UBS

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Chief Investment Office GWM
Investment Research

What to watch in the week ahead

Weekly Global

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- The Philadelphia Semiconductor Index fell sharply in July as investors reassessed the AI trade. We believe AI remains a key structural growth driver, but recommend that investors manage concentration risk and favor a balanced exposure across the AI value chain.
- Second-quarter earnings have been stronger than expected, supporting equity markets despite tech volatility. Investors will be watching this week's earnings reports to see if the momentum can continue. We expect strong profit growth in the US, Europe, and Asia to continue to underpin the global equity rally.
- The Federal Reserve and Bank of England kept rates on hold last week despite inflation concerns. Investors will now watch US labor data, JOLTS job openings, and global PMIs for evidence that central banks' patience is justified. We favor short- and medium-duration quality bonds, and expect yields to decline over the next 12 months.

Will tech volatility continue?

July was a volatile month for tech stocks as investors reassessed AI spending and monetization trends. The Philadelphia Semiconductor Index fell more than 20% during the month, while the broader S&P 500 was flat. Last week, megacap earnings exposed a sharper divide between companies showing returns from AI investment and those facing cash flow pressure. Microsoft shares rose 15% the day after it reported that cloud growth accelerated to its fastest pace in four years and management guided for further improvement. Meta fell 8% after free cash flow dropped 91% to the lowest level since late 2022.

Without taking single-security views, we believe the divergence underlines investors' increasing focus on whether AI capex is translating into revenue. We still see strong near-term AI spending, robust compute demand, and clearer monetization signals, but rising capex raises the risk of slower spending beyond 2027. This week, investors will be monitoring whether volatility in AI-related stocks continues as markets digest recent results and hyperscaler capex signals. The key test is whether stronger AI monetization can offset concerns around free cash flow, depreciation, and semiconductor pricing.

As the AI growth story evolves, the investment opportunity has become more differentiated. Given the backdrop of near-term strength and risks on the horizon, simply owning companies linked to AI infrastructure spending is unlikely to benefit from the next phase of AI growth. Overall, we remain constructive on AI and believe exposure across the value chain is key to capturing structural growth potential. That means investors should

Tech and earnings

- Check out the new Signal over Noise podcast, in which Ulrike Hoffmann-Burchardi assesses the AI trade at a crossroads. Listen on Apple or Spotify.
- Read the latest on the US earnings season in this blog.
- Listen to the Jump Start podcast on tech and earnings.

Equity markets beyond the US

- Learn what the global broadening means for investors in this House View Briefcase.
- Watch this video on why we believe it's time for equity investors to revisit Europe.
- Read more on Germany's structural growth drivers in this blog.

Central bank policy and fixed income

- Read more on the implications of a closely watched Fed meeting.
- Find out what the Bank of England's policy decision means for investors.
- Learn how investors can build diversified portfolio income.

take steps to address concentration risks. We recommend a balanced positioning that complements holdings in semiconductors with more defensive areas of tech. We favor semi-cap equipment, foundries, and compute names within semis, and see opportunities in smartphone makers, payment networks, data center REITs, and select consumer electronics

Can earnings beyond tech keep the rally on track?
The US second-quarter earnings season has been stronger than expected, providing a key support for equity markets amid the volatility in tech. The breadth of earnings beats among S&P 500 companies has been solid (with 80% of companies beating expectations versus 73% normally), as has the magnitude of the beats (5.8% median beat versus 3.5% normally). Guidance is also coming in better than usual. Overall, second-quarter earnings per share growth is on pace to hit or exceed 30% on an underlying basis, which is better than our initial estimate of 28%.

With around 130 S&P 500 companies set to report results this week, representing 15% of the market value of the index, the next test is whether this momentum can continue as the reporting mix moves further beyond megacap tech. Investors will look for evidence that companies outside the AI complex are still protecting margins. Energy results will be watched for cash-return discipline, while health care and pharma earnings should give a read on pricing, pipelines, and demand resilience. Results from consumer companies may also reassure investors that spending is resilient, supporting the case for a broader earnings-led rally.

Beyond the US, the Eurozone earnings season is also off to a strong start, and investors will be watching to see whether the momentum can continue. We believe the region's profit growth will continue to pick up, and forecast around 25% earnings growth over 2026 and 2027.

We remain positive on equities, but believe investors should avoid overconcentration in a handful of stocks. Diversified exposure across sectors and regions should help portfolios benefit as leadership widens, including through US financials, industrials, health care, and consumer discretionary, alongside European and Asian stocks.

Will economic data validate central banks' patience?
The Federal Reserve kept the federal funds rate unchanged at 3.50-3.75% last week. Chair Kevin Warsh said the US central bank is in a period of "watchful thinking," while three officials dissented in favor of a 25-basis-point hike. The Bank of England also kept rates on hold last week and signaled continued vigilance on inflation.

Recent data have given policymakers room to remain patient. In the US, core CPI inflation slowed to 2.6% in June, and labor income growth is consistent with slower consumer spending. Still, inflation concerns are likely to linger. Bond markets reflected this tension last week, with Treasury yields falling at the short end as investors scaled back near-term tightening expectations, while long-end yields rose on worries about the longer-term inflation outlook.

This week, investors will watch activity data to assess whether central banks' patience is warranted. The US labor report for July and JOLTS job openings data will show whether labor demand is still cooling gradually, while global purchasing managers' indices will provide a broader read on activity. Softer-but-resilient labor data would support patience; renewed inflation or labor strength could keep yields elevated.

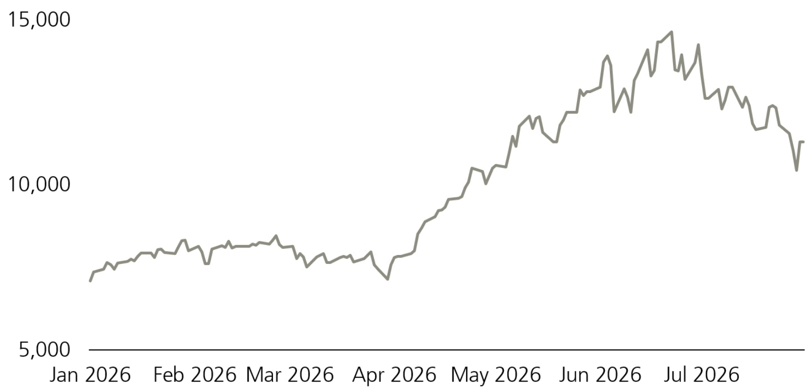
Policymakers will stay vigilant on inflation in the coming months. But we believe markets are pricing more tightening than most major central banks are likely to deliver. We expect bond yields to decline over the next 12 months as disinflation trends gradually reemerge. We favor quality short- and medium-duration bonds, and see selective opportunities in longer-duration Eurozone bonds and higher-yielding credit as part of a diversified income strategy.

Chart of the week

Markets are becoming more selective as investors assess whether heavy AI spending is translating into sustainable revenue and cash flow trends, causing greater volatility in semiconductor and technology stocks. Despite this, we believe strong earnings outside megacap tech will continue to broaden the equity rally. Our preferred sectors include US health care, financials, consumer discretionary, and industrials.

AI-related stocks face rising volatility as investors focus on monetization

Philadelphia Semiconductor Index, YTD



Bloomberg, UBS as of 31 July 2026

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

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Global asset class preferences definitions
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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
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive.”

Appendix

Risk information
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