US Equity Strategy

Themes inflecting: baskets for the opportunities

Equity Strategy

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Baskets to capitalize on key themes with underpriced growth inflections

We do a deeper dive on some of the themes with secular/medium-term tailwinds that are also showing signs of inflecting near-term, and construct *Research Baskets* to invest in these themes. We collaborate with UBS company analysts on both the fundamental work and the screening criteria. The themes and baskets below fit our broader view that higher growth, accelerating trends and improving profitability are not fully priced (link).

1. **Higher growth and CFROI at a discount**. Forward 3-5yr growth forecasts are at or near the highs for SPX and many stocks, but valuations reflect skepticism about the sustainability of growth/margins. We provide a basket of 56 stocks with stronger growth forecasts (15% avg sales CAGR), higher CFROI (33% avg) and sizeable valuation buffers. The basket trades at a 1.2x P/E to sales CAGR and thus the ~50% PEG discount vs market should increase odds for outperformance.

2. **AI winners over AI disruption**. AI demand/adoption is accelerating sharply and the AI Winners basket from UBS Global Markets has a 30% fwd sales CAGR but trades at ~20x P/E, with the P/E to sales growth ratio falling to just 0.7x. Disruption should pick up as surging AI spend focuses firms on cost savings, with IT and business svcs budgets ex-AI at risk. However, disruption is a slow burn, lending itself to a more diversified basket. Our 63 stock AI Disruption basket has deteriorating sales and earnings trends but trades at 14x P/E, and a P/E to sales growth ratio over 2x AI Winners. While relative performance is back to May-Jun levels, the relative P/E premium is nearing 1y lows.

3. **Capex broadening**. Capex is turning up beyond AI/data centers as mfg recovers from a ~3yr recession, operating cash flow (OCF) is up $825bn y/y (+25%) and capex to OCF is near historic lows ex hyperscalers. To complement AI industrials positions, our basket of 48 stocks leveraged to capex broadening with less AI exposure is weighted by fundamental momentum relative to what's priced. The basket's EPS revisions have surged toward 2020-21 highs while its earnings score jumped through Q2 reporting. Yet the relative 9% P/E premium is back to early Jan levels and crowding is much lower for the basket than the avg stock.

4. **Longevity and wellness**. The secular trend of longevity is set to meet a cyclical upswing in 2027 with the 80+ years old cohort forecast to grow 7.4% y/y (up 4pp) and chronic condition incidence rates much higher for the elderly. We provide a basket of 46 stocks exposed to the longevity theme, and the wellness trend. The avg forward sales CAGR is 15% adjusting for outliers. At a ~25x NTM P/E, it trades at a 1.7x PEG on sales CAGR, which is well below the market avg. Earnings momentum has inflected higher while crowding remains below the average stock.

5. **Quality capital providers over weaker borrowers amid releveraging**. Rising demand for capital from the AI build out and capex broadening benefits capital providers while weak borrowers are at risk of getting crowded out as governments also issue to fund deficits. We like pairing a basket of 28 higher quality US capital providers against a basket of 86 highly levered companies for the theme. Quality capital providers trade at a ~7% discount to the high leverage basket despite much better earnings trends, rising ROEs and surging payouts amid improving credit growth, deal activity and capital loosening.

Basket construction: collaborating with Analysts, weighting by theme exposure

Using UBS analyst input in most cases, we weight stocks by exposure to the respective theme, also adjusting for ADV based on a $100mm basket size, rather than simply equal weighting or liquidity optimizing. We leverage our REVS framework and its variables to better assess relative attractiveness of the new or refined baskets, as well as understand

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the setup for existing baskets from the UBS trading desk.

Research Baskets are baskets constructed by UBS Research. In this research report, the use of the word basket(s) is intended to refer to Research Baskets unless otherwise stated.

Thematic research baskets R.E.V.S. scorecard

To support recommendations across major US indices, styles and regime baskets, we aggregate single stock scores within each index or basket across the variables in the R.E.V.S framework described in the Sector Outlook note. The weighted composite scores and rankings for each component allow us to better understand bottom-up drivers of indices from a fundamental and technical perspective, to complement our macro top-down approach and collaboration with company analysts.

Highlighted themes and new/refined baskets

We created baskets for the themes discussed in this note. Each basket's composite REVS score is shown below, aggregated based on respective stock weights.

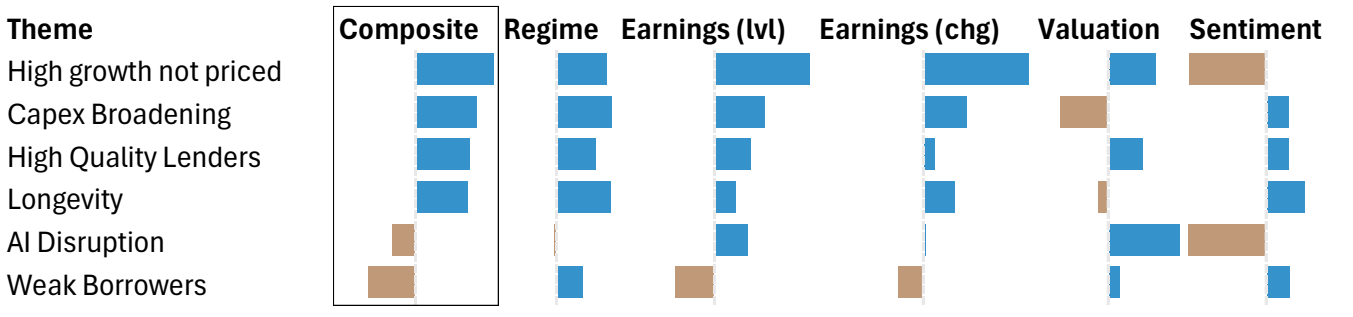
- High Growth at a Discount stands out as the most attractive based on our framework, unsurprisingly, as the basket by construction includes stocks with better growth trends and supportive valuations relative to fundamentals. Although it does have higher crowding, its P/E to sales growth CAGR is just 1.2x.
- AI Disruption scores negatively as regime is weak, earnings trends are not strong, and sentiment is a headwind though Valuation is relatively low.
- Capex Broadening is very positive on REVS as regime is turning/supportive, earnings/growth is inflecting and crowding is low though valuations are somewhat elevated.
- Longevity scores highly as regime/momentum is supportive as growth trends are solid/improving while crowding is also not yet high.
- High Leverage unsurprisingly ranks low on REVS with weak earnings trends more than offsetting slightly supportive valuation and sentiment.

Existing baskets: insights from R.E.V.S.

Fig 2 shows REVS scores for existing UBS Global Markets baskets with the below insights standing out:

- AI winner baskets still score at/near the top, led by Memory and AI Semis, though REVS scores did dip m/m. Hyperscalers on the other hand did turn negative.
- Cybersecurity ranks very highly with its REVS composite ticking up.
  GLP-1 winners also score near the top supporting our positive view.
- Hedges for higher rates, inflation and volatility are attractive on REVS with 1) Higher Real Yield beneficiaries scoring very positive vs Lower Real Yield beneficiaries scoring negative, 2) Inflation Beneficiaries ranking near the top, and 3) Low Vol vs High Vol difference in REVS are also extremely positive.
- Industrials related baskets rank high (Reshoring, Cap Goods ex AI, Short Cyle) given the capex broadening dynamics discussed. Within consumer, Consumer Cyclicals score well on REVS vs weaker trends for Retail and Consumer Defensives.

