

UBS House View

Monthly Letter | 18 June 2026 | Chief Investment Office GWM, Investment Research

Onward and upward?

We expect equity markets to move higher over the next 12 months, driven primarily by strong earnings growth. Focusing on fundamentals rather than headlines remains key.

Managing risks

Key risks to monitor in the second half of the year include a loss of confidence in the AI growth story, weak delivery from the wider economy, and higher financing costs.

Concentration issues

We believe the wide performance gap between individual stocks magnifies the risk of holding concentrated equity positions and reinforces the case for a diversified core portfolio.


Asset allocation

We rate equities as Attractive and like the US, Asia ex-Japan, Switzerland, Japan, and emerging markets. In fixed income, we favor quality and EMs. We also like broad commodities.



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Staying on message

I asked AI in December 2025, “What will be the big geopolitical and economic forces I need to pay attention to in 2026?” It answered: “the medium is the message.” That’s a witticism AI told me is funny.

The point is that while there has been a lot going on, AI has proven to be the most important force driving markets this year, and AI-linked stocks have helped propel equity indices higher despite rising bond yields, geopolitical risks, and firmer inflation. Investors who focused too heavily on geopolitical headlines in the first half missed the more important market signal. And, while US stocks have made headlines, many global indices have outperformed. Japan’s Nikkei 225 index has risen by around 40% this year and South Korea’s Kospi index is up more than 100%.

Looking ahead, our base case is that equities can move higher over the next six and 12 months, and we expect the S&P 500 to reach 8,200 by June 2027. We remain mindful of a range of risks, including a loss of confidence in the AI growth story, weaker-than-expected delivery from the ex-AI economy, and higher financing costs. However, our base case sees continued strength in AI capital expenditure, a resilient US economy, ongoing fiscal spending around the world, and strong credit creation continuing to support corporate earnings growth and markets more broadly.

In a post-zero-interest-rate world, we are seeing a rising dispersion between the performance of individual stocks, magnifying the risks for concentrated equity portfolios. Diversification is the cornerstone of our investment philosophy. Yet, we note that, excluding strategic holdings, almost 40% of equity investors on our platform with self-managed portfolios hold more than half of their equity portfolio in just 10 stocks or fewer. We believe the current environment reinforces the

We believe the risk-reward in quality bonds remains appealing.

argument for diversifying the core portfolio at the center of equity allocations, while complementing this with targeted exposure to structural growth opportunities.

In fixed income, we believe the current risk-reward in quality bonds looks appealing, with markets still pricing in too many rate hikes, in our view. If sustained, the US-Iran peace agreement could reduce the pressure on central banks to raise rates, although policymakers are likely to remain vigilant for signs of more persistent inflation. Meanwhile, on gold, we recently lowered our price forecasts to reflect the expected delay of Federal Reserve rate cuts until 2027.

In commodities more widely, we believe investors should consider broadening exposure to hedge a wider range of risks. In currencies, we expect the US dollar to remain well bid into the third quarter as the US economy stays resilient and US rates remain high.

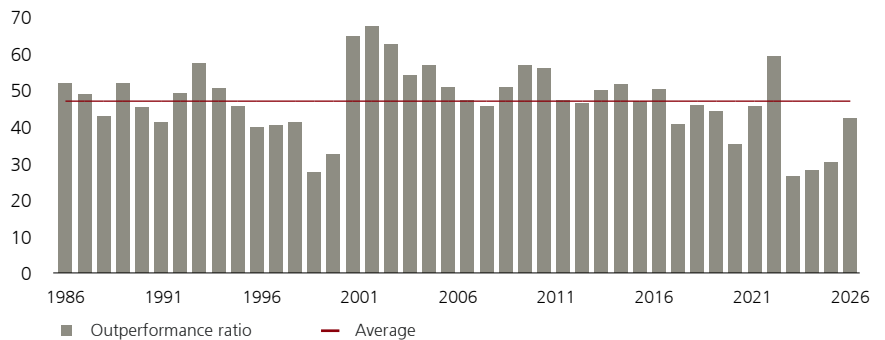
The first half of the year has shown how quickly narratives can shift, how costly excess cash can become when markets move higher, and how single-stock selection represents both an opportunity and a risk. We remain constructive and believe private investors should stay invested, while keeping diversification at the center of portfolio construction.

