

Daily: Finding structural growth beyond the rate cycle

UBS CIO · 2026-09-21 · English original

Thought of the day

Rising interest rates are now part of the investment backdrop investors must navigate. The Federal Reserve raised rates for the first time since 2023, the European Central Bank signaled that further tightening will likely be needed, and the Bank of England highlighted the increased risk of elevated energy costs feeding into domestic inflation. Meanwhile, Bank of Japan Governor Kazuo Ueda said the country's monetary policy has entered a new phase.

This environment may appear negative for equities, particularly for longer-duration growth companies, which can face valuation pressure from higher yields and increased funding costs.

But rates alone do not determine market performance. With economic growth resilient and earnings still robust, we believe investors should remain positioned for market upside. In our view, exposure to transformational innovation could be a key differentiator in long-term equity performance.

Modest tightening is unlikely to derail the tech cycle. Historically, the start of a Fed hiking cycle alone has not been sufficient to derail technology performance, and we believe the current environment more closely resembles the constructive 2016-2017 period than the disruption experienced in 2022. The Nasdaq 100 companies are forecast to grow their earnings by 43% this year and 28% next year, while hyperscalers' cloud revenue growth is accelerating. We believe their expected returns remain comfortably above funding costs, and expect AI-related capex to grow further to USD 1.2tr in 2027. On positioning, we continue to favor high-quality semiconductor and hardware leaders that benefit from AI infrastructure investment. We believe the largest AI capex spenders should provide resilience across a range of outcomes given their scale, diversified earnings streams, and growing AI monetization opportunities. Select infrastructure software and defensive tech companies should also offer opportunities.

Rapid AI data center expansion strengthens the investment case across the power and resources value chain. Recent discussions with energy producers, utilities, and infrastructure providers increased our confidence that further supply contracts with large technology companies and data center developers will be announced through year-end and into 2027. Meeting this demand will require investment across natural gas, renewables, nuclear power, energy storage, and the networks and equipment used to transmit electricity. Generating electricity at or near data centers is also gaining traction, as developers seek faster access to power amid lengthy waits for connections to the wider electricity grid. We therefore believe the opportunity extends beyond any single energy source and could benefit a broad range of businesses that support the expansion and delivery of reliable power.

Health care's defensive qualities and long-term growth drivers support the Longevity opportunity. Recent developments illustrate that health care innovation rarely follows a straight path. One late-stage drug trial failed to demonstrate a sufficiently clear benefit, while medical-device shares came under pressure following signs of slower demand and operational disruption. Yet, we view the drug setback as

manageable and believe the broader weakness in medical devices has been greater than the underlying business conditions would justify. More broadly, health care offers a combination of defensive qualities and long-term growth, supported by aging populations and rising demand for treatments, diagnostic tools, and medical technology that can extend healthy lifespans. Continued advances in areas such as obesity care, cancer treatment, and medical devices reinforce our positive view on the Longevity opportunity, while the sector's relatively resilient earnings can also help investors diversify their equity exposure during periods of market volatility.

So, as structural shifts in AI, energy infrastructure, and health care expand global profit pools and reshape industries, we expect our transformational innovation themes to offer access to durable growth opportunities that can persist well beyond short-term market volatility.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-21092026.html>