Figure 1: New and refined thematic basket REVS scores



Source: UBS

Scorecard: Thematic baskets, US indices and factors

Figure 2: Existing thematic basket scoring across R.E.V.S framework

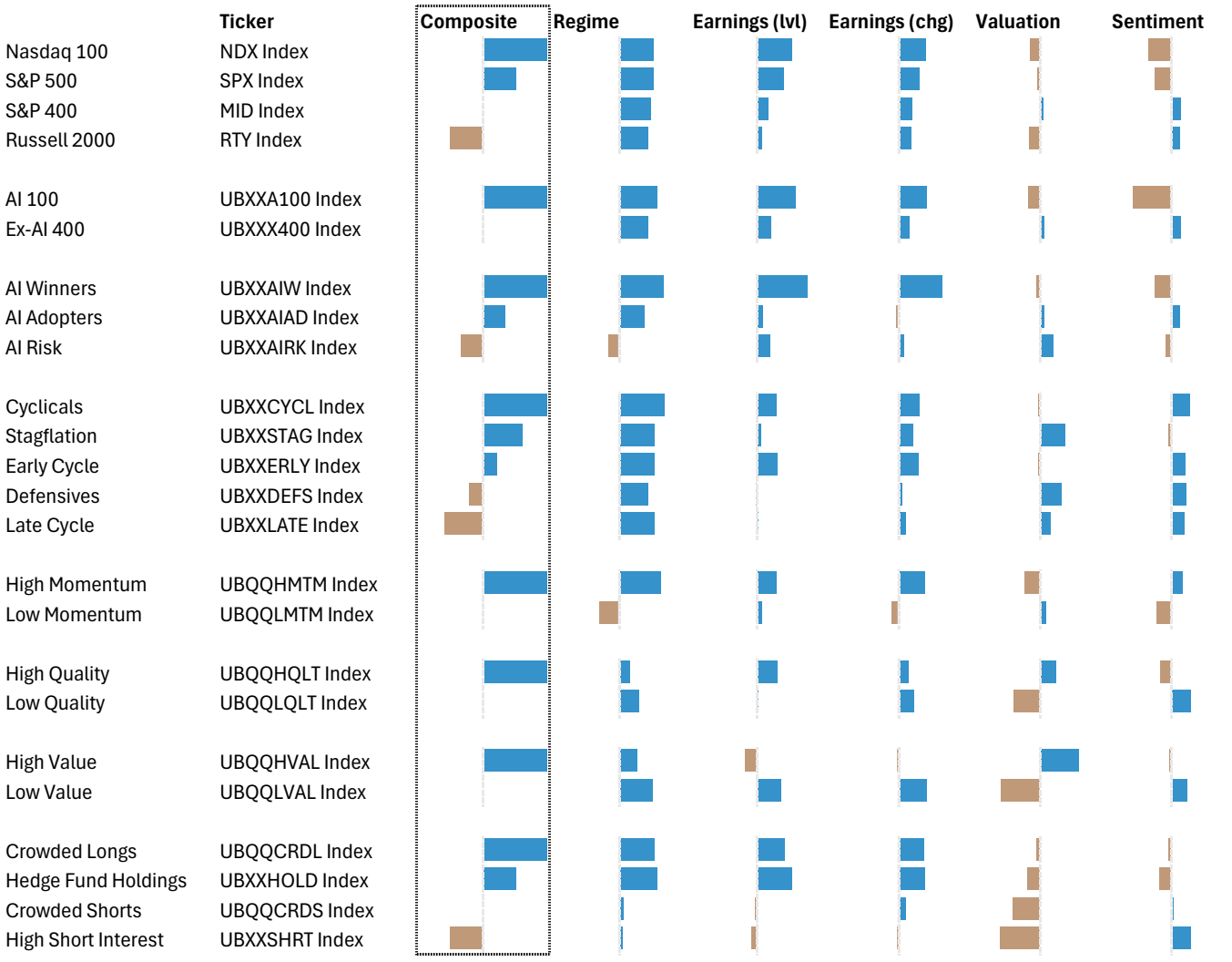
	Ticker	Composite	Regime	Earnings (lvl)	Earnings (chg)	Valuation	Sentiment
Memory	UBXXMEMO Index						
AI-Exposed Semis	UBXXSEMA Index						
Semis ex-AI	UBXXSEMX Index						
AI Industrials	UBXXAIIN Index						
AI Power	UBXXVOLT Index						
Software AI Resilient	UBXXSORT Index						
Software AI Risk	UBXXSORK Index						
Hyperscalers	UBXXHYPE Index						
AI Robotics	UBXXAIRB Index						
Cybersecurity	UBXXCYBR Index						
Software & SaaS	UBXXSOFT Index						
AI Software Pioneers	UBXXAISP Index						
Speculative Growth	UBXXSPEC Index						
GLP-1 Winners	UBXXGLPW Index						
Consumer Cyclicals	UBXXCCYC Index						
GLP-1 Food Losers	UBXXGLPF Index						
GLP-1 HC Losers	UBXXGLPH Index						
Low Income Consumer	UBXXLOWC Index						
Consumer Defensives	UBXXCDEF Index						
Brick & Mortar Retail	UBXXBRCK Index						
US Reshoring	UBXXSHOR Index						
Cap Goods ex-AI	UBXXCPXA Index						
Short Cycle Industrials	UBXXSCYC Index						
Cap Goods Ex-Defense	UBXXCPGX Index						
Long Cycle Industrials	UBXXLCYC Index						
U.S. Infrastructure	UBXXINFR Index						
Tangible Assets	UBXXTANG Index						
Intangible Assets	UBXXINTG Index						
Inflation Beneficiaries	UBXXINFL Index						
Real Rates Higher	UBXXRRHI Index						
China Exposure	UBXXCHEX Index						
Leveraged Loan Issuers	UBXXLEVL Index						
U.S. Exposure	UBXXUSA Index						
EM Exposure	UBXXEMEX Index						
International Exposure	UBXXINTL Index						
Wage Inflation	UBXXWAGE Index						
Rate Cut Winners	UBXXCUT Index						
Real Rates Lower	UBXXRRLO Index						
HY Debt Sensitivity	UBXXHYG Index						
U.S. Housing	UBXXHOME Index						
Low Quality Credit	UBXXCRED Index						
Low Quality Bal Sheets	UBXXLOQL Index						
Low Volatility	UBQQLVOL Index						
High Growth	UBQQHGRO Index						
High Dividend Yield	UBQQHDIV Index						
Low Growth	UBQQLGRO Index						
High Quality Bal Sheets	UBXXHIQL Index						
High Volatility	UBQQHVOL Index						

Source: UBS; The above referred basket(s) are baskets constructed by UBS Global Markets and can be accessed in Bloomberg. For more information, please contact your sales/trading representative. UBS Global Markets is a separate business to UBS Research and does not provide investment research. The baskets in the table above from UBS Global Markets are distinct from "Research Baskets" for the new themes analyzed in this report.

The following relative preferences for major US indices, styles and factors come out of our REVS framework:

- **NDX and SPX over RTY**. Earnings scores are lower for RTY compared to NDX and SPX and relative sentiment/valuation are not enough to make up for weaker RTY profit trends.
- **AI and cyclicals over defensives and ex-AI**. Our framework also supports staying long cyclicals and AI-exposed stocks as fundamental momentum is far superior and valuation does not yet appear overly rich.
- **Across factors**, high momentum, high value and high quality all score better than the respective low pair. The second derivative of our REVS score is still favorable for the momentum trade.

Figure 3: Index and existing UBS basket scoring across R.E.V.S framework



Source: UBS

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1) Higher growth and profitability not priced

Forward 3-5yr growth forecasts are at or near the highs for the market and many stocks, but valuations reflect skepticism about the sustainability of growth/margins given uncertainties. We provide a basket of 56 stocks in which stronger growth forecasts, higher CFROI and sizeable valuation buffers combine to increase the odds for outperformance.

- Sales CAGRs beyond the next yr have surged to the highs, as has cash flow ROI.
- S&P 500 P/E to sales CAGR is near 2008-12 lows implying growth is not priced.
- Valuations are driven by forward growth and profitability but P/Es are well below levels implied by higher growth+CFROI for the market and many stocks.
- **Basket rationale:** Our higher growth+CFROI at a discount basket has higher sales growth CAGRs (15% avg) and CFROI (33%), with strong earnings momentum
  - Basket valuations are well below model implied on a relative basis (~40%) and the ratio of P/E to sales growth CAGR of 1.2x is ~50% well below the PEG for the avg stock.

