Diversify across equities

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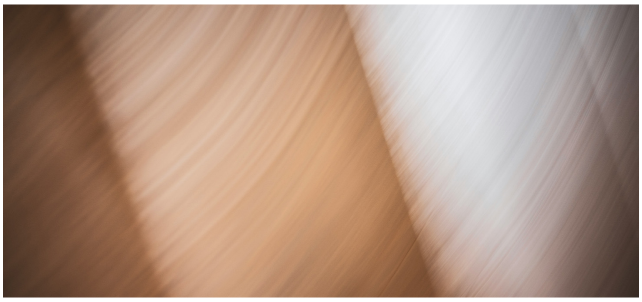
- **Why?** 1) We expect equity markets to move higher as strong earnings broaden beyond AI, supported by resilient economic activity and investment. 2) Concentrated portfolios are increasingly exposed to company-specific risks and wide gaps in performance between individual stocks. 3) A broadly diversified core allocation across preferred regions, sectors, and return drivers can help investors participate in further market gains while managing concentration risk.
- **Why now?** 1) Strong earnings growth and a broadening of market leadership are creating more ways to participate in the equity rally beyond its largest AI beneficiaries. 2) We have increased our conviction in India and the Eurozone, as well as European banks, while reducing our preference for Switzerland. 3) Investors with concentrated positions can use the broadening opportunity set to rebalance across regions, sectors, and themes without stepping away from the underlying drivers of the market cycle.



With market gains broadening and wide gaps between stock performance, we believe a broadly diversified core equity portfolio remains the best way to balance opportunity and risk. Source: Georgi Kyurpanov_Unsplash

We expect equity markets to move higher as strong earnings broaden beyond AI, but wide gaps in performance between stocks mean portfolio outcomes depend more than ever on what investors own. Excluding strategic holdings, our analysis shows nearly 40% of self-managed equity investors on our platform hold more than half their portfolio in just 10 stocks or fewer, amplifying risk. To balance opportunity and concentration, investors should ensure their core equity allocation is broadly diversified across our preferred regions, sectors, and return drivers. 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, India, Japan, Singapore, Australia, emerging markets, China, Europe, the Eurozone, and Germany. At a sector level, we favor US and European industrials, health care, and consumer discretionary, as well as US financials and European banks. Following strong recent performance, we have moved the relatively defensive Swiss market to Neutral as we shift toward more cyclical markets.

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 strong earnings and continued optimism around AI to support further gains, even as market leadership broadens beyond the largest technology stocks. Investors can use periods of strength to rebalance concentrated positions into multifactor strategies, which can help improve downside protection and diversify portfolios. Yield-generating structured investment strategies can also 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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