

Daily: US equities can gain further after record highs

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Thought of the day

The S&P 500 rose 0.6% on Tuesday to its first record high since August, bringing its year-to-date gain to 14.2%. The all-time peak came despite the ongoing conflict in the Middle East and US Treasury yields remaining at multi-decade highs.

But while periods of volatility are likely, we think the rally will keep going. Recent developments underscore our view that further gains should be supported by AI investment, strong corporate earnings, and solid economic growth.

Strong AI demand and investment remain a key driving force. Renewed strength in the AI trade has supported the latest rally, with encouraging adoption from recent model and product launches adding to investor confidence. Without taking any single-stock views, Marvell raised its fiscal 2028 revenue forecast to above Wall Street estimates and provided an upbeat long-term earnings outlook amid growing demand for custom data center chips and other AI hardware. This points to continued demand for AI compute and infrastructure overall, which should underpin further investments. We expect global AI-related capex to grow over 33% to USD 1.2tr in 2027, providing a powerful earnings tailwind for part of the AI ecosystem. Consensus estimates project the Nasdaq 100 to grow earnings by 43% this year and 28% next year.

Earnings growth is broadening beyond tech. While the recent rally was driven by tech, the earnings story is broader than AI. We estimate earnings growth of 25% for the S&P 500 this year, followed by another 14% increase in 2027. The tech sector should remain a major contributor, but we also expect profits to rise across other industries. Resilient consumer spending should support consumer discretionary, robust capital market activity and a recovery in loan growth should benefit financials, and cyclical manufacturing improvement should lead to solid growth in industrials. We also like health care and utilities for their defensive characteristics and exposure to structural growth opportunities.

Resilient economic growth should help equities absorb higher rates. The US trade deficit widened in August to its largest since March 2025, which could present a near-term drag on headline growth. But robust imports reflect firm consumer demand and investment in equipment, including AI-related capital spending. We forecast US GDP growth of 2.2% this year and 2% in 2027, providing a favorable backdrop for companies to grow and generate profits. This resilience should also help the economy withstand modest policy tightening from the Federal Reserve. Across the 16 hiking cycles since 1954, the S&P 500 gained an average of 10.8% in the year following the first Fed hike. With current economic conditions consistent with continued expansion, we believe earnings growth can offset some of the valuation pressure from higher interest rates.

So, investors should remain positioned for market upside, and we forecast the S&P 500 to reach 8,400 by June next year. We stress the importance of broadly diversified exposure across sectors and regions. Investors can also consider capital preservation strategies for more defensive positioning.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-07102026.html>