Why we believe equities can still move higher

Semiconductor and memory-related stocks have outperformed in the first half.

The AI rally has been one of the defining features of markets in the first half of the year, with semiconductor, chip equipment, and memory-related stocks performing strongly as demand for computing power has continued to rise. But participation has also improved beneath the surface: Around 40% of S&P 500 constituents have outperformed the index this year—better than the previous three years and close to the longer-term average. Meanwhile, the equal-weighted tech index has delivered roughly double the performance of the market-cap-weighted tech index.

Figure 1
The rally is broadening
Percentage of stocks within the S&P 500 outperforming the index



Sources: FactSet, UBS, as of 18 June 2026

As we look ahead to the second half, we believe that the AI-led part of the market can drive further gains and that the rally will continue to broaden across the rest of the market.

While questions are emerging over whether expectations for AI have moved too far, we continue to view it as a powerful structural investment opportunity. Demand is not only intact, but broadening across enterprises, with clear evidence that supply remains constrained in both compute and memory.

Hyperscalers remain committed to their capital expenditure plans.

First-quarter results confirmed that hyperscalers remain committed to their heavy capital expenditure plans. We expect overall AI-related capex to rise by 68% year over year in 2026 to around USD 820 billion, followed by a further 21% increase in 2027 to roughly USD 990 billion, with upside risks to these estimates. These are large growth rates, but they are also occurring against a backdrop in which demand for AI tokens continues to outstrip supply. Cloud growth at the major platforms accelerated to 40% year over year in the first quarter, and they reported USD 2 trillion worth of advance orders in compute resources.

We therefore believe the rally in AI-linked stocks can continue to support the overall market, particularly in the “picks and shovels” of the AI buildout, where demand visibility, pricing power, and earnings momentum remain the strongest and most directly tied to the capex cycle. These dynamics are especially evident in stocks linked to chipmaking equipment, processors, chip manufacturers, chip assembly and integration, power and sensor chips, and memory. At a regional level, we believe this should be most supportive of the US, South Korea, and Japan—where we retain Attractive ratings—as well as Taiwan (Neutral).

Beyond AI, we believe the rest of the market has the potential to contribute to returns. A resilient US economy, solid labor market, strong credit creation, and continued fiscal support could all help support earnings outside the AI complex, enabling the rally to broaden further. A supportive consumer backdrop should help underpin consumer discretionary stocks, and the recent pickup in the ISM Manufacturing index points to improving conditions for industrials and other cyclical parts of the market. We expect S&P 500 earnings per share to grow 20% this year and 12% in 2027.

We see appealing opportunities in Asian equity markets.

We also expect the rally to continue beyond the US market and see compelling opportunities globally. Asia’s equity markets offer an appealing combination of strong earnings growth, AI leaders, and attractive valuations. We expect MSCI Asia ex-Japan earnings to rise 72% this year, led by North Asia’s AI hardware supply chain, but we also see underlying strength beyond technology and scope for gains to broaden, particularly if the US-Iran deal proves durable, prompting a rebound in oil and rate-sensitive sectors like airlines, industrials, real estate, and financials. We also like Japan’s equity market, which offers diversified exposure to

the global AI supply chain, a cyclical recovery, and ongoing corporate reforms. In Europe, we see opportunities in industrials, health care, and consumer discretionary, and favor companies with resilient earnings, exposure to global demand, and structural growth drivers.

