Global Equity Views

Themes and implications from the *Global Equity Investors Quarterly*

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In brief

- Corporate profits continue to boom around the world. Although the pace of revisions is cooling, we see almost 30% earnings growth this year and 20% in 2027. We have rarely seen such a strong profit cycle.
- The artificial intelligence (AI) investment boom is of course the biggest driver, and we see no letup in spending here (although rising funding costs bear watching). Profit growth outside the AI boom is robust, but rising interest rates are a potential drag here too.
- Our investors are more neutral than positive on the outlook for market returns. Given strong earnings growth, we recommend staying invested and diversifying by style and geography to help manage the concentration risks created by AI enthusiasm. After significant underperformance, higher quality stocks may well deliver solid returns.

Taking stock

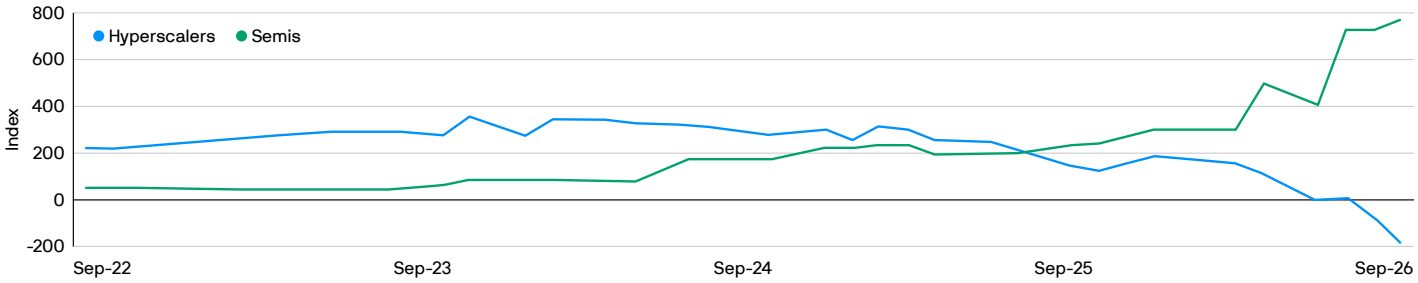
Our research team's near-term profit forecasts have been rising all year, and that dynamic is still in place. Inevitably, though, the pace of gains has cooled a little now that investors have come to grips with the full impact of the AI investment boom. In the U.S., our team sees 27% growth in operating profits this year, and that's excluding the additional mark-to-market gains reported on investments in the likes of Anthropic and OpenAI. At the start of the year, the team forecast just 13% in operating profit gain; by June, the target was up to 26% growth (so our forecast rose only 1% in the last three months).

The driving force is no mystery: Massive AI investment spending is clearly the biggest driver and those investments are still accelerating. We expect robust spending well into 2028, but we acknowledge a few key points. First, the market has already largely discounted another strong year of investment spending in 2027. Second, we're beginning to see the strains of funding all this AI growth. Hyperscalers have increasingly turned to the debt markets (**Exhibit 1**), as spending now outstrips cash flow; with higher interest rates, borrowing costs have become more onerous.

Recently the bonds and equities of some of the most aggressive AI spenders (for example the neocloud companies) have come under pressure, and this trend bears watching. In our recent *Global Equity Investors Quarterly*, we discussed the messages from Robert Merton's classic "distance to default" measure, which highlights the risk of a serious financial problem for each company. It's been a while since we've had reason to consult that measure, and some of the stocks most under pressure in recent days do indeed look vulnerable. We remain constructive on the AI

Hyperscalers' free cash flow has become semiconductors' free cash flow

Exhibit 1: Free cash flow for the hyperscalers (Amazon, Google, Meta, Microsoft, Oracle) vs. the semiconductor names (Nvidia, Micron, Broadcom, Applied Materials)



Source: J.P. Morgan Asset Management; data as of October 9, 2026.

theme, but with a strong preference for higher quality names. We are carefully managing overall AI exposures and individual stock risks.

