Daily: Look globally to diversify stock exposure

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From the studio

Podcast: AI's impact on the economy, Fed, and portfolios, on Apple and Spotify (7 mins)Video: Three reasons why we find Japanese equities attractive (6 mins)Video: CIO's James Cheo on the case for Singapore equities (5 mins)

Thought of the day

Global stocks hit a fresh high on Wednesday after moderating US inflation eased concerns about an imminent interest rate hike by the Federal Reserve. Both the S&P 500 and Stoxx Europe 600 closed within touching distance of record highs, while Asian equities rallied on Thursday.

Shifting expectations for Fed policy in response to incoming economic data may contribute to periods of equity volatility, but we expect the global stock rally to continue. While we see further gains ahead for the S&P 500, we also see attractive opportunities across European and Asian markets.

We have highlighted the importance of diversified stock exposure amid elevated concentration risks, and we think diversification across regions gives investors an effective way to participate in a broadening rally.

Earnings, structural growth trends, and improving cyclical conditions should support Europe. We think European equities have room to move higher despite their recent advance to record highs, as Stoxx Europe 600 companies are on track for the strongest second-quarter profit growth since 2022. We also see the region benefiting from a more durable investment cycle, as rising spending on defense, infrastructure, AI, automation, electrification, and energy security supports select industrial, technology, financial, and consumer companies. While Europe remains more exposed than the US to energy-market disruption, improving business activity, stronger order trends, and Germany's fiscal impulse should help broaden the recovery. We like banks, health care, industrials, consumer discretionary, Germany, and companies in our "European Leaders" theme.

Japan's solid fundamentals point to opportunities. Japanese equities have regained some lost ground over the past two weeks thanks to solid fundamentals. Corporate earnings are resilient, with operating profit growth in the second quarter running at more than 20% year over year and positive earnings surprises supporting the outlook. We believe the market has likely established a cyclical bottom, and the recent valuation reset has created attractive entry points in high-quality companies with durable earnings growth. We favor balanced exposure to AI-related companies, including semiconductor equipment, alongside cyclical recovery beneficiaries such as banks and machinery. We also favor companies positioned to benefit from rising power demand linked to electrification, digitalization, and AI infrastructure investment.

Strong earnings underpin our Attractive view on Asia ex-Japan. Our positive view on Asia ex-Japan is based on our earnings growth forecast of 72% this year, supported by the region's AI hardware supply chain and a recovery in cyclical segments. In China, an improving risk-reward backdrop should support the internet sector, while semiconductor capital equipment should benefit from continued AI investment commitments. We also see growth opportunities in power and health care, and favor banks, insurers, select utilities, and consumer staples for defensive cash flow and income. Separately, we see a compelling growth story beyond AI in India, while "value-up" reforms should continue to support select markets such as Singapore.

So, we believe broad global earnings strength, an improving cyclical backdrop, and structural growth trends underscore the case for a broadly diversified equity portfolio. Such exposure should help investors participate in the broadening equity rally while navigating uncertainty and potential volatility.

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