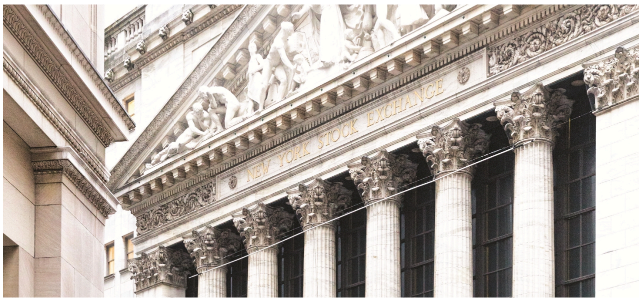
S&P 500 EPS: Profit growth continues

US equities

Authors: David Lefkowitz, CFA, CIO Head of US Equities, UBS Financial Services Inc. (UBS FS); Nadia Lovell, Head of Global Equity Strategy & Management, UBS Financial Services Inc. (UBS FS); Matthew Tormey, CIO Equity Strategist, US Equities, UBS Financial Services Inc. (UBS FS)

- We expect another good US earnings season driven by resilient economic growth and continued AI investment. We look for 4Q S&P 500 EPS growth of 12%, reflecting an earnings beat of 4%.
- Earnings breadth continues to improve. Growth for the S&P 493 should be around 10% compared to Mag7 growth of close to 25%.
- With fiscal and monetary stimulus in the pipeline and peak tariff headwinds likely behind us, we expect supportive guidance. We are bumping up our 2026 S&P 500 EPS estimate to USD 310 (12% growth) largely due to strong trends in semiconductor memory chip pricing.
- We maintain our June and year-end S&P 500 price targets of 7,300 and 7,700.



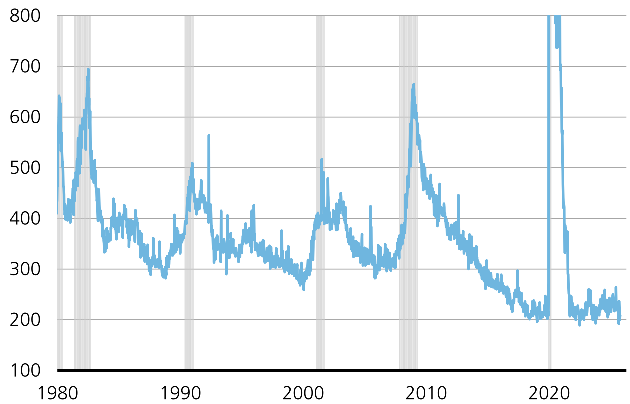
Source: UBS

Backdrop remains supportive

Resilient economic growth should be supportive for US profit growth. The Atlanta Federal Reserve's GDPNow growth estimate for the fourth quarter is above 5%, an indication that the US economy is fine despite concerns about a cooling labor market. Holiday season spending data was generally good as spending continues to be led by upper income consumers. Meanwhile, the unemployment rate and layoffs are low (Fig. 1), and real wages are rising. So, the risk to consumer spending does not appear high. Stimulus from the One Big Beautiful Bill Act (OBBBA) should provide an additional boost in the first half of the year. Lastly, gasoline prices are down, which should free up money for spending on non-energy items (Fig. 2).

Fig. 1: Jobless claims are low relative to history

US initial claims for unemployment insurance, in thousands



Source: Bloomberg, UBS, as of 12 January 2026

Fig. 2: Lower gasoline prices should take pressure off consumer budgets

Daily national average gasoline price, regular unleaded, in USD

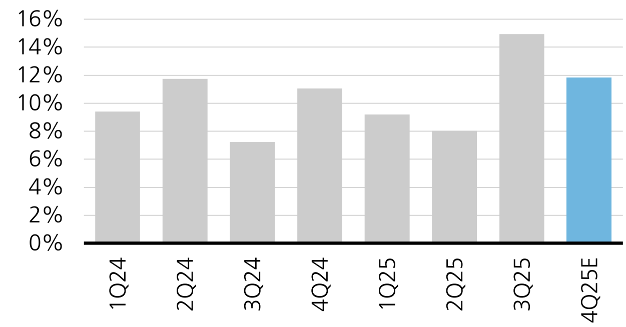
Source: American Automobile Association, Bloomberg, UBS, as of 12 January 2026

Growth to remain solid

Based on the supportive macroeconomic environment, we expect a solid set of earnings results, with the S&P 500 posting 12% growth for 4Q (Fig. 3). Our estimates embed a 4% earnings beat, which could even prove to be somewhat conservative, based on the strength from the early reporters, which are beating by more than 5%. Encouragingly, so far, the earnings beats are a function of strong revenue beats. We expect revenue growth of more than 8%.

