

Daily: Equities should withstand higher yields

UBS CIO · 2026-09-11 · English original

Thought of the day

Inflation remains front of mind for investors as escalating conflict in the Middle East pushes oil prices higher and fuels a sell-off in Treasuries. Houthi advanced toward Red Sea coastal areas bordering the Bab el-Mandeb, while Iran has reportedly resumed underground ballistic missile production. Saudi Arabia, meanwhile, said its oil production last month fell to the lowest level since 1990. Brent crude oil was trading around USD 105.5/bbl at the time of writing, while the 10-year Treasury yield stood just shy of 5%.

Markets are looking to the release of the August US consumer price index on Friday. A broadly in-line print is likely to strengthen the case for the Federal Reserve to raise interest rates at its policy meeting next week, following Chair Kevin Warsh's recent hawkish comments, strong labor market data, and persistent supply bottlenecks. Fed funds futures now imply a 72% chance the US central bank would bring the target rate 25 basis points higher to 3.75-4% on 16 September. Our base case is for a further hike in December.

But despite the sharp move higher in yields and oil prices, along with growing market conviction about a Fed policy pivot, equities have remained relatively resilient. Global equities stood just 1.9% below their all-time high in August, and the S&P 500 has fallen less than 3% from its record. We maintain a constructive outlook on equities.

Solid growth should help the economy absorb higher rates. The global economy remains on a solid footing. US factory activity has stayed in expansion for eight consecutive months, while the Eurozone manufacturing PMI for August marked the strongest reading in over four years. Across Asia, growth remains resilient, and Japan's economic expansion is forecast to accelerate in 2027. While yields have risen on the back of elevated inflation and shifting rate expectations, a solid growth backdrop means markets can often tolerate higher yields. We believe the economic growth effects of two Fed rate hikes to be fairly modest, with the Fed's model suggesting that 50 basis points of hikes would create only a few tenths of a percentage point of growth drag.

Robust profit growth should continue to underpin equities. The resilient economic backdrop should continue to offer a favorable environment for companies to operate and generate profits, underpinning further market performance. We forecast S&P 500 earnings to grow 25% this year, followed by a 14% increase in 2027, and we expect earnings growth in the Eurozone to be 15% for both this year and next. Such robust earnings mean that stocks can continue to perform well despite the 10-year yield closing in on levels that in previous episodes weighed on risk appetite. Additionally, valuations have come down amid higher earnings, which should make equities less vulnerable to a substantial correction triggered solely by higher yields.

AI-related investment remains a powerful tailwind for equities. With second-quarter results validating both growing demand for and returns on AI infrastructure investment, we believe strong AI-related spending should continue to support earnings and economic growth, as well as investor confidence. Just this week, Oracle reported a 121% increase in cloud sales, while Taiwan Semiconductor Manufacturing

Co (TSMC) posted record monthly revenue for August, which grew over 53% from a year earlier.

So, we believe equities should stay supported by resilient growth, robust earnings, and strong AI investment. We continue to favor our structural growth opportunities of AI, Power and resources, and Longevity, and recommend investors position broadly across sectors and geographies.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-11092026.html>