Daily: Earnings strength, disinflation support a constructive outlook

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From the studio

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Thought of the day

Global markets had an eventful July, with the re-escalation in US-Iran tensions driving a rebound in oil prices, renewed inflation fears pushing up bond yields, and a reassessment of the AI trade weighing on semiconductor stocks. Brent crude oil rose 23.6%, while the 30-year Treasury yield ended last month at the highest level since 2007. The Philadelphia Semiconductor Index fell 20.6%.

Investor sentiment appeared better at the start of August, with US President Donald Trump saying talks with Iran would take place on Monday. He earlier called off an imminent attack in the hope of reaching a deal to reopen the Strait of Hormuz. Megacap tech earnings last week showed that cloud revenue growth accelerated further, and that hyperscaler capital spending in the near term remains strong.

How quickly an agreement will be reached and the Strait reopened are yet to be seen, but our base case remains that energy flows through the waterway should recover gradually over time.

This means robust earnings growth should drive further upside in global equities, and moderating inflation should allow the Federal Reserve to keep interest rates unchanged for the remainder of this year. Separately, while oil may stay below its wartime high, a slower-than-expected normalization of energy supply should keep Brent crude supported. Favorable fundamentals are also supportive of broad commodity exposure.

Broad global earnings strength points to upside in equities. The US second-quarter results season so far has shown strong profit momentum, with both the breadth and magnitude of earnings beats coming in better than historical averages. We continue to see upside risk to our S&P 500 earnings per share growth estimate of 20% for this year, and believe resilient consumer spending and improving cyclical strength should support a broadening rally. In Europe, companies are delivering their strongest performance in over three years, with continued upgrades to Stoxx Europe 600 earnings estimates. The region’s outperformance in recent months also underscores our view that investors should seek diversified equity exposure to participate in market gains. In Asia, we expect profits to rise 72% this year.

Quality fixed income remains compelling amid elevated starting yields. Longer-maturity bonds sold off toward the end of last week after Fed Chair Kevin Warsh declined to provide detail on his policy reaction function or strategy for lowering inflation, sending inflation expectations higher. But we continue to expect data in the coming months to show further disinflation amid fading tariff effects, allowing markets to scale back their expectations on Fed hikes. With the current high starting yields providing a material cushion against rate increases before a potential losses are realized, we continue to view quality fixed income as both a source of income and a portfolio hedge, particularly in short- and medium-maturity bonds.

Commodities are a useful portfolio diversifier. The path toward a swift normalization of energy flows through the Strait of Hormuz has proven to be challenging, highlighting the case for portfolio exposure to energy. But we also see reasons for a broader allocation: AI infrastructure and electrification underpin the long-term outlook for industrial metals, and the high probability of the current El Niño episode developing into a “very strong” or “super” El Niño by the end of the year supports return potential in agricultural commodities. Gold, meanwhile, remains a useful strategic diversifier. While the latest World Gold Council report points to weaker investment and jewelry demand in the second quarter, central bank and over-the-counter purchases remained strong.

So, we continue to recommend investors maintain diversified exposure across equities, quality fixed income, and commodities. While geopolitical risks could keep market volatility elevated, strong corporate earnings, moderating inflation, and resilient demand should provide a constructive backdrop for global markets over the remainder of the year.

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-03082026.html