Higher interest rates are a potential headwind for equity markets, but in our base case, we think the risks from this channel may be overstated. US headline consumer price inflation rose to a three-year high of 4.2% in May, but wage growth was 3.4% year over year (versus a long-term average of 4%), suggesting inflation pressure from labor costs remains relatively contained.¹ That leaves us expecting no Fed rate hikes from here, and potentially a resumption of rate cuts in 2027, particularly if energy prices fall sustainably. In the Eurozone, inflation risks are currently in focus. We expect one further rate hike, but we think policymakers are also likely to remain mindful of growth risks.

In our base case, we believe the S&P 500 will reach 8,200 by June 2027. In that timeframe, we also expect close to 10% upside for MSCI Asia ex-Japan, 7% for Japan's Topix index, and 5% for the Euro Stoxx 50. This view is primarily supported by earnings growth—we forecast 21% globally this year and 12% in 2027.

Risk scenarios

Risks include loss of confidence in AI, a weakening of the broader economy, and higher financing costs.

While our base case for equities is positive, investing in the current environment also requires close attention to a range of risk scenarios to construct robust portfolios.

Loss of confidence in AI

One key risk, in our view, is that investors lose confidence in the durability of AI capex or in the economy's ability to convert that spending into profit. While investment spending remains strong—and we believe it will remain so—the market will likely become more focused on whether rising AI investment leads to monetization.

If demand for AI compute, tokens, or enterprise services falls short, or if adoption proves slower than hoped for, valuations could be reassessed, especially in areas where capex has surged and overbuild concerns are mounting. More broadly, if AI benefits take longer to appear in productivity, earnings, or end-market demand, investor focus could shift from capex-driven enthusiasm to near-term cash flow and monetization discipline, driving sharper rotations across the sector.

Another risk is that the pace of AI infrastructure buildout—across data centers, chips, and power—fails to keep up with surging demand. Supply chain bottlenecks, permitting delays, power grid constraints, or shortages of critical components could slow deployment, limiting the ability of hyperscalers and enterprises

¹ Wage growth is typically viewed as inflationary when it exceeds the sum of the inflation target and trend productivity growth. With wage growth around 3.4% and productivity running solidly above 2%, wage gains are currently broadly consistent with the Fed's inflation objective and limit demand side inflation risk.

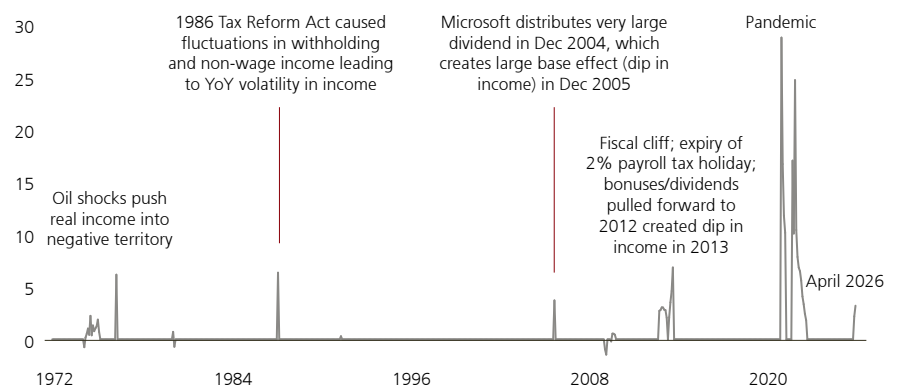
to monetize AI investments. If infrastructure cannot come online fast enough, it could also cap near-term revenue growth, delay adoption, and trigger investor disappointment—even in the face of strong underlying demand.

Weak delivery from the non-AI economy

We are also monitoring signs of weakness in the broader US economy outside of the AI ecosystem. We note that real consumption growth is now exceeding real income growth by a larger margin than historical norms, as elevated inflation continues to weigh on real income growth. Wealth effects, which are concentrated among higher-income households, are helping sustain consumption. The result is a widening gap between resilient aggregate spending and weaker income dynamics across the broader economy.

