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2027 Equity Outlook: A broader foundation for growth

November 18, 2026 | Nicolas Janvier, CFA, Head of North American Equities; Neil Robson, Head of Global Equities, EMEA

Earnings growth and broadening opportunities underpin our constructive 2027 outlook as AI and industrial investment expand across sectors and regions.



Our central case for 2027 is for equities to make further progress, supported by continued earnings growth. Artificial intelligence (AI) remains a powerful driver, although the focus is shifting toward adoption and demonstrable returns. We see opportunities broadening beyond mega-cap technology as AI deployment and industrial investment create potential beneficiaries across sectors, market capitalizations and regions.

The U.S. midterm elections have resulted in a more divided political backdrop, but we do not believe this fundamentally alters the equity outlook. Greater gridlock may constrain major policy changes, while potentially increasing differentiation between sectors and companies. Ultimately, earnings, economic conditions and company fundamentals should remain the more important drivers of returns.

Earnings remain the foundation

Equity-market gains through 2026 were driven by a solid economic backdrop and strong earnings. Heading into 2027, we expect some moderation from 2026 levels but anticipate earnings growth in the mid-teens range. Broadly, many corporates have improved their financial standing, with strong free cash flow and lower leverage. However, the scale of AI data-center investment is placing substantial demands on the balance sheets of the companies leading the buildout, so the picture is more nuanced beneath the surface. On balance, these factors suggest that earnings surprises could still skew to the upside.

In terms of scenarios beyond our base case, lower energy prices and interest rates could strengthen purchasing power and sentiment while boosting rate-sensitive sectors such as housing. Conversely, continued rapid price increases could sustain inflation, prompt tighter monetary policy and weaken activity.

AI: sustained investment, greater scrutiny on returns

AI remains a defining force, with sustained investment supporting earnings across technology and its wider supply chain. Our October 2026 analysis suggests that around $60–$65 of every $100 spent building an AI data center goes to infrastructure beyond semiconductors, including networking and power generation.[1] With hyperscaler capital expenditure forecast to increase significantly through 2028, we are not forecasting a near-term downturn in the investment cycle.

Amid continued spending, scrutiny of returns on invested capital is intensifying. Our fundamental research highlights how AI adoption is spreading into workflows, products and services with user uptake and pilots advancing faster than scaled deployment and measurable enterprise-wide earnings. To date, returns are most visible in areas like software development, customer service, logistics and research-intensive activities. The clearest evidence is within technology itself, where several mega-cap companies have grown sales per employee by 50%–100% in recent years. Early signs are now emerging in service industries such as banking, business services and engineering. The key debate is when these gains spread more widely across the economy and what that means for earnings and the job market.

As AI adoption accelerates, the investment opportunity is widening beyond the enablers to companies successfully monetizing its deployment. From here, differentiating between AI winners and losers will be key. For example, software businesses with established customers, proprietary data and integrated products may strengthen their advantages. In contrast, commoditized software and labor-intensive consulting models face disruption as AI enables replication and lower cost alternatives, potentially eroding existing competitive advantages.

