

# Global Equity Views

Themes and implications from the *Global Equity Investors Quarterly*

## Author



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### In brief

- Despite the spike in energy costs, the outlook for corporate profits remains very robust, with earnings revisions trending sharply higher across most regions and sectors. While profit growth is slowly broadening beyond the technology leaders, the AI investment boom increasingly dominates the outlook.
- Although the macro backdrop and earnings momentum are supportive, high valuations in some areas temper our enthusiasm for aggressive positioning. Our investors are finding the most compelling opportunities in out-of-favor quality stocks; they remain attentive to both valuations and exceptionally strong momentum in technology.
- Across regions, our Asia and emerging markets investors are the most optimistic, but the valuation gap between regions has narrowed. In our research work, the U.S. market looks less expensive now relative to other markets.

### Taking stock

Yet again, equity markets have quickly shrugged off another “geopolitical event” and are hitting record highs. Market participants have decided that higher energy costs are less impactful than the artificial intelligence (AI) investment boom, which is driving much of the growth we see in profits around the world.

Our investors have a broadly neutral view of the overall market outlook, with enthusiasm for strong profit momentum tempered by higher valuations and growing signs of speculative activity, especially in small cap U.S. stocks. We are carefully examining the more controversial parts of the markets for opportunities (“AI losers” and private credit, for example). We also think that quality is underappreciated and will prove additive to stock selection from here following very weak returns of late.

### Profits are accelerating, fueled by the AI investment boom

Across regions, we have raised our earnings forecasts, reflecting resilient economic growth, ongoing fiscal and monetary support, and the continued impact of the AI investment cycle. In the U.S., we expect the S&P 500 to deliver strong double-digit earnings gains in 2026. Notably, while the “Magnificent 7” tech leaders continue to contribute significantly, profit growth is broadening out to the rest of the index, where the remaining 493 companies should see a meaningful recovery after several years of stagnation.

Profit growth is very strong, but concentrated in the AI theme and commodities

Exhibit 1A: 2026 EPS growth

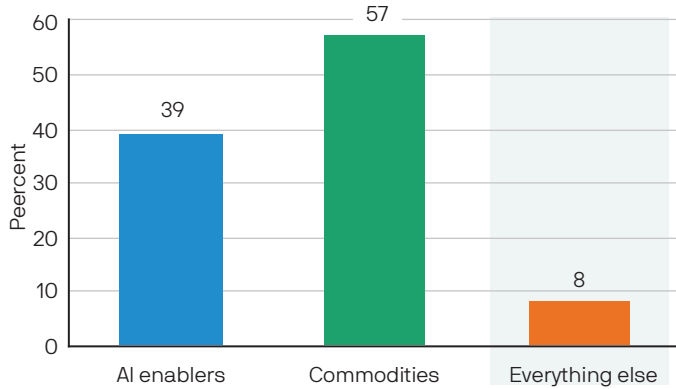
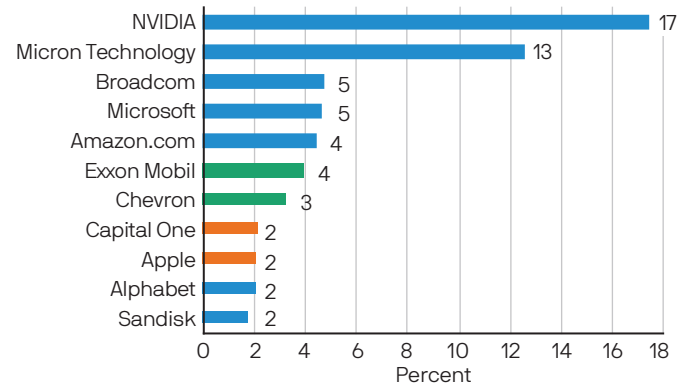


Exhibit 1B: Top contributors to 2026 S&P earnings growth



Source: J.P. Morgan Asset Management; data as of March 2026.

Digging deeper, the impact of AI spending is spreading, and separately the energy sector is delivering increased profits. But if we exclude these two market drivers, we project U.S. earnings will grow at a moderate 8% this year. This underscores the critical role the massive AI investment boom now plays in the outlook for equity returns (Exhibit 1).

Outside the U.S., the picture is also brightening. Japan looks set for another year of solid earnings growth, supported by improvements in corporate governance and capital efficiency. Europe, which lagged in recent years, appears poised for better performance. Headwinds —from low energy profits and an auto sector facing higher costs (including tariffs and raw materials) —are fading. At the same time, fiscal stimulus could bolster domestic demand.

After a decade of underperformance, emerging markets are now matching the U.S. in earnings growth as technology and commodities play key roles in equity returns.

Despite this positive backdrop, valuations in some markets, especially the U.S., continue to be elevated. Forward P/E multiples now trade above long-term averages, tempering our return expectations. But with profit growth robust and broad-based, investors can still find attractive opportunities.