Figure 2

US real consumption growth is exceeding real income growth by a large margin
Instances where US consumption exceeded real disposable income, y/y % differential



Sources: Haver, UBS, as of 18 June 2026

US consumers may become less willing to spend.

This leaves the US economy exposed if consumers become less willing to spend, or if periods of stock market weakness begin to feed through into weaker credit creation and consumer confidence.

Economic risks stemming from geopolitics and politics that we are monitoring in the second half include the durability of the US-Iran peace agreement; the pace at which shipping through the Strait of Hormuz normalizes; US trade policy amid the likely shift toward product- or country-based tariffs; and the US midterm elections in November, which could have implications for the fiscal policy outlook.

Higher financing costs for governments and companies

Rising inflation has prompted concerns about more hawkish central bank policy.

Another risk is higher financing costs for governments, businesses, or consumers. This could stem from higher-than-expected central bank interest rates due to rising inflation, higher government borrowing costs from fiscal sustainability concerns, or fears of excess corporate issuance.

Higher inflation, driven in part by firmer energy prices, has already pushed the European Central Bank in a more hawkish direction and made it likely that the Fed remains on hold until 2027. There is a risk that central banks could be forced to become more hawkish still if inflation continues to come in higher.

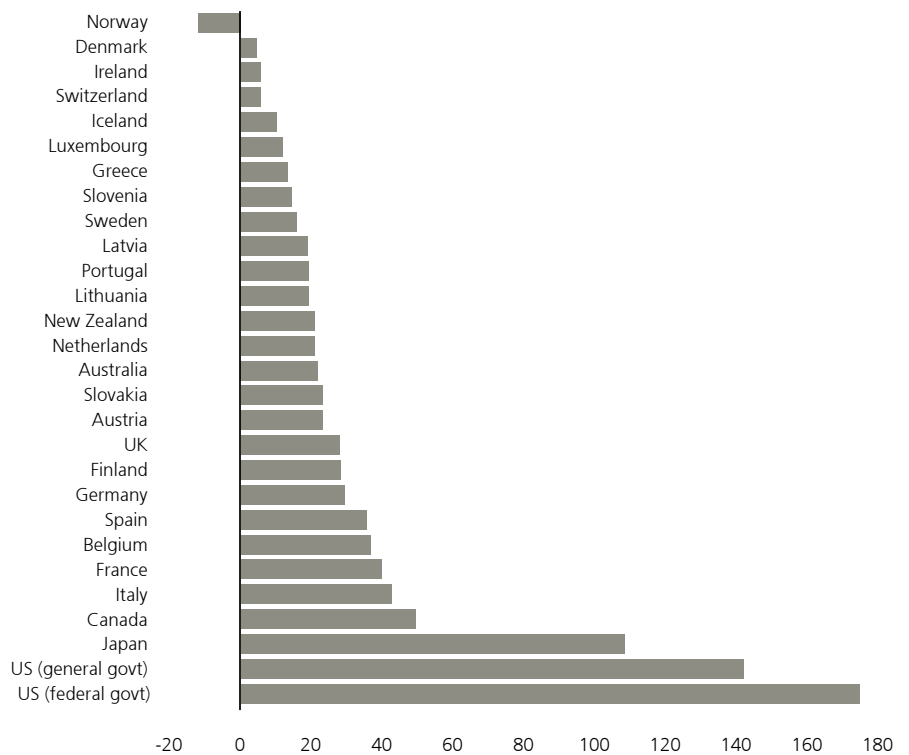
Nevertheless, current market pricing for central bank policy rates looks somewhat hawkish to us, particularly if the fall in energy prices due to the recent Iran peace deal proves sustainable. In the US, we think headline inflation likely peaked above 4% in May. We believe the combination of a new regime under Chair Kevin Warsh and a wide dispersion of views among FOMC members implies a higher bar for near-term policy rate moves in either direction. Slower growth trends and disinflation in the second half of the year should help support a pivot toward lower policy rates in 2027, in our view. We still expect the policy rate to ultimately move toward a 3.00-3.25% range, from 3.50-3.75% currently.