Beyond AI, the energy sector delivered exceptional profit growth this year, with earnings up over 80%. For the remainder of the S&P 500 outside AI and energy, we estimate annual 10% profit growth this year and next. We see a much broader mix of profit growth than in the previous three years. In fact, almost 90% of the companies in the S&P 500 are growing their earnings, a statistic right at the top of the historical range. This suggests a wider set of opportunities and plenty of chances to diversify portfolio exposure to technology and the AI theme.

Valuations have actually declined a little this year in most markets as profits have risen faster than stock prices. Our research work suggests that markets are still slightly expensive but not remarkably so. U.S. stocks trade at higher price/earnings multiples than most global equities, which we believe is justified by U.S. corporations' superior profit growth.

However, other valuation measures are sending a much more negative message. For example, our emerging market team underscores that price/book ratios have rarely been this high. This shines a light on both exceptional profitability (thanks to the AI boom) and the downside risks should profit growth fade. We note that after yet more underperformance, Chinese equity valuations look increasingly interesting. And software stocks, generally perceived as "AI losers," still offer good value as well despite a rally from recent lows.

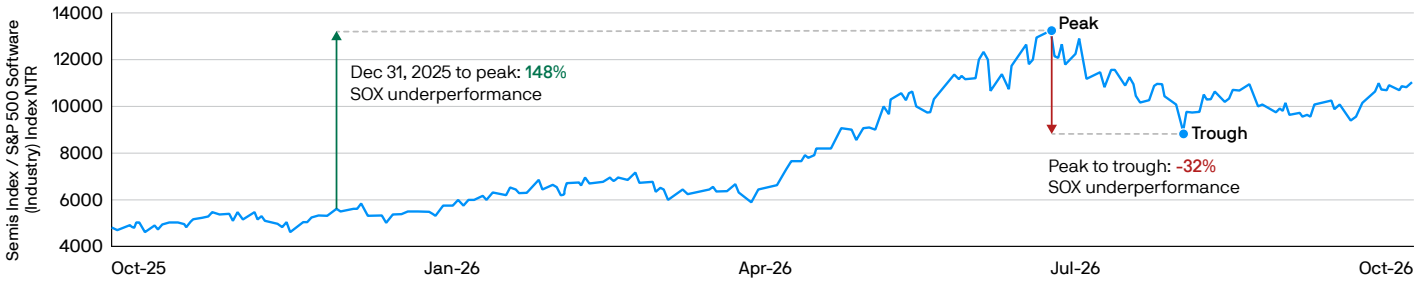
What happens after a momentum meltdown? The lessons of history.

As equity investors we are always interested in insights from both our fundamental and systematic research teams. At our Quarterly, the systematic team discussed recent swings in performance from the momentum factor. As investors rushed to discount the impact of AI investment spending, the momentum factor proved exceptionally powerful across global equity markets over the past year. The shares of AI spending beneficiaries soared and the stocks of perceived victims were shunned, a trend that reached a crescendo in late June. In July momentum collapsed, with monthly performance ranked in the bottom 1% over the last 100 years; this is especially unusual in a rising market.

So what happens next? In the past, those stocks that led the previous momentum wave have tended to recover from the drawdown, albeit modestly. But the biggest lesson is that the laggards from the momentum phase tend to perform very well, as the market realizes that their underperformance was exaggerated (**Exhibit 2**). That gives us another reason to take a good look at perceived AI losers, the big underperformers during the hot streak for momentum, to see if fundamentals are indeed more attractive than the market thinks. We can find many opportunities in software and other sectors offering attractive valuations and supported by businesses that we expect will hold up well as AI is rolled out. In many cases the "losers" may actually benefit from the new technology. As always, momentum will matter for stock pickers, but leadership is changing.

