

Daily: Broaden equity exposure as market leadership narrows

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Thought of the day

The Nasdaq rose over 1% to a record high on Monday, even as the deepening sell-off in global bonds pushed the 10-year US Treasury yield to a 24-year high. Supported by gains in large-cap tech companies amid continued AI optimism, the broader market also advanced, with the S&P 500 now just 0.3% below its all-time high.

The breadth of the rally has narrowed. The percentage of US stocks trading above their 10-, 50-, and 200-day moving averages has fallen to levels last seen in March, while the equal-weighted S&P 500 has underperformed its market-cap-weighted counterpart by a widening margin in recent weeks.

We retain strong conviction in the AI growth story, and believe AI-related investment remains a powerful tailwind for the broader equity market. With AI models becoming more capable and cheaper to use, accelerating adoption should continue to support compute demand.

But the increasing concentration of market gains reinforces the importance of managing risk through a broadly diversified equity portfolio.

Holding a narrowly concentrated equity portfolio increases exposure to company-specific setbacks. A concentrated equity portfolio can leave overall returns overly dependent on a small number of companies, sectors, or investment themes. If those holdings encounter setbacks or market leadership shifts, the effects can be disproportionately large. This is particularly relevant to AI, where it is not yet clear how value creation will ultimately be distributed among chip designers, cloud providers, model developers, and application companies. Ongoing questions over returns on investment, AI safety, financing, and execution could also contribute to periods of volatility, especially while elevated yields increase the cost of capital. Diversification can help investors retain exposure to the structural opportunity without relying excessively on a narrow group of market leaders.

A favorable growth environment and robust earnings suggest profit growth can broaden beyond technology. The US economy remains supportive of corporate revenues and profits, with expanding manufacturing activity and resilient consumer spending pointing to growth beyond a narrow technology story. The third-quarter earnings season should provide further insight into the durability and breadth of corporate profits, but second-quarter results showed that around 80% of companies exceeded earnings-per-share estimates. In fact, the median company beat estimates by roughly 5.5%, compared with a typical 3.6% since 2015, underlining the breadth of earnings strength. We expect cyclical momentum and structural trends to continue to support opportunities in consumer discretionary, financials, industrials, health care, and utilities.

European and Asian markets also offer attractive opportunities. We expect earnings growth outside the US to broaden the opportunity set for global investors. In Europe, we forecast 15% earnings growth in both 2026 and 2027, supported by a recovery in manufacturing, structural investment, and operating

leverage as revenues improve. We remain positive on Eurozone equities and favor banks, consumer discretionary, health care, industrials, IT, and Germany. In Asia, we forecast 72% earnings growth for MSCI Asia ex-Japan this year, supported by the AI hardware supply chain and a recovery in cyclical sectors. Japanese equities should also benefit from AI-related capital spending, cyclical improvement, and continuing corporate reforms.

So, we think investors should position for equity upside by maintaining diversified core equity exposure. Those with concentrated positions can also use periods of market strength to rebalance across sectors and regions, or consider capital preservation strategies to reduce drawdown risk and strengthen portfolio resilience.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-06102026.html>