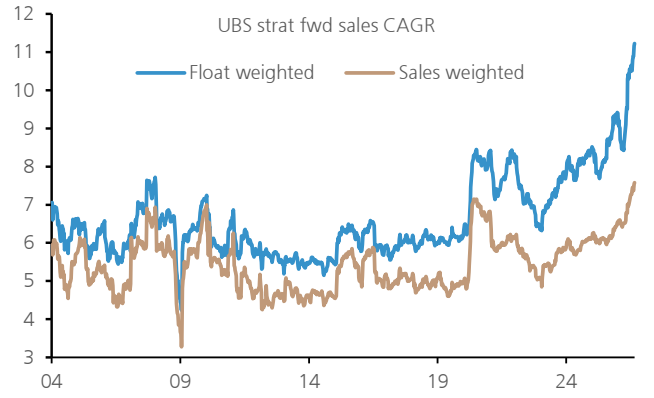
Proprietary indicators: sales CAGRs and HOLT CFROI have surged

Forward growth expectations increasingly drive stock returns and valuations but data providers' 3-5yr EPS CAGR variable has multiple issues. We develop proprietary forward growth CAGRs for sales, earnings and margins based on consensus estimates using a base that is one year out and an end point 5yrs out (or 4yrs out if not available). Aggregating our forward sales CAGRs shows that the top-line growth profile for SPX has risen to the highest levels since well before 2003 on a float weighted basis and to the highs on a sales weighted basis.

On a cap-wtd basis, the 100bp surge in SPX fwd sales CAGR in the last 3mo is in the same ballpark as 2020 after COVID depths, 2009 post-GFC, and 2003-04 following the 2001-02 recession. Those were the beginnings of recoveries.

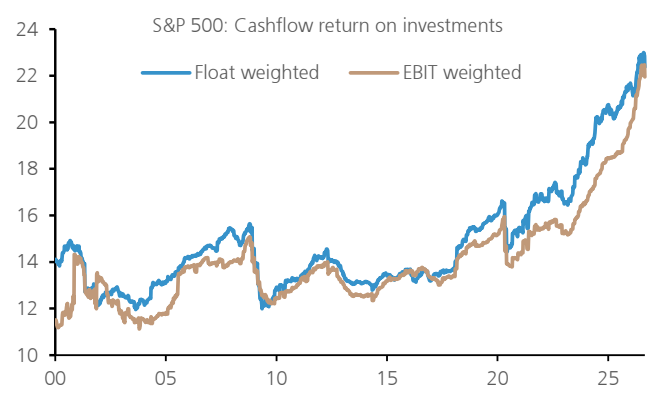
Cash flow return on investment is often a better measure of profitability than accounting profits, and margins often do not tell the whole story. We leverage UBS HOLT's measure of cash flow return on investment ("CFROI"), which is a comparable measure across ~3500 stocks in the US and ~12,000 globally. We find that SPX valuation has been more correlated to CFROI than EBIT margins in our valuation model work (see How the buy side uses HOLT). The S&P 500 CFROI has risen ~10pp over the last 10yrs to 23% currently. Higher CFROI should mean higher growth potential if reinvested capital can earn that higher return.

Figure 4: Forward sales CAGR for S&P 500 has surged on both a float and sales weighted basis



Source: FactSet, UBS

Figure 5: Cash flow ROI has also jumped to new highs



Source: FactSet, UBS

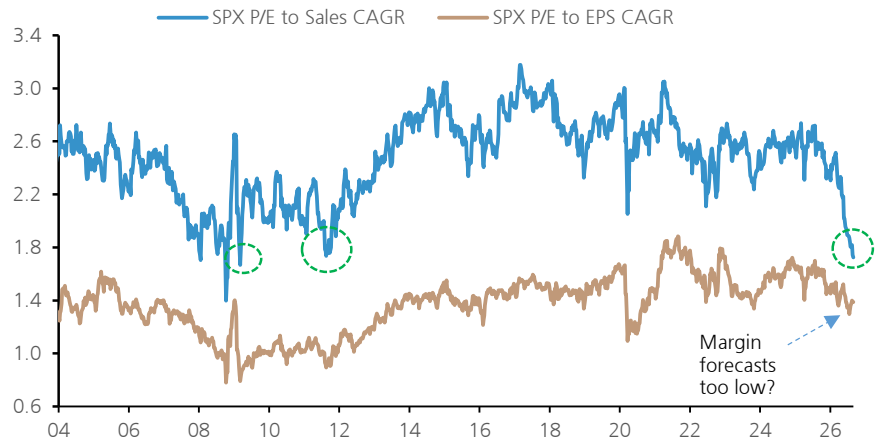
Valuations not pricing higher growth, CFROI

Valuations have fallen over the last 6-9mo as earnings have surged, profitability has improved and forward growth expectations have been revised up. Markets appear to be pricing slower growth, lower margins and/or higher rates. Given accelerating growth in many areas, investors generally see the de-rating in many areas as "early" compared to past cycles, but discounting through cycle earnings/margins is a continued challenge. With the SPX P/E to sales growth CAGR near 2008-12 lows, earnings should fuel further upside with valuations generally well supported.

There are many drivers of equity valuations but they can essentially be grouped into: 1) bond yields, 2) cyclical growth, 3) secular/terminal growth, 4) quality/uncertainty, 5) return of capital. Our forward sales growth CAGR is the most significant variable in the SPX valuation framework, on a univariate basis, while CFROI is the most significant variable in the broad P/E framework. The rise in fwd sales CAGR and CFROI has pushed the implied SPX P/E to >24x based on our framework. With ~21% upside to the implied P/E, the residual is at levels seen in 2020 and 2011-12. Our baseline is that valuations remain well supported amid strong EPS growth, with large upside if higher growth does get priced.

Leveraging our prior work, we develop a new SPX P/E framework incorporating more fundamental variables to account for the changes in growth and profitability for the S&P 500, in addition to macro variables.

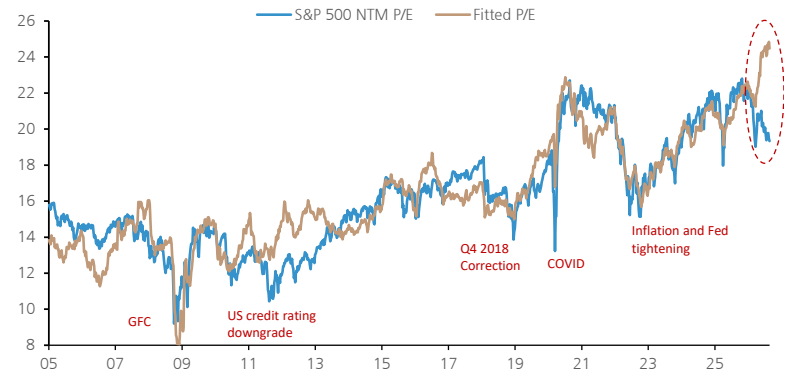
Figure 6: SPX P/E to sales growth ratio near the lows



Source: FactSet, UBS. Note: Sales and EPS CAGRs are float weighted.

Using our CAGRs to calculate PEG ratios using sales and EPS growth beyond the next year shows the market is not discounting higher growth with PEGs near the lows.

Figure 7: S&P 500 NTM P/E is below our model implied value



Variable	Beta	t-stat	Current level	Contribution
US 10yr + IG OAS	-1.19	34.5	5.5	-6.5
Economic surprises	0.89	7.8	0.1	0.1
US 1yr minus Fed rate	-0.04	0.7	0.4	0.0
Sales growth - 3-5yr CAGR	1.48	20.8	3.6	5.4
Cash flow ROI	0.76	26.8	8.1	6.1
Equity vol / rates vol	-4.80	9.6	0.2	-1.0
Sales growth inflection	0.19	10.4	-1.9	-0.4
Dividend payout	0.11	11.3	21.8	2.4
Intercept				18.5
Implied P/E				**24.5**

Source: FactSet, Bloomberg, UBS

Basket: higher growth and CFROI at a discount

We construct a basket of 56 stocks to take advantage of the de-rating in many companies with stronger forward growth CAGRs, profitability and earnings momentum. While we "wait and debate" the potential slowing and profitability reversion for many companies, we like the theme of owning stocks where strong growth underpins forward return potential and where valuations are at or below levels implied by fundamentals.