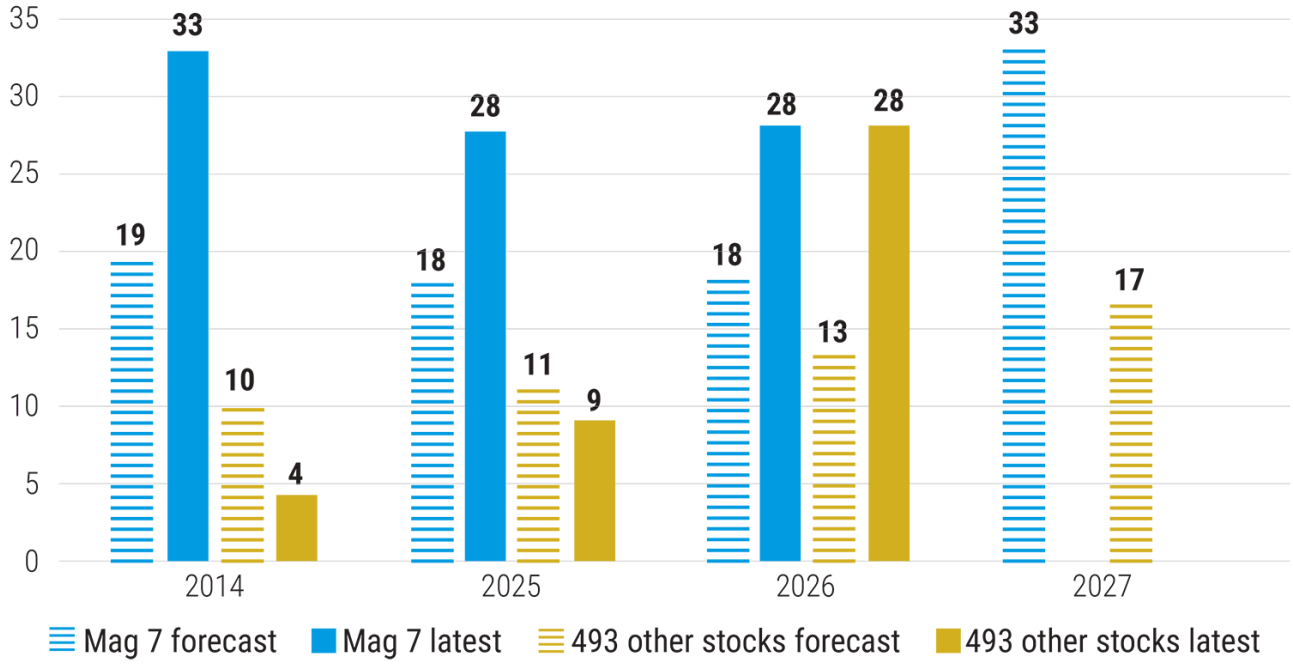
As productivity gains move from technology into the wider economy, the next phase could favor companies that control valuable workflows and data, adapt their business models and convert those gains into durable margins and earnings growth.

A widening opportunity set across global equities

After a subdued start, the broadening of earnings growth beyond the mega-cap technology names is becoming increasingly evident. A powerful investment cycle is taking shape across AI infrastructure, reshoring, automation, electrification, power capacity, aerospace and defense. Against this backdrop, select industrials may increasingly benefit from structural growth drivers rather than a conventional cyclical recovery.

Strength in earnings goes well beyond AI

S&P 500 earnings growth of the Mag 7 and 493 other stocks (% y/y)



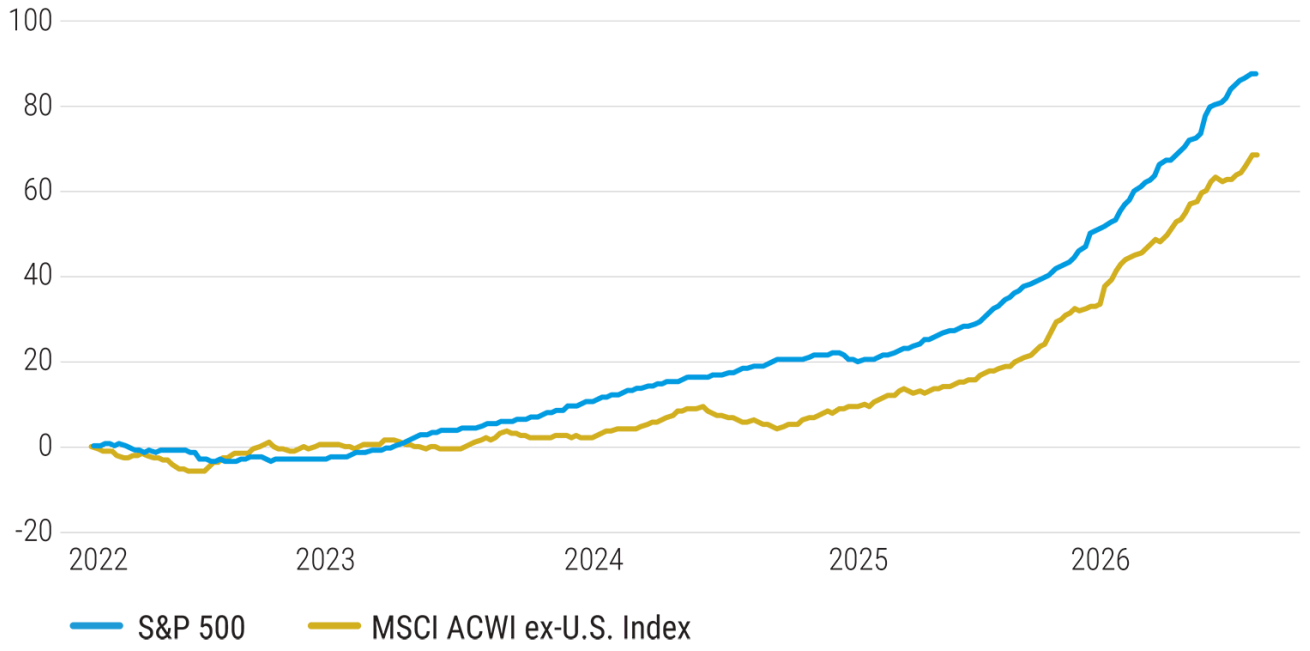
Source: Macrobond, October 30, 2026.