Investing in perceived "AI losers": Risks, opportunities and frameworks

The AI investment boom remains a defining theme, but the narrative is evolving. After a period of exuberance, the market has sharply repriced companies perceived as "AI losers"—notably in software and information technology (IT) services—leading to significant underperformance and valuation compression. Software as a service (SaaS) names, for example, have de-rated by nearly 60% since early 2025. However, this broad sell-off has created pockets of opportunity.

Our research highlights that not all "AI losers" are created equal. IT services and infrastructure companies, for instance, are showing more resilient earnings revisions, now supported by attractive valuations and improving operational momentum (Exhibit 2). A disciplined framework for assessing AI

Valuations have compressed across the board; SaaS names have de-rated nearly 60% since start of 2025

Exhibit 2: Application software and SaaS multiples



Source: FactSet, J.P. Morgan Asset Management. The chart shows the average forward P/E (NTM) across AI Losers sub-categories from December 31, 2024 to March 31, 2026.

disruption risk is essential, focusing on factors such as the strength of data moats, product substitutability, customer switching costs, regulatory barriers and AI integration capability. By tiering companies according to their disruption risk and applying appropriate valuation haircuts, investors can identify those firms unfairly penalized by the market.

While it may be too early to broadly overweight the “AI loser” basket, selective exposure, especially to companies with strong fundamentals and lower disruption risk, offers the potential for outsized returns as sentiment normalizes. Rigorous fundamental analysis is key. Investors need to differentiate between true structural losers and companies with the capacity to adapt and thrive in an AI-driven world.

### Quality investing: Cyclical weakness, signs of recovery, selective opportunity

Alongside valuation and momentum, quality has long been seen as an attractive attribute for stock selection across our quantitative and fundamental work. Broadly, quality companies present strong balance sheets, high returns on capital, and consistent earnings. In recent quarters, higher quality stocks have faced headwinds, particularly in the U.S., where performance has dramatically lagged broader indices.

The AI investment boom plays a big role in explaining quality’s underperformance. On the one hand, many of the beneficiaries of AI spending are more cyclical, lower quality stocks in the semiconductor industry. These companies are now experiencing dramatic supply shortages and exceptional (but likely unsustainable) pricing power. Further down the market cap spectrum, excitement around technology and innovation has encouraged retail investors to aggressively bid up many stocks with a good story but little in the way of current revenues, earnings or cash flows.

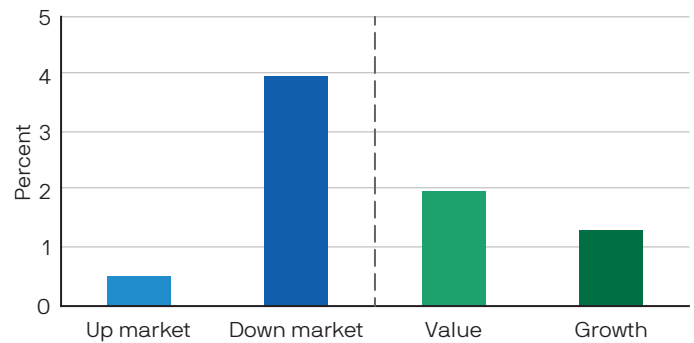
While lower quality stocks have soared, fears over the impact of the new AI technology on well-established businesses with a steady growth record have hit hard many stocks with high quality scores (as we discussed in the prior “AI losers” section). We see weakness in these high quality firms as temporary and not structural.

We note as well that valuations for quality companies have cheapened significantly in recent quarters. Historically, quality and value factors have outperformed following significant oil price shocks, while growth and speculative names have lagged. In our view, the current environment, marked by a high level of speculation and elevated volatility, underscores the importance of quality as a defensive anchor in portfolios.

Our research highlights that quality stocks are showing signs of attractive pricing and improving operational momentum (**Exhibit 3**). When we analyze historical patterns of market regimes, we find that quality performs well in more difficult and value-driven markets. The spread between high- and low-quality valuations is now at levels that historically precede periods of outperformance.

### Quality often shines in difficult, value-driven markets

Exhibit 3: Performance of quality in different market regimes



Source: FactSet, J.P. Morgan Asset Management. Chart shows average quarterly performance of Quality in different market regimes. Regime analysis based on quarterly returns from Mar-97 to Mar-26. Portfolios are constructed in the Behavioural Finance global all-cap investable universe.

Our investors are finding contrarian opportunities in high-quality businesses that are currently “on sale.” In Europe, quality names in health care and consumer sectors are favored, while in the U.S., select industrials, software and insurance companies stand out.

As the cycle turns and operational momentum improves, quality investing looks poised to regain market leadership. For investors seeking resilience and long-term growth, a renewed focus on quality stocks offers both defensive benefits and the potential for attractive returns as the market environment evolves.



## Next steps

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