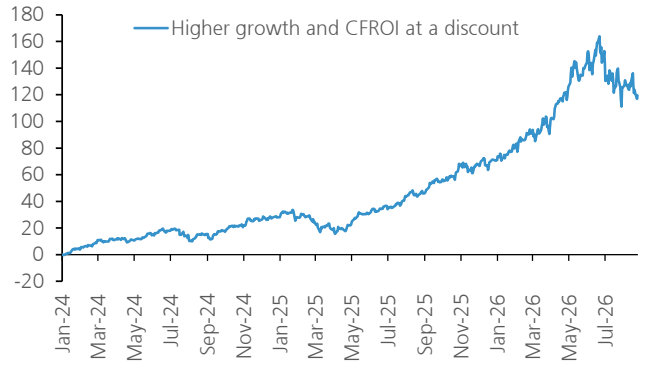
Selection criteria. We selected US stocks with a market cap above $8mm based on:

- **Higher growth:** We include companies that score in the top 60% across all US liquid stocks based on 1) our composite score for earnings level and change (CAGRs, revisions, profitability, etc), and 2) our forward CAGRs for sales and EPS.
- **Higher CFROI:** We include stocks that rank in the top 60% based on HOLT cash flow ROI.
- **Attractive valuation**: We screen out companies that have a high P/E to forward sales CAGR ratio (top 40%) and that have P/Es above levels implied by growth/ profitability based on our framework (top 40%).
- **Growth/profitability vs what's priced:** Using REVS variables, we construct a weighted average measure of forward growth CAGRs, CFROI and the valuation measures above to better assess the trade off between growth and profitability versus what is already priced for each company. The goal is to identify stocks with the most attractive fundamental+valuation setup. We include companies that score in the top 30% based on this measure.

Weighting methodology. We weight selected stocks by optimizing around relative fundamentals+valuation attractiveness and target basket size and ADV/liquidity:

- **Growth/profitability vs what's priced:** We weight selected stocks by the weighted average growth+CFROI+valuation measure described above. The idea is that better growth, profitability and revisions that are not fully priced, meaning those companies likely have greater risk-adjusted upside. The target weights for each stock is based on the percentile ranking, which ranged from ~70 to ~95, and thus the max target weight was less than 2x the min weight.
- **Basket size and ADV:** we target a basket size of $100mm with 10% of ADV the max position for each stock. We optimize to the target weights based on the above score, the ADV limitation and the target basket size.

Figure 8: Performance rel to SPX eq wt is back to Apr levels



Source: FactSet, UBS

Figure 9: PEG of 1.2x based on fwd sales CAGR for basket vs 2.4x for market



Source: FactSet, UBS

Figure 10: Higher growth and CFROI at a discount stocks and weights

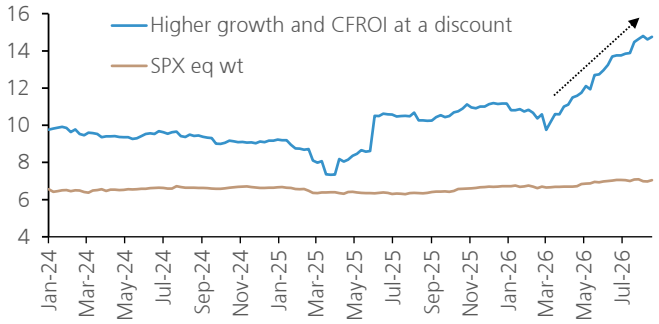
Higher Growth and CFROI at a Discount

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
PB	Prosperity Bancshares	Banks	Banks	8,750	10.7	1.9
VLY	Valley National Bank	Banks	Banks	7,750	9.6	1.7
FTAI	FTAI Aviation	Cap Goods	Aerospace & Defense	20,159	17.9	1.9
TDG	TransDigm Group	Cap Goods	Aerospace & Defense	64,234	24.3	1.9
TT	Trane Technologies	Cap Goods	Building Products	98,548	26.6	1.7
STRL	Sterling Infrastructure	Cap Goods	Constr. & Eng.	14,881	20.7	2.0
FIX	Comfort Systems	Cap Goods	Constr. & Eng.	56,675	28.5	2.0
APG	APi Group	Cap Goods	Constr. & Eng.	17,304	21.1	1.9
NVT	nVent Electric	Cap Goods	Elec. Equip.	25,255	25.7	1.9
HUBB	Hubbell	Cap Goods	Elec. Equip.	24,341	20.8	1.6
OTIS	Otis Worldwide	Cap Goods	Machinery	27,107	16.3	1.8
WAB	Westinghouse Air Brake	Cap Goods	Machinery	47,778	23.7	1.8
SPXC	SPX Technologies	Cap Goods	Machinery	9,835	21.1	1.5
VRSK	Verisk Analytics	Comm. & Prof. Svcs.	Prof. Svcs.	24,182	22.2	1.8
EBAY	eBay	Cons. Disc. Retail	Broadline Retail	46,017	15.8	1.7
TPR	Tapestry	Cons. Durables	Textiles & Luxury	24,354	15.0	1.9
DECK	Deckers Outdoor	Cons. Durables	Textiles & Luxury	11,686	10.9	1.9
CART	Maplebear	Cons. Staples Retail	Staples Retail	11,823	18.4	1.9
EXPE	Expedia Group	Consumer Svcs.	Hotels/Rest. & Leisure	34,124	12.8	1.6
AM	Antero Midstream	Energy	Oil & Gas	10,728	18.3	1.8
TRGP	Targa Resources	Energy	Oil & Gas	62,196	24.2	1.6
NDAQ	Nasdaq	Fin Svcs	Cap Mkts	54,154	21.5	1.8
BLK	BlackRock	Fin Svcs	Cap Mkts	173,808	18.2	1.6
CG	Carlyle	Fin Svcs	Cap Mkts	16,737	10.1	1.6
ICE	Intercontinental Exch.	Fin Svcs	Cap Mkts	90,530	18.8	1.5
AXP	American Express	Fin Svcs	Consumer Fin.	220,259	16.9	1.6
CI	Cigna	HC Equip. & Svcs.	HC Providers	74,653	8.7	1.8
BTSG	BrightSpring Health	HC Equip. & Svcs.	HC Providers	12,016	28.3	1.7
HQY	HealthEquity	HC Equip. & Svcs.	HC Providers	7,946	18.5	1.7
WTW	Willis Towers Watson	Insurance	Insurance	31,088	15.3	1.7
MTCH	Match Group	Media & Ent.	Interactive Media	9,609	13.6	1.7
ABBV	AbbVie	Pharma, Biotech & Life Sci.	Biotech	453,195	16.5	1.8
IQV	IQVIA	Pharma, Biotech & Life Sci.	Life Sci. Tools	44,075	19.2	1.9
LQDA	Liquidia	Pharma, Biotech & Life Sci.	Pharma	6,146	14.4	2.0
CBRE	CBRE Group	RE Mgmt. & Dev.	RE Mgmt. & Dev.	42,814	17.2	2.0
MU	Micron Technology	Semis & Equip.	Semis & Equip.	1,148,130	6.5	2.0
AVGO	Broadcom	Semis & Equip.	Semis & Equip.	1,702,714	19.8	2.0
NVDA	NVIDIA	Semis & Equip.	Semis & Equip.	5,551,676	17.7	1.9
AMD	Advanced Micro Devices	Semis & Equip.	Semis & Equip.	779,621	36.4	1.9
ADI	Analog Devices	Semis & Equip.	Semis & Equip.	175,534	22.5	1.8
TER	Teradyne	Semis & Equip.	Semis & Equip.	55,818	32.7	1.8
MRVL	Marvell Technology	Semis & Equip.	Semis & Equip.	196,031	39.3	1.7
TXN	Texas Instruments	Semis & Equip.	Semis & Equip.	236,020	26.6	1.4
VRSN	VeriSign	Software & Svcs.	IT Svcs.	26,375	27.4	2.0
CRM	Salesforce	Software & Svcs.	Software	213,346	15.9	1.8
ADSK	Autodesk	Software & Svcs.	Software	45,541	16.1	1.7
TRMB	Trimble	Software & Svcs.	Software	13,867	15.0	1.7
MSFT	Microsoft	Software & Svcs.	Software	3,710,545	24.5	1.5
UI	Ubiquiti	Tech HW & Equip.	Comm. Equip.	35,086	32.1	1.9
LITE	Lumentum	Tech HW & Equip.	Comm. Equip.	79,049	37.2	1.9
APH	Amphenol	Tech HW & Equip.	Elec. Equip. & Comp.	204,133	27.4	1.8
SNX	TD SYNNEX	Tech HW & Equip.	Elec. Equip. & Comp.	21,000	12.6	1.6
DELL	Dell Technologies	Tech HW & Equip.	Storage & Peripherals	170,370	18.6	2.0
WDC	Western Digital	Tech HW & Equip.	Storage & Peripherals	168,538	20.7	1.9
HPE	Hewlett Packard	Tech HW & Equip.	Storage & Peripherals	69,028	11.7	1.5
UBER	Uber Technologies	Transportation	Ground Transport	154,744	18.6	1.8

