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Chief Investment Office GWM
Investment Research

Position for market upside

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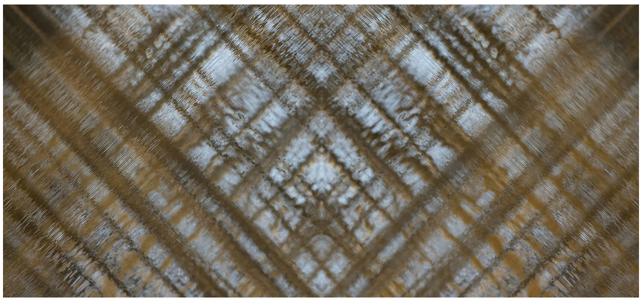
- **Why?** 1) We expect equity markets to move higher, supported by AI investment, broader earnings growth, resilient economic activity, moderating inflation and a less restrictive policy backdrop. 2) AI remains a key driver of returns, but opportunities are broadening across sectors, regions and long-term growth areas as investment spending and earnings growth extend beyond the largest technology companies. 3) Investors should retain exposure to transformational innovation while broadening participation through diversified core allocations, cyclical sectors, multifactor strategies, and selective structured investments.
- **Why now?** 1) The next phase of market gains is likely to be broader, with earnings momentum and leadership extending beyond the largest technology companies. 2) Cyclical sectors and selected regional markets should benefit from investment spending, credit activity, consumer resilience, and policy support. 3) Investors can reduce single-stock concentration and broaden equity exposure while retaining exposure to the main drivers of the market cycle.



Robust AI investment and broadening earnings support further equity gains, but investors should diversify beyond concentrated technology holdings. Source: Mariola Grobelska_Unsplash

Our base case of robust AI investment, broadening earnings growth, resilient economic activity, and moderating inflation supports further equity market gains. The next phase of the market rally is likely to broaden across companies, sectors, and regions. AI remains central, but stronger investment spending, earnings breadth, and cyclical momentum are creating opportunities across a wider range of markets.

Investors should combine a diversified core equity allocation with targeted exposure to transformational innovation and cyclical opportunities. This can support further gains while reducing dependence on any single market driver. There are five ways to position for this environment:

Diversify single-stock exposure

Investors with concentrated single-stock positions should consider broadening exposure across regions, sectors, and investment styles. With the differences between the top- and bottom-performing sectors and stocks remaining high, concentration can significantly affect portfolio outcomes. Excluding strategic holdings, nearly 40% of self-managed equity investors on our platform hold more than half of their equity portfolio in 10 stocks or fewer. Broadening exposure can help portfolios take part in further market gains, while reducing company-specific risk.

Targeted exposure to transformational innovation and longer-term opportunities

AI remains a powerful investment driver. Global AI-related capital expenditure is expected to reach around USD 900bn in 2026 and approximately USD 1.2tr in 2027. The opportunity extends beyond the largest technology companies to semiconductors and hardware, software, power infrastructure, utilities, and industrials.

Longer-term opportunities include power and resources, automation and robotics, longevity, and health care innovation. Areas of focus include grid resilience, renewables, nuclear power, critical minerals, obesity treatments, oncology, cardio-metabolic conditions and neurology, where structural demand and technological adoption can support earnings growth over time.

Position for cyclical broadening
As earnings growth broadens beyond the largest technology companies, investors should consider sectors and markets that could benefit from rising investment, improving financial activity, and resilient consumer demand. This supports exposure to industrials, financials, consumer discretionary, health care and selected regional markets, including Europe, Japan, India, Asia ex-Japan, China, and emerging markets.

Multifactor strategies
As market leadership broadens, multifactor strategies can provide exposure to a wider range of return drivers. By combining quality, value, momentum, size, and other factors, they can reduce reliance on any single sector, style, or market narrative.

Structured strategies
Investors who remain constructive on equities but want a more tailored approach may consider structured strategies. Depending on the structure, these solutions can provide defined exposure to potential market gains. Trade-offs include issuer exposure, liquidity, barriers, and fees, and investors should be willing and able to bear these instruments' unique risks.

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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