For the ECB, we expect one more hike in the coming months, though we believe markets may be overpricing the risk of further hikes, especially if energy prices continue to decline, and as growth momentum remains weak. In the UK, we expect the Bank of England to keep rates on hold for the rest of 2026, with the next move likely a cut in early 2027 as inflation ebbs. Meanwhile, we expect the Swiss National Bank to keep its policy rate on hold at 0% for the remainder of the year.

Concerns about long-term debt sustainability could increase.

Of course, if central bank rates do rise more than we expect and term premiums begin to increase meaningfully, this could feed into concerns about longer-term debt sustainability, with debt service ultimately absorbing a rising share of government revenues. Countries with high debt levels and large near-term funding needs, including the US, Japan, France, and Italy, are particularly exposed if bond yields remain elevated. Much of the existing debt that comes due for refinancing over the next four years was issued during the low-interest rate decade (2010-2021), so as this is currently being rolled over, the cost of debt financing on budgets is commensurately increasing. Including debt rollover and deficit financing, the US needs to fund USD 13.2 trillion over the next 12 months, and Japan about USD 1.6 trillion.

Figure 3
 Higher financing costs could increase fiscal sustainability concerns
 Near-term funding needs by country, in % of government revenues



Note: Debt due in 12m + estimated fiscal deficit for 2026, divided by estimated revenues
 Sources: IMF World Economic Outlook, Bloomberg, UBS as of 18 June 2026

We would expect central banks or governments to respond if yields rise too far. Responses could involve changing the maturity profile of new bond issues, central bank buying, or additional changes to regulation to support demand for government debt.

Corporate issuance is picking up.

On the corporate side, although demand for public credit remains resilient (with spreads close to multi-decade lows), we also note that weaker investor sentiment around private credit could make it more expensive for firms looking to raise money through that channel, while initial public offering (IPO) and M&A activity is also picking up. The overall volume of equity issuance is likely to remain marginal in the context of the US market's roughly USD 72 trillion capitalization (or USD 140-150 trillion globally). However, over time, lower barriers to insider sales could lead to a more significant volume of equity sales, potentially increasing competition for capital and raising equity risk premia more broadly.

Can equity markets absorb new issuance?

After a long quiet spell, US equity issuance is picking up sharply. IPO issuance is on track to reach USD 200-350bn this year, with secondary offerings potentially exceeding USD 400bn, according to our estimates. In absolute dollar terms, both estimates would represent record highs.

But we do not think the scale of equity issuance will prove a material headwind for US equity markets, for several reasons:

First, while the absolute dollar value of issuance is set for an all-time high, relative to the total US equity market capitalization of USD 72 trillion, it is only slightly above the long-term average as a percentage of the Russell 3000 free float market cap. From this perspective, we believe equity markets should be able to accommodate the increase in issuance.

Second, sustained share buybacks mean net equity supply could still shrink this year. US share buybacks have totaled

USD 1.2 trillion over the past 12 months, and we expect repurchases to remain around that level through the balance of the year.

Third, academic literature and our own analysis suggest that there is no consistent relationship between changes in IPO activity and forward market returns. Even the five largest US-domiciled IPOs since 1990 showed no discernible effect on broader US equity performance in the surrounding weeks.

The stronger historical relationship is that IPO activity is a coincident indicator—issuance tends to rise when markets are strong and fall when conditions materially weaken. This makes sense: When markets are up, investors are more willing to invest in new issues and companies usually get higher valuations for their shares.

To read more, please see our US equities report, “[A closer look at equity issuance](#)” (17 June 2026).

