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What to watch in the week ahead

Weekly Global

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- The US midterms are likely to change the balance of power in Congress. Narrow majorities and presidential authority should constrain sweeping policy changes, and we would not treat the result as a binary directional event for markets.
- AI demand remains strong, but investors are placing greater weight on the risks of overinvestment, financing, and cannibalization. We remain constructive on AI and favor diversified exposure to high-quality beneficiaries over concentrated single-stock positions.
- The October US employment report, job openings, and business surveys will test the strength of labor demand and economic activity, and their implications for inflation and central bank policy. We expect the Fed to raise rates at a measured pace. Investors should maintain diversified equity exposure and add selectively to quality bonds.

What will the US midterm elections mean for markets?

The US midterms on 3 November will determine control of Congress at a time when investors are already focused on government borrowing, elevated bond yields, trade policy, and regulation. Our base case is that Democrats will control at least one chamber after the election. We assign a 50% probability to a Democratic sweep of Congress, a 40% probability to split control (Democrats win the House while Republicans retain the Senate), and a 10% probability that Republicans retain both chambers.

The most visible effects of a change in congressional control would likely be greater oversight of the administration and more difficult fiscal negotiations. Democratic control could soften or delay some spending cuts, while debt-ceiling negotiations in 2027 may create volatility and result in less fiscal tightening than currently expected. However, narrow congressional majorities and the president's veto should limit the prospects for sweeping legislation. The president would also retain considerable authority over tariffs, foreign policy, and regulation. We do not expect a change in congressional control to derail data center expansion, since many relevant decisions are made at state and local levels.

So, we would not treat the midterms as a binary directional event for equities, bonds, or the dollar. The election result may affect the path of fiscal negotiations and generate near-term volatility, but economic growth, corporate earnings, AI investment, inflation, and interest rates should remain more important market drivers. We continue to expect Treasury yields to settle slightly lower over the next 12 months, as easing inflation should ultimately prove more powerful than persistent fiscal concerns. Investors should avoid positioning portfolios around one political outcome

The US midterms

- Explore the new ElectionWatch report for analysis of the possible congressional outcomes and likely policy implications.
- Listen to the Jump Start podcast with Jon Gordon for a five-minute preview of the midterm elections and the week's market agenda.
- Discover more on the outlook for currencies in The week ahead: From the Fed to US politics.

Equities, earnings, and AI

- Read about the recent market volatility in CIO Alert | Tech selloff highlights rising scrutiny of AI spending.
- Learn more about the US earnings season in Equities sell off despite good results.
- Watch Why China's equity markets have lagged for an overview of recent market developments.

Central banks and the economy

- Read about the outlook for Fed policy in our US economy blog, Holding in October, hiking in December.
- Read ECB review: Further hikes likely, but little reason to rush for more on the Eurozone economic outlook.
- Explore the House View Briefcase for more on opportunities in fixed income.

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and instead remain diversified across durable sources of growth and income.

Can earnings sustain the AI trade as investors demand clearer returns?
US technology stocks came under pressure last week as investors questioned returns from the AI buildout despite strong earnings. The Nasdaq Composite fell 2.9% on Friday and 2.0% over the week, while the S&P 500 declined 1.8% and 0.6%, respectively.

The results nevertheless reinforced the strength of AI demand. Google Cloud revenue rose 103% year over year, Microsoft Azure grew 48%, and Oracle's growth accelerated to 62%. Microsoft also reported an eightfold increase in large Copilot accounts, while Alphabet said Gemini had reached 1 billion users. But investors are placing greater weight on overinvestment, financing, monetization, and cannibalization risks. Alphabet maintained its USD 195-205bn 2026 capital-spending plan, reported negative quarterly free cash flow, and indicated a further increase in 2027. Meta raised the lower end of its 2026 spending range to USD 135-145bn. This week, investors will watch further quarterly earnings reports, including from Apple.

The recent concerns do not point to a broad retreat from AI investment. The financing of neoclouds, specialized computing infrastructure providers whose primary business is renting out GPU capacity, has been a particular area of investor concern. But neoclouds account for only around 8% of our capital-spending estimate, compared with roughly 80% for Alphabet, Amazon, Microsoft, Meta, and SpaceX. This makes select delays, repricing, and consolidation more likely than a collapse in spending. At the same time, slower monetization in existing businesses shows that rapid adoption does not automatically translate into equally rapid profit growth.

