

US stock rally should continue with positive drivers

UBS House View - Daily US

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From the studio

Podcast: [Signal over Noise with Ulrike Hoffmann-Burchardi.](#)

Podcast: [The weekly Jumpstart on tech results, the Fed, and gold.](#)

Podcast: [CIO's Giovanni Staunovo on Russia sanctions, gold outlook](#)
(8 min)

Podcast: [Why we upgraded Chinese equities to Attractive](#) (12 min)

Video: [CIO's Delwin Limas on circular AI deals and bubble concerns](#)
(5 min)

What to watch: 28 October

- US Conference Board consumer confidence index
- ECB bank lending survey
- US FHFA house price index
- Third-quarter results from Visa, Novartis, and others

Thought of the day

US equities overcame recent volatility to notch new record highs on Friday, after consumer price index (CPI) data for September offered reassurance to markets that the Federal Reserve is on track to cut interest rates this week. Monthly price increases were below August's pace, while annual readings came in lower than expected.

The "preliminary consensus" reached between US Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng over the weekend also set the stage for a potential breakthrough at the anticipated Trump-Xi summit this week, boosting investor sentiment further. Japan's Nikkei 225 crossed 50,000 for the first time on Monday, while S&P 500 futures are pointing 0.8% higher ahead of the US market open.

With companies having reported strong third-quarter results so far amid a favorable backdrop, we expect US stocks to rally further in the coming months. Indeed, all three key drivers of market performance—earnings, monetary policy, and investment—are currently supportive.

The Fed's policy easing indicates a favorable macro environment. The benign inflation reading underscores why we think the macro environment is favorable, as softer-than-expected price pressures likely cleared the way for the Fed to proceed with additional rate cuts. Data going back to 1970 shows that the S&P 500's average annualized return was just below 10%, and it rises to 12% when the US economy is not in recession. But investors enjoy the best returns (15%) when the economy is not in recession *and* the Fed is cutting rates. In our view, evidence will continue to filter through that

the labor market is weakening, providing justification for further rate cuts through the early part of next year. But even when the Fed stops cutting interest rates, the economy will likely continue to grow, suggesting that the performance of US stocks should still be well supported.

A strong start to the third-quarter results suggests solid earnings growth. Companies that represent about 25% of the S&P 500's market capitalization have reported their third-quarter earnings, and the results have been solid. Not only is the percentage of companies beating sales and earnings-per-share (EPS) estimates higher than the historical average, but the magnitude of the beats is also larger. Based on the strong start, corporate profit growth is on track to exceed our initial estimate of 10% for the three-month period. Additionally, while there is still a clear bifurcation between higher-income and lower-income consumers, spending overall remains resilient, according to comments from banks and consumer companies. Looking ahead, we expect big tech companies to also report strong results this week amid growing AI demand.

Strong demand for computational resources should underpin robust AI capital spending. The recent series of AI deals announced by OpenAI underscores how the industry has underestimated the rise in the consumption of AI tokens, the small units of data that large language models use to process and generate output. Token consumption reflects the cognitive workload of an AI system, and we believe demand for computational resources will continue to accelerate with higher usage of AI services. For example, weekly active users for ChatGPT have soared to 800 million—nearly 10% of the global adult population, from just 300 million at the start of this year—while average message volume per user has climbed further. AI videos are also token intensive—with a 10-second clip potentially requiring over 100 times more tokens than a short paragraph, based on our estimates, due to frame-by-frame processing and consistency checks. With AI browsers rapidly emerging as a new competitive frontier, the surge in AI token consumption should continue to underpin strong AI capex trends.

So, we maintain our Attractive view on US equities, forecasting S&P 500 to reach 7,300 by June 2026. Underallocated investors should consider adding exposure to our preferred areas, including the Transformational Innovation Opportunities of *AI*, *Power and resources*, and *Longevity*.

Caught our attention

Nikkei breaks past 50,000 points. Japan's benchmark Nikkei 225 equity index rose 2.1% on Monday, rising above the 50,000 mark for the first time ever. The rally reflects rising expectations for major fiscal stimulus measures from new Prime Minister Sanae Takaichi, with the index now up 26% year-to-date and more constructive US-China headlines over the weekend. Expectations are also building for positive US-Japan developments ahead of Takaichi's summit with US President Donald Trump in Tokyo on Tuesday. Separately, several public surveys suggest Takaichi's new cabinet ranks the third or fourth most popular for a newly launched government since 2000.

Our view: We've been advocating global investors add more Japan exposure since mid-September, in anticipation of pro-growth policies and targeted fiscal stimulus measures under a new government, as well as continued progress on corporate reforms. Higher return on equity, improved shareholder returns, and gradual monetary tightening should

support the rally. If Takaichi succeeds in strengthening US-Japan ties and advancing a sustainable trade deal, we would anticipate further upside for Japanese equities. At the sector level, we favor IT services, real estate, medtech, and medium-term beneficiaries of government support such as defense, semiconductors, and industrials.

Moody's negative on France. Moody's last week revised the outlook on France's Aa3 credit rating to negative, from stable, following the recent downgrades by the S&P and Fitch. These downgrades and the accompanying commentary from the rating agencies highlighted that France's credit quality will likely continue to erode gradually, rather than abruptly.

Our view: While we do not anticipate any further credit rating changes for France this year, the country's average rating could fall to the A2/A range by 2027, given the current political environment and fiscal trends. Meaningful reforms and fiscal consolidation that halt the rise in the debt ratio would be a positive surprise, while a reversal of past structural reforms would represent a downside risk that could accelerate the pace of rating downgrades. We expect French government bonds to continue trading at yields in line with, or above, Italian bonds. Overall, we prefer select high-quality corporate bonds over government bonds. On the French sovereign curve, we see value in 2-3-year bonds, which currently offer the highest yields among all Eurozone government bonds (2.2-2.4%). We believe the probability of an adverse credit event over this time horizon is very low.

Market update

27 Oct 2025

Percent change. For volatility indices, net change in points.
For valuation, change in price to earnings per share. For
yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	15.8	-1	-2	+0	-2
S&P 500	6792	+0.8%	+1.9%	+2.2%	+15.5%
S&P 500 trailing P/E (**)	25.7x		+0.5x	+0.2x	+1.1x
S&P 500 forward P/E (**)	22.7x		+0.3x	+0.0x	+1.2x
S&P 500 forward P/E ex-Mag 7 (**)	20.1x		+0.1x	-0.1x	+1.2x
Russell 2000	2513	+1.2%	+2.5%	+3.3%	+12.7%
Euro Stoxx 600	576	+0.1%	+0.7%	+3.9%	+13.5%
Shanghai Composite	3997	+1.2%	+3.4%	+4.4%	+19.2%
US 10-year Treasury	4.02	+2	+4	-15	-55
US 2-year Treasury	3.50	+2	+4	-14	-74
Germany's 10-year Bund	2.63	+1	+6	-11	+27
Germany's 2-year Bund	1.97	+0	+6	-6	-11
EURUSD	1.163	+0.0%	-0.1%	-0.8%	+12.3%
EURCHF	0.93	-0.1%	-0.4%	+1.0%	+1.5%
USDCHF	0.80	+0.1%	+0.5%	-0.1%	-12.2%
USDJPY	153	+0.0%	+1.4%	+2.9%	-2.7%
Brent crude, USD/bbl	66	-0.2%	+7.9%	-6.1%	-11.8%
Gold, USD/oz	4075	-1.1%	-6.0%	+7.9%	+54.3%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

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Appendix

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