Investment implications

We believe equity markets can continue to move higher over the remainder of the year.

We believe equity market indices can move higher over the remainder of the year. Our base case is for continued growth in the AI ecosystem, supported by still-resilient economic growth more broadly. But amid various risks, from weaker confidence in AI to softness in the broader economy and potentially higher financing costs, portfolio construction matters as much as market direction.

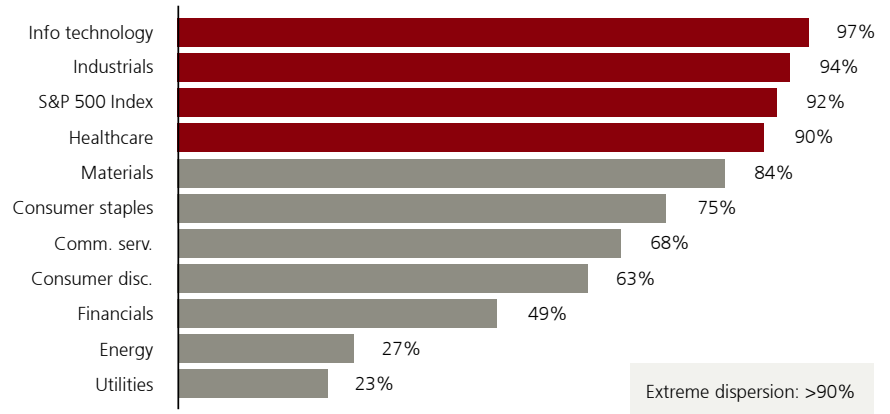
Diversify across equities

So far this year, the performance of an individual investor’s equity portfolio has been influenced by stock selection more heavily than usual—a trend we expect to continue. This creates greater upside potential from owning the right stocks, but also greater risk from holding the wrong ones. To balance risk and opportunity, we believe investors should ensure their core equity allocation is broadly diversified. Our preferred regions include the US, Asia (including Japan, China, and Singapore), Australia, emerging markets, Switzerland, and Germany.

Figure 4

Equity dispersion is high

Percentile of performance dispersion of 3-month returns within stocks across S&P 500 sectors, data since 1980



Sources: Bloomberg, Goldman Sachs, UBS as of May 2026

Invest in transformational innovation

We favor a diversified approach to investing in transformational innovation.

We see three transformational innovations shaping the market outlook: AI's rapid expansion is driving strong earnings and investment beyond US tech, but also raising concentration risks as the market broadens to semiconductors, software, and applications. Surging demand for data and electrification is fueling record capital flows into energy infrastructure, renewables, and critical resources, with companies at the heart of this transition reporting robust order books. Meanwhile, the

Concentration risks in equity portfolios

Concentration risk deserves greater attention in today's market, in our view. Wider dispersion between performance at the individual stock level means portfolio allocations may have drifted away from strategic targets, and portfolio outcomes can now diverge much more sharply from benchmark returns, especially for investors whose equity exposure is concentrated in a small number of direct holdings. The risk of being in the "wrong stock" at the "wrong time" is increasing. And portfolios with a large share of equity exposure in just a handful of stocks may be more vulnerable to company-specific disappointments and shifts in market leadership.

Despite diversification being at the core of our philosophy, our analysis suggests this risk is meaningful for many clients with self-managed portfolios: Excluding strategic

holdings, nearly 40% of our equity investors hold more than half of their equity portfolio in just 10 stocks or fewer. Nearly 25% hold more than three-quarters of their equity portfolio in 10 stocks or fewer—and for some, a handful of stocks makes up their entire equity portfolio.

We believe now is an important time for investors to review their equity holdings and take steps to diversify concentrated positions. We believe the best response is to strengthen diversification across sectors, styles, and regions. Signs of a broadening equity rally reinforce our conviction that the current environment offers a wide opportunity set. And, in fast-moving markets, investors can consider actively managed, dynamic, and diversified strategies to help navigate market shifts and adjust equity holdings accordingly.

longevity sector stands out for its resilience and growth potential, as health care companies benefit from diversified supply chains and a wave of clinical breakthroughs, even as AI disruption and geopolitical uncertainty remain in focus.

