure. 2) Amid escalation and de-escalation uncertainty, we downgrade Europe, Eurozone, and India equities to Neutral given oil and business cycle sensitivities.3) We upgrade Swiss equities and European health care to Attractive, as they are more defensive markets with secular growth exposure and limited read-across from energy disruptions.



Broader equity diversification across sectors, regions, and styles can help investors participate in market rebounds and manage risks from higher energy prices and growing AI disruption. Source: Marek Piwnicki_Unsplash

Broaden beyond US tech

We believe the long-term outlook for AI growth remains intact. However, we have concerns that the market may not easily digest all the debt and equity issuance that AI companies foresee. Furthermore, continued growth in AI capabilities is posing risks to the "moats" of existing digital platforms, and it is hard to tell who the real beneficiaries will be when the dust settles. To balance rising risks with opportunities, we believe investors should bring allocations to the US tech sector back into line with benchmarks.

Capture global and sector opportunities

We believe industrials, US consumer discretionary, health care, and utilities are all benefiting from resilient economic growth and structural trends such as electrification and re-industrialization.

While we still expect Eurozone stocks to post gains this year in our base case, we have downgraded European and Eurozone equities to Neutral given they are pro-cyclical and sensitive to elevated oil and gas prices, which could undermine the manufacturing recovery we were expecting. Elevated inflation and geopolitical uncertainty could also dampen European consumer sentiment, and uncertainty about potential European Central Bank (ECB) rate hikes could also weigh on investor sentiment, even though we do not expect them to ultimately materialize.

We believe the disruptions so far will have already impacted corporate profits this year and therefore lower our 2026 earnings growth forecast from 7% to 5%. However, after three years of profit stagnation, we continue to see material strong improvements to earnings if manufacturing activity can eventually pick up later in the year, and stick with our 18% profit growth assumption for 2027.

We see greater security in more resilient markets with secular growth and limited exposure to energy disruptions.

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We have therefore upgraded both Swiss equities and European health care to Attractive. Both markets are down more than 10% since the start of the conflict, despite typically being low-beta (i.e., less volatile) markets, leaving valuations relatively appealing, in our view. Tariff and US drug pricing uncertainty weighed on both segments last year but is now largely behind us, and the headwind to profits from a weak US dollar is coming to an end. An appealing dividend yield for Switzerland (3.2%) and European health care (2.7%) can also help provide return stability through a period of uncertainty.

We also like diversifying into Asian markets. After a period of underperformance from Chinese tech stocks, we expect these to rebound with AI tailwinds. We note that the longer energy prices remain elevated, markets that are more susceptible to shocks in energy prices may require a review, such as Japan or Germany. And we have recently downgraded Indian stocks to Neutral.

India's economy is highly sensitive to the price of oil, 88% of which is imported. While its energy supply chain is diversified, with imports from Russia and the US, 40% comes via the Strait of Hormuz. Along with crude, India is also heavily reliant on liquefied natural gas and liquefied petroleum gas from the Middle East. Higher energy prices look set to widen the current account deficit, add to fiscal pressures, and slow growth.

Add more predictable income

Equity income strategies offer a practical way to add predictability and stability to portfolios, especially in uncertain markets. Companies with sustainably high dividends—such as those in Switzerland or Southeast Asia—tend to be less volatile and more resilient during drawdowns. Their steady cash flows and disciplined payout policies tend to provide a buffer against market shocks, and as interest rates decline, the relative appeal of equity income only increases.

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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