We have raised our aggregate AI capital-spending forecasts to USD 1.0tr in 2026 and USD 1.4tr in 2027, and introduced a USD 1.5tr forecast for 2028. We remain constructive on AI, but the performance bar is rising. Investors should favor financially strong platforms and high-quality infrastructure providers, reduce excessive single-stock concentration, and diversify across sectors and regions. Diversified AI stock selections, active strategies, and, where appropriate, structured strategies can help spread exposure across the AI value chain and manage volatility.

Will global data keep rate expectations in check?
The Federal Reserve and European Central Bank both kept rates unchanged last week. The Fed upgraded its assessment of growth to "strong," and two policymakers favored a 25-basis-point increase. But Chair Kevin Warsh struck a more dovish tone, citing improving inflation expectations and tighter financial and credit conditions. He also noted that strong capital spending is broadening beyond high-tech investment. Futures continue to indicate close to three Fed increases over the next 12 months. We think this is too hawkish and expect 25-basis-point increases in December and March.

Purchasing managers' indices will indicate whether manufacturing and services remain resilient and whether higher energy and input costs are spreading into broader prices. Eurozone inflation will show whether the recent acceleration remains largely energy-driven or is becoming more evident in underlying inflation. In the US, job openings and the October employment report will provide fresh evidence on labor demand, payroll growth, unemployment, and wages. The Bank of England also meets

on Thursday. Accelerating UK services and core inflation support our expectation of a 25-basis-point rate hike. Together, these releases and policy decisions will help shape expectations for the timing and extent of further central bank tightening.

Moderate US employment growth, contained underlying Eurozone inflation, and resilient business activity would support gradual tightening. Stronger price pressures or renewed momentum in growth and employment could push rate expectations higher. But we do not expect measured tightening to derail the economic or equity outlook. Robust earnings, an improving industrial cycle, and resilient consumption should help equities absorb moderately higher rates.

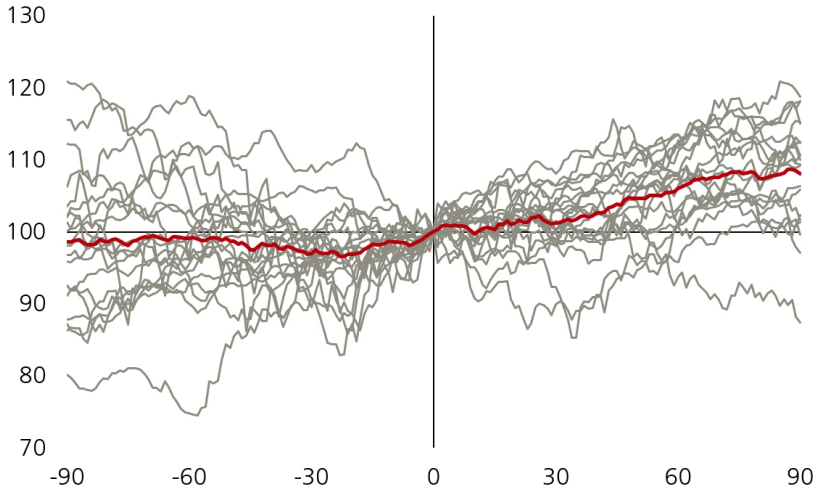
Investors should maintain diversified equity exposure and add selectively to short and medium-duration high-quality bonds, while remaining cautious on the longest maturities and lower-quality credit. We continue to rate fixed income as Attractive, with quality bonds offering income and potential portfolio diversification. High-quality bonds rallied last week as equity markets came under pressure, with the 10-year US Treasury yield falling to a seven-week low of 4.93%.

Chart of the week

The US midterms are taking place Tuesday to determine control of Congress for the next two years. We estimate a 90% chance of a return to divided government following the elections, including a 50% likelihood that Democrats sweep Congress. Overall, we would not treat the midterms as a binary directional event, but rather as one that could create volatility, including through debt ceiling negotiations in 2027. Volatility could go up in the near term, but we think other drivers—including macroeconomics and stock fundamentals—will matter more for markets.

History shows that markets typically look through the midterm election cycle

S&P 500 performance rebased around US midterm elections since 1946, average line shown in red; time in trading days



Source: Bloomberg, UBS, as of 2 November 2026.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, 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.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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Absolute view
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. 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."
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.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
Neutral: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: 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.

Appendix

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