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

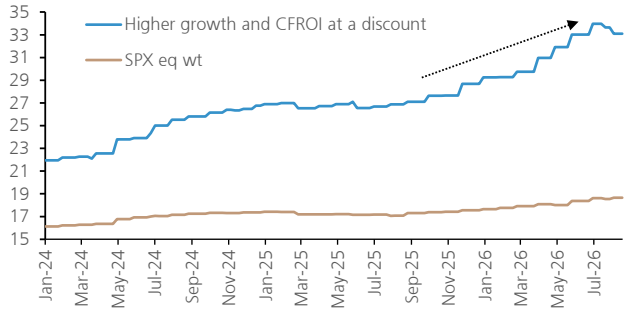
Basket tearsheet and rationale: Higher growth and CFROI at a discount

Figure 11: Sales CAGR of 14% for the basket vs 7% for market



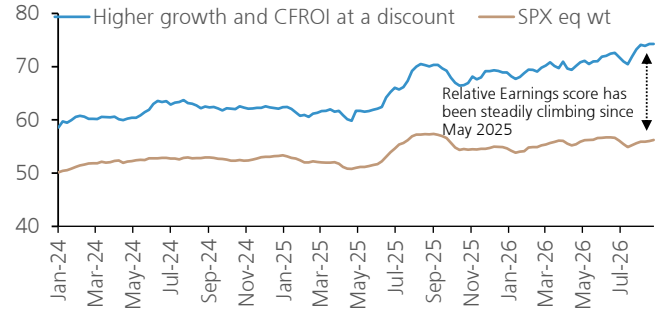
Source: FactSet, UBS

Figure 12: HOLT CFROI of 33% for basket vs 17% avg for SPX



Source: FactSet, UBS

Figure 13: Earnings level score of 74%ile for basket vs 56%ile for market



Source: FactSet, UBS

Figure 14: Relative earnings trends accelerated during Q2 reporting



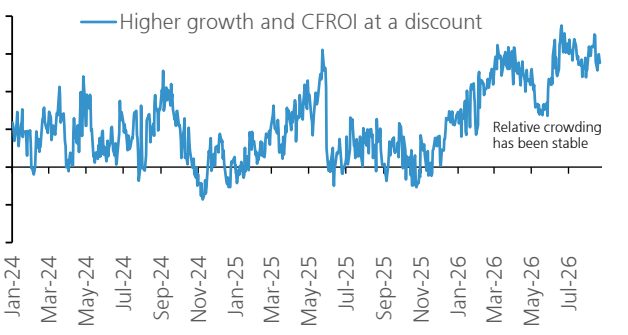
Source: FactSet, UBS

Figure 15: P/E relative to SPX eq wt has fallen



Source: FactSet, UBS

Figure 16: Crowding score rel to SPX eq wt is elevated but down from highs



Source: Quant Answers, UBS

2) AI winners over AI disruption

Concerns around AI capex ROI, open source model competition, "circular" financing and memory cycle sustainability combined with crowded positioning fueled the AI/ semis/momentum selloff (link). At the same time, AI at risk baskets surged as the narrative shifted amid some strong company reports (CRM, etc).

In our view, AI demand/adoption remains the primary market driver, and driver of the AI winners vs AI disruption trade. Surging cloud sales +50% y/y leading to a jump in operating cash flow (OCF) instills more confidence in accelerating AI demand and AI capex sustainability, as well as support AI infrastructure multiples (sector outlook). We see a tactical opportunity to increase exposure to this secular theme as AI cloud spend and adoption further accelerates though next year supporting strong AI capex growth.

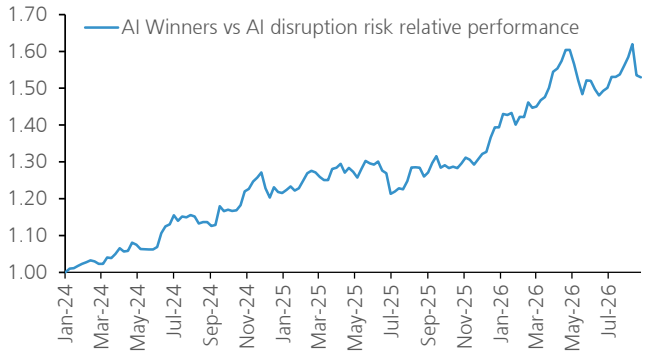
We are in the accelerating demand phase of the AI cycle. The debate about sustainability/TAM/ROI will intensify when demand slows.

- AI capex cycle is 2+ yrs in, vs prior IT cycles at ~10-20% annual real growth for 10yrs.
- AI demand is accelerating sharply with cloud sales up 50%+ y/y and cloud backlogs at 100%+ of total sales which should flow to OCF and support capex.
- OCF surged $768bn y/y (+26%) outside of hyperscalers, and +$436bn y/y (+20%) ex-Tech, so corporates have more to spend on AI in 2027.
- Disruption should pick up as increased AI spending focuses companies on cost savings, with IT budgets outside of AI susceptible to cuts (IT services, software, etc) and adjacent business services spend at risk.
- Buybacks and dividends for AI winners should jump and get reinvested within the sector first, punctuated by Micron's $460bn estimated buyback program that would be ~40% of SPX LTM buybacks (link).

AI Winners over AI Disruption basket pair rationale. Our AI Disruption basket is more diversified than the existing AI at Risk basket. Stock weights are based mostly on REVS earnings scores (weaker = higher weight) to account for whether disruption is having more/less of an impact, but also incorporates valuation and sentiment scores. Accordingly, the surge in our AI Disruption basket since June has been smaller than similar AI risk screens. For the long leg of the trade, i.e. AI Winners, we use the existing UBS basket (UBXXAIW Index).

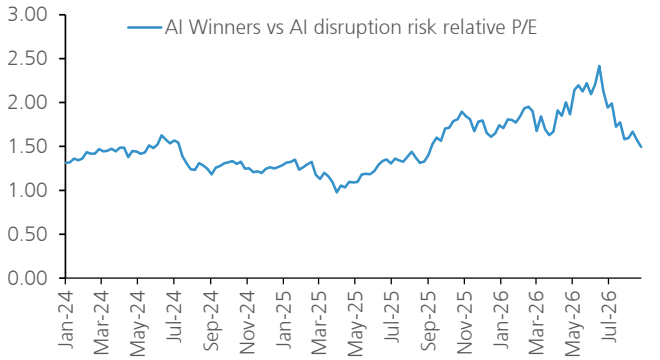
- AI Winner vs AI at Risk relative performance is back to May-Jun levels but still in a clear uptrend and the relative P/E premium nearing 1y lows.
- AI Winners basket has a 30% forward sales CAGR and yet trades at ~20x P/E with the P/E to sales growth ratio falling to just 0.7x.
- AI at Risk basket on the other hand has deteriorating sales / earnings trends but trades at 14x P/E. The P/E to sales growth ratio has risen to ~1.5x, over 2x the AI Winners basket.
- Crowding is somewhat cleaner but still a big overhang, though we see relative fundamentals driving the trade more after the momentum unwind.