Following an extended phase of mega-cap technology leadership, we see opportunities widening across market capitalizations. For example, U.S. small caps, which have grown earnings faster than the median large-cap company, offer domestic economic exposure and potential margin expansion but warrant scrutiny given financing costs and economic sensitivity. Mid caps also look appealing, combining smaller company growth potential with more mature business models.

The broadening of earnings growth also has implications for geographic allocations as the chart below illustrates. In 2026, emerging-market earnings growth was concentrated among AI beneficiaries in Taiwan and South Korea. Looking forward, China's manufacturing and investment cycle, infrastructure and resources in Latin America, and reforms in markets such as South Africa, could extend the opportunity set further. With many companies trading at significant discounts to developed-market peers, we find select attractive entry points into AI, energy security and domestic investment themes across the emerging markets.

Earnings growth broadens beyond the U.S.

Blended 24-month forward EPS growth (on a weekly basis, %)



Source: Bloomberg, October 2026.

Elsewhere, Japan's governance reform continues to drive greater capital efficiency, the unwinding of cross-shareholdings and increased dividends and buybacks. A sharper focus on shareholder returns creates further scope for additional value creation. Japan's differentiated sector mix together with its historically lower correlation with major international markets, also strengthens the case for diversification.

Europe also stands to benefit as market leadership broadens. Its sector mix offers differentiated exposure, with technology concentrated in semiconductor equipment and business software, while defense and infrastructure spending provide distinct investment drivers. Lower valuations than in the U.S., alongside strong performance from banks and energy companies in recent years, add to its appeal as a source of opportunity beyond U.S. mega-cap technology.

Valuations leave less room for disappointment

Supportive earnings do not remove valuation risk. Where prices already discount strong growth, even good results may disappoint if they fail to exceed expectations. Investors will therefore be scrutinizing earnings releases closely.

Returns on AI investment remain central to the outlook. Productivity improvements must translate into lower costs, stronger margins or higher profits to justify continued spending. Evidence of gains in technology is encouraging, but investors will want to see them broaden into earnings in other sectors. With deployment, security and usage costs increasing technology budgets within enterprises, disappointing returns could slow spending and demand across the infrastructure ecosystem. Amid lofty expectations, share prices are vulnerable should earnings fall short.

While our base case is that inflation remains manageable, persistently high inflation could keep rates elevated or push them higher. Companies with longer term financing are better insulated than smaller or leveraged businesses dependent on floating-rate debt and refinancing. High government debt, borrowing costs and fiscal deficits could also lift bond yields, increase corporate financing costs and make fixed-income returns more competitive with equities.

The bottom line

Continued earnings growth, healthy balance sheets and sustained investment underpin our constructive outlook for equities in 2027. As AI adoption and industrial investment extend opportunities beyond mega-cap technology, the case for diversification across regions, sectors and market capitalizations is strengthening.

Selectivity will matter both in harnessing opportunities and navigating risks from elevated valuations, returns on AI investment, persistent inflation, higher rates and borrowing costs. Against this backdrop, anchoring diversified exposures around quality companies with durable competitive advantages looks like a prudent approach for the year ahead.

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