

Daily: Strong 3Q earnings can send US equities higher

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Thought of the day

Tech stocks led the declines in US equities on Monday as investors stayed cautious ahead of inflation data and earnings releases in the coming days. Still-elevated oil prices and ongoing geopolitical conflicts also weighed on sentiment. The Philadelphia Semiconductor Index fell 2.7%, while the S&P 500 edged 0.1% lower.

But while headline inflation in September is projected to reaccelerate, we expect another solid set of corporate earnings and guidance from S&P 500 companies in the third-quarter reporting season.

Higher energy prices could be a headwind, especially for businesses exposed to freight costs, such as retailers and other goods manufacturers. While travel-related companies are already seeing the negative impact, manufacturers may also have to confront higher input prices.

But we think the impact on aggregate S&P 500 profits is limited. We forecast earnings per share growth of 28% for the September quarter, supported by AI demand, an improvement in cyclical segments, and resilient consumer spending.

AI growth remains the main earnings engine. With AI-related spending estimated to rise 84% this year to USD 900bn, we expect semiconductor profits alone to account for about half of S&P 500 earnings growth in the third quarter. And even though the capex growth rate is forecast to slow next year, the investment appears to be paying off for hyperscalers. We expect average cloud revenue growth of 58% year over year for the September quarter, further accelerating from the June quarter's 48% increase. With consumer AI agents likely driving the next leg of demand, we expect the AI growth story to remain key in earnings growth.

Cyclical strength should broaden profit growth. Beyond tech, cyclical segments of the market should also see robust growth as the cyclical economy remains healthy. The new orders component of the ISM Manufacturing index has stayed in expansion for nine consecutive months, and historical data suggests that new orders tend to stay in expansion for about three years on average. This gives us confidence that there is still a good runway of growth ahead for manufacturers, benefiting sectors such as industrials.

A solid labor market should support consumer spending. Elevated energy prices may exert incremental pressure on lower-end consumer spending, but the consumer as a whole remains in decent shape. With initial claims for unemployment insurance still near multi-decade lows, we think the strength of the labor market should prevent a meaningful deterioration in spending.

We note that the 10-year Treasury yield has risen by over 1 percentage point this year, but refinancing risk for S&P 500 companies is manageable, in our view. In aggregate, the S&P 500 has a weighted average maturity of about 11 years for non-financial sector debt, suggesting that not much debt is repricing to higher rates.

So, while volatility remains likely, we think there is room for US equities to move higher amid still-strong profit growth. We recommend a well-diversified positioning with a combination of cyclical and secular exposure. In addition to our Transformational Innovation Opportunities of AI, Power and resources, and Longevity, we like the financials, industrials, utilities, health care, and consumer discretionary sectors.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-13102026.html>