Consider capital preservation

Investors can manage downside risks in equity portfolios by balancing return-seeking exposure with strategies designed to help preserve capital and improve resilience. In our view, combining diversified core equity exposure with capital preservation strategies can help investors participate in upside while also managing downside risk.

Broaden commodity exposure

We believe investors should consider broadening commodity exposure with active management. Gold upside may be more limited in the months ahead, and a broader commodities allocation may offer a better balance of return potential and risk mitigation. Energy exposure can help buffer against renewed supply disruptions, while broader commodity exposure can provide diversification if geopolitical stress continues to feed through into inflation. El Niño-related risks may support agricultural commodities, while the AI boom and electrification remain structural positives for industrial metals.

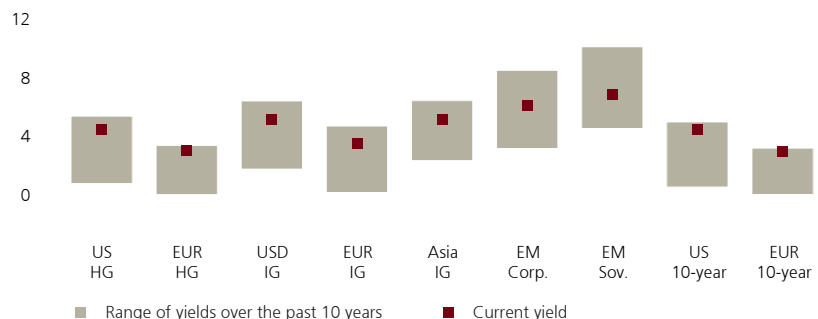
We favor broad commodity exposure.

Lock in yields

The recent sell-off in global bond markets has created an opportunity for investors to lock in attractive yields by adding to quality bonds, particularly in the short- and medium-maturity segments. We believe markets continue to overestimate the extent of further tightening from most major central banks. Fiscal and inflation risks are greater in longer-duration debt. Select exposure to higher-beta income segments, equity income strategies, and yield-generating structured strategies can further support diversified portfolio income.

All-in yields on quality bonds remain appealing, in our view.

Figure 5
All-in yields are solid
Yields across fixed income segments, in %



Indexes used: Bloomberg Eurodollar AA+ 5-7 years index, Euro Aggregate AA+ 5-7 years index, Bloomberg US Aggregate Corporate Bond index, Bloomberg Euro Aggregate Corporate Bond index, JACI Investment Grade Bond Index, CEMBI Diversified Bond Index, EMBIG Diversified Bond Index, US 10-year Treasury, German 10-year Bunds
Sources: Bloomberg, UBS, as of 18 June 2026

Diversify with alternatives

With stock-level dispersion high and equity-bond correlations also elevated, we believe alternatives can play an increasingly important role in both diversification and portfolio resilience. Hedge funds may be well placed to capture alpha through security selection and help reduce portfolio volatility, while private markets, multi-strategy approaches, and real estate can provide alternative sources of return. Investors with concentrated exposure to any single manager should consider broadening allocations to improve portfolio balance and resilience.

Conclusion

We believe the outlook remains constructive and favor a diversified approach.

The outlook remains constructive, in our view. Innovation, resilient growth, and structural investment trends continue to support markets. But higher valuations and a wider range of macro and geopolitical risks mean investors need to think carefully about portfolio construction, managing concentration risks in particular. For investors, that argues for staying engaged, remaining selective about opportunities, and ensuring portfolios are anchored by a diversified core. In a market that still offers upside but is less forgiving of concentration and poor timing, discipline and diversification remain essential.



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Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities

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