Daily: Strong earnings should sustain the risk-on trade

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From the studio

Podcast: Jump Start – Hormuz negotiations, earnings, and inflation (6 mins)Video: Three reasons why we find Japanese equities attractive (6 mins)Video: Big Tech earnings and the sell-off in semis (4 mins)Video: CIO's James Cheo on the case for Singapore equities (5 mins)

Thought of the day

US equities delivered one of their strongest weeks of the year. The Nasdaq 100 rose 5.1%, while the S&P 500 and Russell 2000 gained around 3.5% each. Leading AI chipmakers, hyperscalers, and networking companies outperformed, while cyclical sectors also gained ground relative to defensives. US Treasury yields have continued to ease, with the 10-year US yield nearly 10 basis points below its 31 July high. Risk-on sentiment has carried through to Monday, with the tech-heavy Nikkei 225 and Taiex indices in Asia advancing 1.5-2.1% each, and US futures pointing to modest gains at the open.

The positive turn in momentum can be attributed to several drivers: a continued run of strong second-quarter earnings in the US, moderating consensus views on the Federal Reserve's rate outlook following a soft US payrolls print last week, and more signs of progress in US-Iran negotiations.

While risks around AI valuations, geopolitics, and interest rates linger, we see several reasons to stay invested:

Earnings are both beating and broadening. The US second-quarter earnings season has proven robust, with 87% of S&P 500 companies exceeding earnings expectations. Median Russell 3000 earnings growth has reached 15%, its strongest level since 2021. US profit growth is exceeding historical averages in both breadth and magnitude, creating upside risk to our 20% S&P 500 earnings growth forecast for this year. It's not just a US story: Companies in Europe are set to deliver their strongest performance in more than three years, while Asia should benefit from robust AI hardware demand and a cyclical recovery, which we believe could drive a 72% rise in Asia ex-Japan earnings this year.

The latest data points support our base case of a Fed on hold. The upcoming July CPI report will be an important test for our thesis, but last week's July payrolls report miss, alongside downward revisions to earlier readings, adds to evidence that labor-market pressure is easing rather than intensifying. Our base case remains that the Fed will keep rates unchanged this year, with markets still pricing in too much risk of further tightening. Alongside adding to support for equities, this also backs our preference for quality short- and medium-maturity bonds.

Iran is still a wild card, but geopolitical risks are looking manageable. After the sudden flare-up earlier this month, apparent progress on US-Iran negotiations has reduced some immediate concerns of further escalation. A lasting agreement and the definitive reopening of the Strait of Hormuz are still uncertain, and potential delays could inject new volatility into oil prices and inflation expectations. Still, on balance, we anticipate energy flows will recover gradually over time, though the path to this outcome could prove bumpy.

So, we remain constructive on equities, supported by strong earnings, broader participation, and continued investment across the AI value chain both in the US and globally. Investors with concentrated US technology exposure may consider using the current market strength to diversify toward Europe, Asia, and selected cyclical sectors.

We also recommend locking in elevated yields through quality fixed income, particularly short- and medium-maturity bonds, where high starting yields provide attractive income and a meaningful cushion against further rate increases. We also think select high yield and emerging market credit can complement these core allocations. Alongside equities and fixed income, investors should also consider broad commodities and capital-preservation strategies to improve overall portfolio resilience.

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-10082026.html