Fig. 3: Earnings growth should be solid in 4Q

S&P 500 quarterly EPS year-over-year growth, actuals and CIO estimates

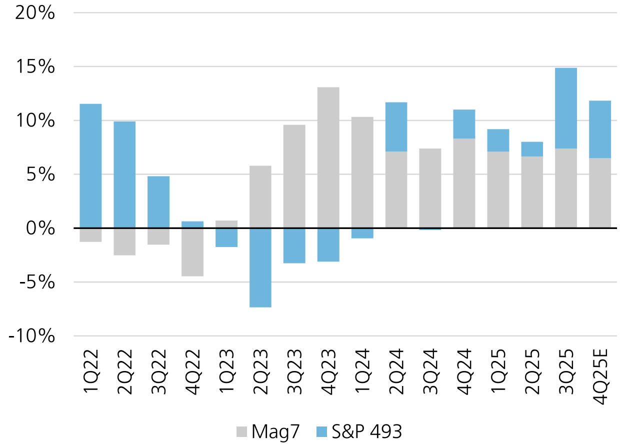


Source: FactSet, UBS, as of 12 January 2026

Similar to the previous quarter, earnings growth should continue to broaden out. To be sure, the Magnificent 7 mega-cap growth companies (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) will still be important drivers of S&P 500 profit growth. These companies will likely account for more than half of S&P 500 EPS growth in 4Q (Fig. 4). In aggregate, earnings for this group will likely rise nearly 25%. But the rest of the market is not doing badly either. We expect the remaining 493 companies in the index to post growth of around 10%. There is a chance that all 11 sectors of the S&P 500 will generate profit growth in the quarter—the first time this has happened since 2021.

Fig. 4: Mag7 still a big driver of earnings growth

Contribution to S&P 500 EPS growth, actuals and CIO estimates



Source: FactSet, UBS, as of 12 January 2026

AI still in focus

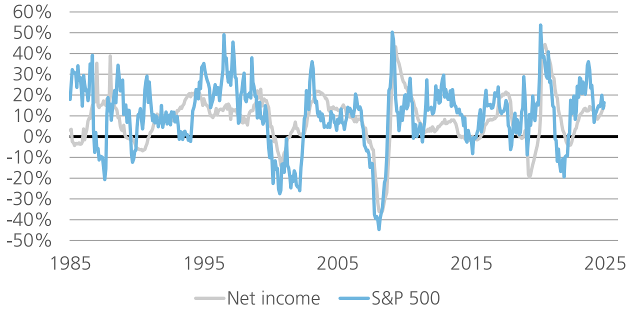
AI will undoubtedly be a key area of focus once again. We are now more than three years past the launch of ChatGPT and while very strong investment spending trends have supported earnings and overall market performance, investors will be more attuned to a path toward monetization. This is becoming increasingly important considering the truly huge sums that are being spent on AI infrastructure. This has prompted investor concerns about the likely return on this investment. As a result, and after rising aggressively over the last two years, there is likely less upside to AI capex. So, it stands to reason that companies that can demonstrate they are, in fact, generating revenues and profits from AI investment will likely be rewarded by investors. As a result, the AI theme is likely to broaden out into the intelligence / application layers. Encouragingly, we expect cloud service provider revenue growth to accelerate during the quarter.

Outlook supported by earnings

A good earnings season should support further gains in US equities. More specifically, we think the earnings season will give investors confidence in the durability of earnings growth, which is a key driver of market returns over one-year horizons. Stocks tend to have a good correlation with the change in forward bottom-up consensus estimates (Fig. 5). This relationship is even tighter when the Fed is not hiking interest rates, which is the environment we expect this year.

Fig. 5: Solid earnings growth usually drives market gains, consistent with our outlook

Change in S&P 500 bottom-up consensus forward net income estimate and index price



Source: DataStream, FactSet, UBS as of 12 January 2026

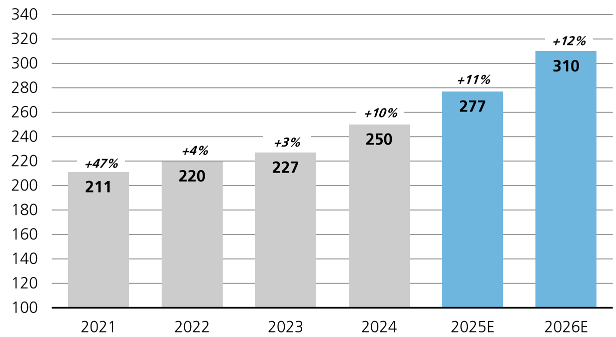
Our positive outlook for the market is also underpinned by fiscal stimulus measures that will hit the economy in the first half of the year, ongoing and lagged effects of Fed rate cuts, continued AI adoption, and the passing of peak tariff headwinds. Admittedly, valuations are high, but valuations have little to no relationship with returns over shorter time horizons. Earnings momentum matters much more, and we expect the momentum to remain positive.

Key risks we are monitoring include any signs of an increase in inflation expectations or higher interest rates, any setbacks to AI adoption, or an unexpected sharp slowdown in the labor market.

Our June 2026 and December 2026 S&P 500 price targets are 7,300 and 7,700. Our 2025 and 2026 S&P 500 EPS estimates are USD 277 (11% growth) and USD 310 (12% growth) (Fig. 6). As mentioned, we are increasing our 2026 EPS estimate by USD 5 largely due to strong semiconductor memory chip demand.

Fig. 6: Earnings growth likely to remain solid

Annual S&P 500 EPS, actuals and CIO estimates



Source: FactSet, UBS, as of 12 January 2026

Global asset class preferences definitions
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, commonly known stock indexes, 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.
Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
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.
Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Appendix

Risk information
UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.
The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.
Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilize artificial intelligence tools (“AI Tools”) in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.
In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS (Brasil) Corretora de Valores S.A., UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule**.

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website . In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory

Authority (FINMA).
Version C/2025. CIO82652744