

# Daily: Stock outlook remains constructive

UBS CIO · 2026-09-14 · English original

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## Thought of the day

Investor sentiment was cautious at the start of the week as US inflation data strengthened the case for the Federal Reserve to raise interest rates, while AI chief executives called for a slower pace of advanced model development and stronger safeguards. Oil prices also rose following fresh attacks in the Middle East. Ahead of the US market open, S&P 500 futures were down 0.6%.

US core consumer prices rose 0.3% month over month in August, above the 0.2% consensus forecast. Together with the producer price report, the latest set of data point to a core personal consumption expenditures inflation reading of around 0.3% for August. Investors have since raised their expectations for Fed hikes, with futures pricing in a near 90% chance of a 25-basis-point increase this week and a total of 90 basis points of hikes over the next 12 months.

Interest rate hikes may hurt equities by raising borrowing costs and weighing on expectations for future corporate profits, while efforts to pace the development of AI models raise questions about the sustainability of AI capex. Persistent disruptions to energy supplies also pose a risk to global economic growth.

But while these risks are likely to contribute to equity volatility, we maintain our constructive outlook and expect the S&P 500 to move higher.

Fed hikes alone do not undermine equity fundamentals. Historical market data show that Fed hikes typically become a concern for stocks only when economic growth begins to falter. The current backdrop, however, remains resilient. The ISM Manufacturing PMI has been in expansion territory for eight consecutive months, and we believe the recovery in factory activity is still at an early stage. Data going back to 1950 show that the ISM Manufacturing PMI remains in expansion for nearly three years on average. Our base case is for the Fed to hike twice in this cycle, and the Fed's model suggests that 50 basis points of additional tightening would reduce economic growth by only a few tenths of a percentage point.

A resilient economy should continue to underpin robust earnings growth. Our expectation of a relatively shallow Fed hiking cycle also suggests that a recession is unlikely in the near term. Past downturns generally did not begin until at least two years after the Fed started raising rates, with the time to recession tending to vary according to the scale of the hiking cycle. We continue to believe that a growing US economy will support corporate profits, and we expect S&P 500 companies to deliver earnings growth of 25% this year and 14% in 2027. This robust earnings growth should support further gains in equities.

Growing AI demand and monetization keep the AI story intact. Whether calls to pace advanced model development will gain traction across the industry remains uncertain, but we believe they are more aimed at shaping a regulatory framework acceptable to leading AI labs. We therefore expect AI investment to continue, as growing adoption will require further spending on the infrastructure and computing capacity needed to deliver AI services. The latest OpenRouter data show that token volumes

have risen by roughly 176% since the end of June, even as average pricing has fallen by about 42%. Recent corporate results also continue to demonstrate growing demand for AI infrastructure and returns on that investment. We retain our forecast for AI capex to increase by 33% to USD 1.2tr in 2027.

So, we believe investors should stay positioned for further equity gains through a diversified allocation offering exposure to both structural trends and cyclical opportunities. Diversification across regions should also help strengthen portfolio resilience.

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Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-14092026.html>