Figure 17: AI winners vs AI disruption risk rel perf



Source: FactSet, UBS

Figure 18: AI winners vs AI disruption risk rel P/E



Source: FactSet, UBS

AI infrastructure cycle is early. The mainframe-PC and server/internet cycles of the '70s/'80s and 1990s lasted ~10yrs at ~20% avg real growth, implying another 7-8yrs for the AI driven cycle. The intelligence value provided by the compute+model stack is growing exponentially, justifying compute pricing in our view amid demand > supply imbalances.

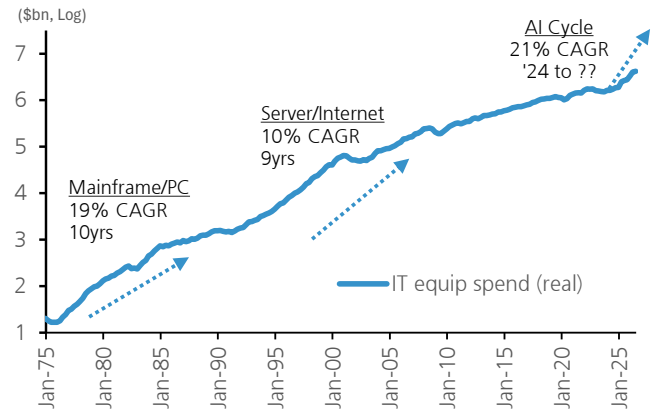
AI demand is accelerating. November 2025 marked the start of an accelerating demand phase: 1) Frontier labs ARR surged, driven by existing customers in large part, 2) US Cloud backlogs jumped >$1tr the last 9mo vs forecast capex of >$600bn, 3) Cloud NTM sales forecasts are rising in line with capex recently. Most of the cloud backlog is from the frontier model companies. The next phase needs to be marked by a step up in enterprise AI spend in order to increase confidence further in the sustainability of the spending cycle.

Enterprise AI spend set to jump amid surging OCF. OCF surged $768bn y/y outside of hyperscalers, and +$436bn ex-Tech, so corporates have more to spend on AI in 2027. Only 8% of surveyed enterprises have deployed AI agents in production at scale, which suggests companies are still investing, testing and redesigning workflows (Enterprise AI Survey). We look for survey data and company commentary, in addition to growing enterprise AI spend in backlogs over the next 6-12mo, to confirm our view.

Cost cuts/containment will fund AI expenses. 27% of surveyed firms said increased AI spend would displace other IT spend, while another 47% said a mix of new budget and other IT cost displacement would fund AI (Enterprise AI Survey). Consolidating to larger IT suppliers was mentioned most in terms of cost displacement at 54%, followed closely by reduced IT personnel and reduced consulting / SI spend. Reading through AI cost savings and productivity commentary from corporates over the last few quarters, leveraging UBS Evidence Lab's analysis of AI "snippets" with the highest confidence/ sentiment, we come away with the view that enterprise AI spending will likely be a catalyst for enterprises to take a closer look at their costs and "find" savings as "sunlight is the often the best disinfectant". AI-related efficiency gains are often being discussed alongside wider cost-reduction initiatives. Thus, we see increasing odds of cuts to IT spend ex-AI and other at risk spend over the next year.

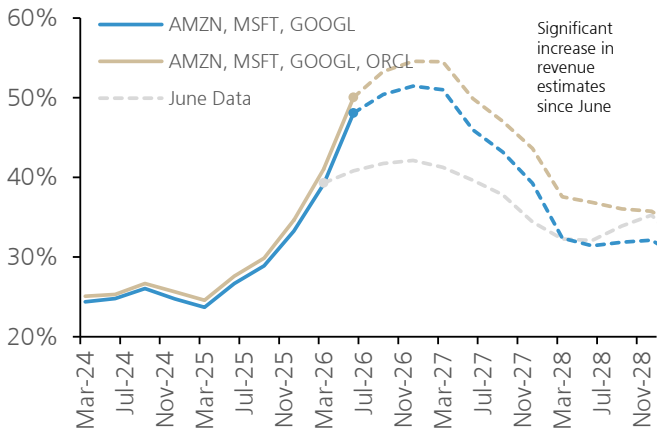
Disruption will take more time. Much like how the AI infrastructure/demand narratives oscillate, AI disruption narratives will evolve too as we are seeing with many Software companies rallying post results. We see true business disruption as a longer process as companies also have time and opportunities to adapt. For the disruption theme, we leverage our earnings indicators from REVS to put higher weights on stocks with weaker fundamental trends. How valuations are pricing future growth will also matter for the theme.

Figure 19: AI infrastructure is early and accelerating



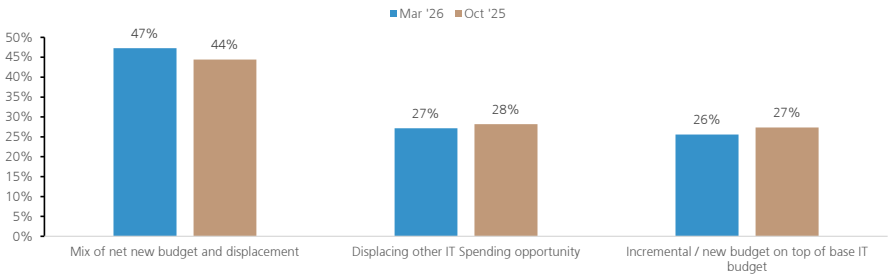
Source: BEA, Haver, UBS

Figure 20: Cloud revenue y/y, actual and forecast



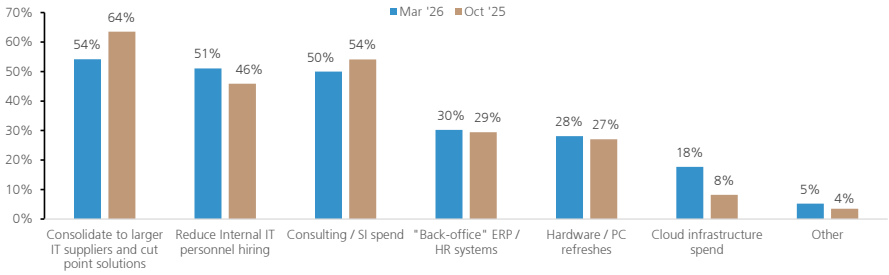
Source: Visible Alpha, UBS

Figure 21: Thinking about your company's increased spend on GenAI in the next year, how does your company plan to cover these increased expenses ?



Source: UBS Evidence Lab (> Access Dataset)

Figure 22: Which of the following IT spending opportunities is your company likely to displace?



Source: UBS Evidence Lab (> Access Dataset)

Basket: AI disruption risk

We construct a basket of 63 stocks to identify companies most exposed to potential AI driven disruption. The basket combines market based signals with AI assessments of company business models, products and services, and is intended to help investors track the performance and fundamentals of companies facing elevated AI risk. It has less exposure to large cap software and is more diversified than the existing UBS AI at Risk basket.

Selection criteria. We selected liquid US stocks based on the following:

- **Negative AI beta:** We calculated stock betas to the relative performance of UBS AI Winners versus a selection of AI At Risk stocks. From a liquid universe of ~2000 stocks, we selected the bottom quintile of names by AI beta, combining sector neutral and non sector neutral screens to capture potential AI risk across a broad range of sectors while retaining exposure to areas where that risk is more concentrated.
- **AI disruption risk scoring:** We leveraged ASKB and AlphaSense to assign each company an absolute AI Disruption Risk Score from 1 to 10 based on the potential for AI to weaken its products, services, competitive position or business model. The assessment considered exposure to workforce and service automation, AI-driven competition, product obsolescence, disintermediation, pricing pressure and commoditization, as well as the scale and financial materiality of the exposure. Scores also incorporated mitigating factors such as proprietary data, switching costs, regulatory barriers, mission critical workflows and demonstrated adoption or monetization of AI enabled products. We prioritized recent company specific evidence from UBS research, earnings transcripts, investor presentations and company disclosures. Each company was scored independently.
- **Review:** We then reviewed the supporting rationales, incorporated UBS analyst feedback and used performance time series analysis around AI event dates as an additional check on the final screen.