The forward-looking case for momentum has improved; within tech, extremes in sentiment have cooled

Exhibit 2: Within the Technology sector, the relative performance of the semiconductors vs software over the past year



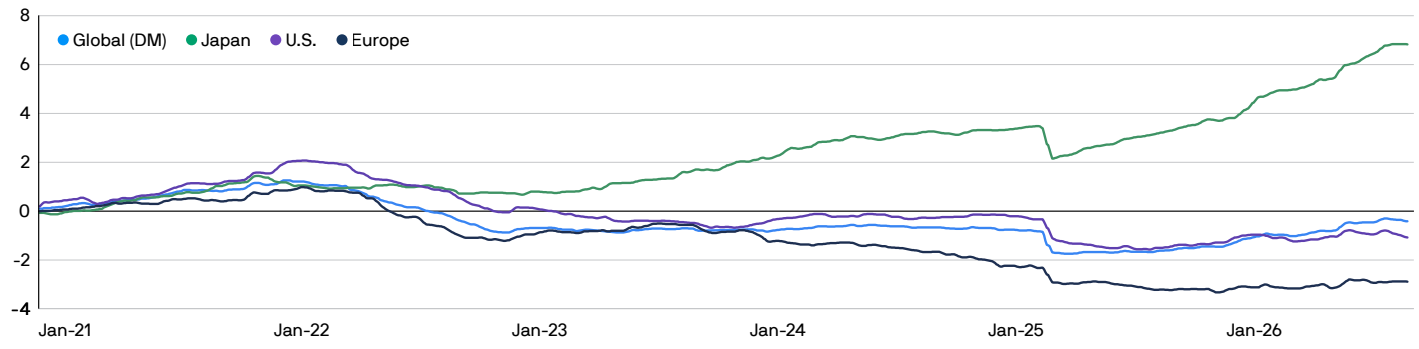
Source: Bloomberg, J.P. Morgan Asset Management; data as of October 2, 2026.

Japan: An equity market with strong earnings and a source of diversification

Japanese stocks have performed well again this year. Indeed, over the past five years, we've seen more positive surprises and reasons to raise our forecasts in Japan than anywhere else (**Exhibit 3**). The economy has started growing again after a long hiatus, prices have been rising and the low value of the yen has boosted exports. But the macro backdrop is just part of the picture; encouraged by the government and the Tokyo Stock Exchange, Japanese companies have sharpened capital allocation, improved governance and boosted profitability. This story isn't new, but our Tokyo team still sees plenty of potential for companies to achieve higher profitability. All in all, Japan's equity market reminds investors that investing beyond the popular U.S. stock market and into markets like Japan can continue to help portfolio returns as well as reduce overall risk through diversification.

Earnings revisions in Japan have outpaced the rest of the world over the last five years

Exhibit 3: J.P. Morgan Asset Management Equity research cumulative expected return revision by region



Source: J.P. Morgan Asset Management; data as of October 9, 2026.

Exhibit 4 shows the views of our team members. Many like industrial and financials and favor quality and select "AI losers" while avoiding consumer staples and leverage.

Views from our Global Equity Investors Quarterly, October 2026

Exhibit 4 : What's top of mind for our investors?

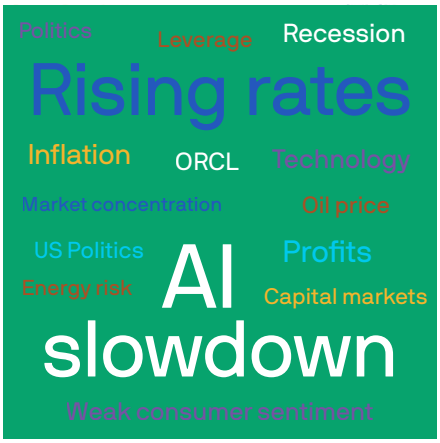
Best opportunity globally?



Opportunities to avoid?



Biggest risk to markets?



A subset of survey results are shown for Global Equity Investors Quarterly participants taken in October 2026. These responses are taken from a quarterly survey representing 48 CIOs and portfolio managers across Global Equities. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Past performance is not a reliable indicator of current and future results.

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