Weighting methodology. Instead of simply equal weighting stocks or optimizing around ADV and liquidity, we predominantly weight stocks using the inverse of their average Earnings Level and Earnings Change scores from our REVS framework. This gives larger weights to companies with weaker earnings and earnings momentum based on our scorecard. We also incorporate scores for the other REVS components to account for valuation, sentiment/crowding and regime.

- **Earnings level and change:** Our earnings score incorporates forward 3-5yr sales and earnings CAGRs, 3mo earnings and sales revisions, and HOLT CFROI. The Earnings Change score is based on the change in these underlying criteria.
- **Basket size and ADV:** We target a basket size of $100mm, with 10% of ADV as the maximum position for each stock. We optimize to the target weights based on the inverse earnings score in REVS (weaker earnings trends get higher weight), the ADV limitation and the target basket size.

Figure 23: AI Disruption stocks and weights - Part 1

AI Disruption

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
MBGL	Mobility Global	Comm. & Prof. Svcs.	Prof. Svcs.	6,067	12.7	1.9
EXLS	ExlService	Comm. & Prof. Svcs.	Prof. Svcs.	5,554	14.7	1.9
FCN	FTI Consulting	Comm. & Prof. Svcs.	Prof. Svcs.	4,189	14.6	1.9
G	Genpact	Comm. & Prof. Svcs.	Prof. Svcs.	6,271	8.5	1.8
HURN	Huron Consulting	Comm. & Prof. Svcs.	Prof. Svcs.	2,470	15.3	1.8
MMS	MAXIMUS	Comm. & Prof. Svcs.	Prof. Svcs.	3,019	6.9	1.8
FA	First Advantage	Comm. & Prof. Svcs.	Prof. Svcs.	3,672	14.9	1.7
MAN	ManpowerGroup	Comm. & Prof. Svcs.	Prof. Svcs.	2,882	13.9	1.4
KFY	Korn Ferry	Comm. & Prof. Svcs.	Prof. Svcs.	4,383	14.3	1.1
ETSY	Etsy, Inc.	Cons. Disc. Retail	Broadline Retail	7,022	18.3	1.9
GHC	Graham Holdings	Consumer Svcs.	Cons. Services	3,715		2.1
LOPE	Grand Canyon Edu	Consumer Svcs.	Cons. Services	3,979	13.9	1.8
HRB	H&R Block	Consumer Svcs.	Cons. Services	6,047	7.8	1.6
PRDO	Perdoceo Education	Consumer Svcs.	Cons. Services	2,078	10.9	1.6
BKNG	Booking	Consumer Svcs.	Hotels/Rest. & Leisure	145,234	16.4	1.2
EXPE	Expedia Group	Consumer Svcs.	Hotels/Rest. & Leisure	34,124	12.8	0.9
LPLA	LPL Financial	Fin Svcs	Cap Mkts	28,294	12.8	1.1
EEFT	Euronet Worldwide	Fin Svcs	Fin. Services	2,761	6.4	1.8
WEX	WEX Inc.	Fin Svcs	Fin. Services	6,609	9.3	1.3
PYPL	PayPal	Fin Svcs	Fin. Services	47,016	9.7	1.3
GPN	Global Payments	Fin Svcs	Fin. Services	24,488	6.1	1.2
AFRM	Affirm Holdings	Fin Svcs	Fin. Services	21,479	33.9	1.1
DOCS	Doximity	HC Equip. & Svcs.	HC Tech	3,356	18.4	1.9
SKWD	Skyward Specialty	Insurance	Insurance	2,546	10.7	1.7
RDDT	Reddit	Media & Ent.	Interactive Media	22,567	23.7	1.8
MGNI	Magnite	Media & Ent.	Media	3,462	18.9	2.0
NXST	Nexstar Media	Media & Ent.	Media	5,448	8.0	2.0
WLY	John Wiley	Media & Ent.	Media	2,451	9.7	1.7
OMC	Omnicom Group	Media & Ent.	Media	22,666	7.3	1.1
MEDP	Medpace	Pharma, Biotech & Life Sci.	Life Sci. Tools	16,504	31.5	1.1
Z	Zillow Group	RE Mgmt. & Dev.	RE Mgmt. & Dev.	7,594	12.9	1.6

Source: FactSet, UBS Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

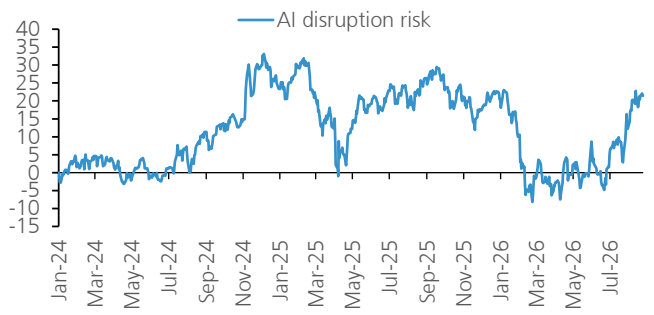
Figure 24: AI Disruption stocks and weights - Part 2

AI Disruption

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
KD	Kyndryl Holdings	Software & Svcs.	IT Svcs.	2,864	6.2	2.1
DOX	Amdocs	Software & Svcs.	IT Svcs.	6,692	7.8	1.8
EPAM	EPAM Systems	Software & Svcs.	IT Svcs.	6,038	8.5	1.8
CTSH	Cognizant	Software & Svcs.	IT Svcs.	28,067	10.2	1.6
IBM	IBM	Software & Svcs.	IT Svcs.	221,298	18.2	1.6
GDDY	GoDaddy	Software & Svcs.	IT Svcs.	12,831	11.8	1.3
TWLO	Twilio	Software & Svcs.	IT Svcs.	35,780	35.8	1.2
ZETA	Zeta Global	Software & Svcs.	Software	7,128	27.8	2.1
PEGA	Pegasystems	Software & Svcs.	Software	6,142	14.5	2.0
WK	Workiva	Software & Svcs.	Software	3,892	20.0	1.9
ACIW	ACI Worldwide	Software & Svcs.	Software	5,346	18.7	1.9
ALRM	Alarm.com	Software & Svcs.	Software	2,773	18.7	1.9
QTWO	Q2 Holdings	Software & Svcs.	Software	3,874	19.0	1.8
NOW	ServiceNow	Software & Svcs.	Software	146,063	30.0	1.8
YOU	Clear Secure	Software & Svcs.	Software	4,562	21.3	1.8
BRZE	Braze	Software & Svcs.	Software	3,600	38.6	1.6
INTU	Intuit	Software & Svcs.	Software	91,006	13.7	1.6
GTLB	GitLab	Software & Svcs.	Software	8,247	51.5	1.6
ESTC	Elastic	Software & Svcs.	Software	9,639	25.8	1.6
HUBS	HubSpot	Software & Svcs.	Software	12,347	15.9	1.5
ADSK	Autodesk	Software & Svcs.	Software	45,541	16.1	1.5
DOCU	DocuSign	Software & Svcs.	Software	13,063	13.8	1.5
ADBE	Adobe	Software & Svcs.	Software	105,938	10.0	1.4
PTC	PTC Inc.	Software & Svcs.	Software	15,302	15.9	1.4
BILL	BILL Holdings	Software & Svcs.	Software	4,192	12.7	1.4
CRM	Salesforce	Software & Svcs.	Software	213,346	15.9	1.4
QLYS	Qualys, Inc.	Software & Svcs.	Software	5,938	20.8	1.3
FRSH	Freshworks	Software & Svcs.	Software	3,016	16.3	1.3
BOX	Box	Software & Svcs.	Software	4,828	21.2	1.3
ZM	Zoom	Software & Svcs.	Software	26,673	16.2	1.3
RNG	RingCentral	Software & Svcs.	Software	5,412	13.6	1.3
U	Unity Software	Software & Svcs.	Software	18,334	80.4	1.1

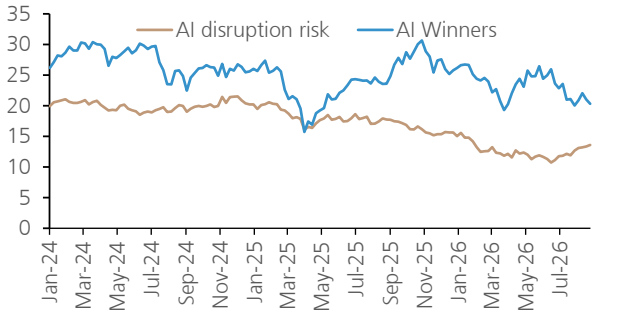
Source: FactSet, UBS Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

Figure 25: AI Disruption performance back to 2024-25 levels after torrid rally



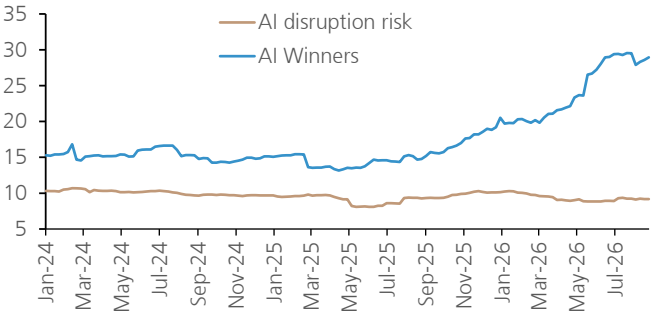
Source: FactSet, UBS

Figure 26: AI Winners NTM P/E back to ~20x with AI Disruption P/E up to 14x



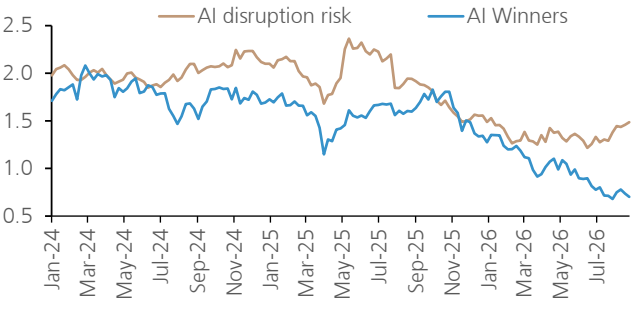
Source: FactSet, UBS

Figure 27: Forward sales CAGR up to ~30% for AI Winners vs 9% for AI Disruption



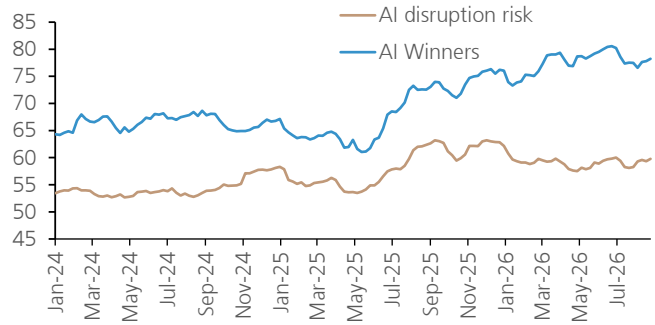
Source: FactSet, UBS

Figure 28: PEG using Sales CAGR down to 0.7x for AI Winners



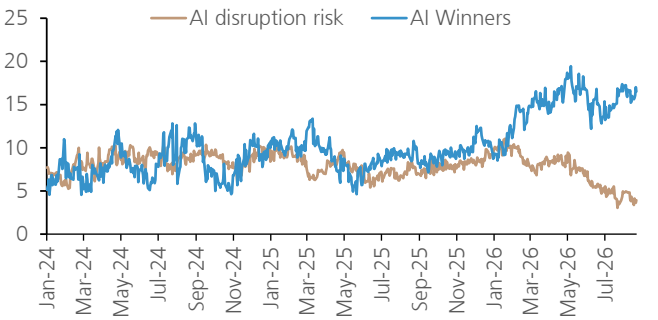
Source: FactSet, UBS

Figure 29: Earnings score is magnitudes higher for AI Winners vs AI Disruption



Source: FactSet, UBS

Figure 30: Crowding Score is still elevated for AI Winners and low for AI Disruption



Source: Quant Answers, UBS

3) Capex is broadening: buy the beneficiaries

Capex is broadening out beyond AI and data centers as manufacturing recovers from a near 3yr recession and 1yr inventory destocking. We provide a basket of 50 stocks across Cap goods, Transports and Materials with lower AI exposure that have leverage to continued broadening in the industrial recovery. The basket can complement AI industrial positions, as we are still positive on the AI infrastructure buildout and AI industrials score well on REVS.

- OCF is up $825bn y/y (+25%) for the Russell 1000 and more can be invested with capex to OCF near historic lows ex hyperscalers and ISM mfg close to 55.
- ~45% of SPX firms have capex forecasted to grow >10% the next year while UBS' capex tracker across 1000 firms and $1tr in spending forecasts capex up 25% in '27 (vs 12% previously).
- **Basket rationale:** We see an attractive entry point for our capex broadening basket. Relative to the equal wt SPX, the basket is back to end Mar levels after underperforming despite much strong relative fundamental momentum.
    - Revision ratios have surged to 2020-21 levels while the basket's earnings score composite jumped through Q2 reporting as trends accelerated. The relative P/E premium of 9% is back to early Jan levels.
    - Crowding is much lower for the capex broadening basket than the avg stock despite the the 3-5yr EPS CAGR increasing 4pp to 21% the last 2mo.

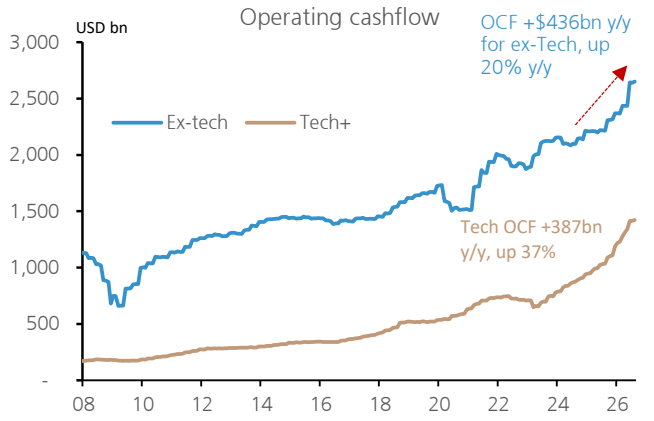
Cash flow is surging fueling multiplier effects. Q2 reporting reinforced our view that the business cycle is in a new phase where cash flow velocity is driving multiplier effects across industries. Surging cloud sales driving a jump in operating cash flow (OCF) instills more confidence in AI capex sustainability. But outside of hyperscalers, there is ~ $768bn more OCF to spend on capex, AI, R&D, opex and payouts into next year. Ex-Tech OCF is up $436bn y/y (+20%), while Tech+ OCF has jumped $387bn y/y (+37%). Capex as a ratio to OCF has declined toward 40% and is near historical lows outside of hyperscalers.

Macro backdrop favour a broadening of capex. In our note last month (link), we discussed the potential for a broadening of capex beyond hyperscalers. We continue to see a number of signs that capex and industrial activity are picking up. Our analysts expect non-AI industrial growth to improve to roughly +5% in 3Q and +6% in 4Q (Mehrotra). Manufacturing is recovering after a near 3yr recession and four quarters of inventory destocking while short cycle indicators are picking up. August ISM PMI reached 54.6 (vs 53.6 in June) and was the eight consecutive month of the index remaining above 50 (i.e., in expansionary territory), signalling accelerating industrial activity and capital spending. A disorderly rise in interest rates would be a risk to the theme.

Capex intentions are increasing. UBS' capex tracker, which aggregates forecasts across more than 1,000 companies representing over $1tn of annual spending, now projects aggregate corporate capex growth of 35% in 2026 and 25% in 2027, up from prior forecasts of 31% and 12% respectively (Mehrotra). Additionally, ~45% of S&P 500 companies are now expected to increase capex by more than 10%, up from 35% a year ago.This expands beyond just tech companies, with 74% of Utilities and 53% of Industrials S&P500 companies expected to increase capex by more than 10%.

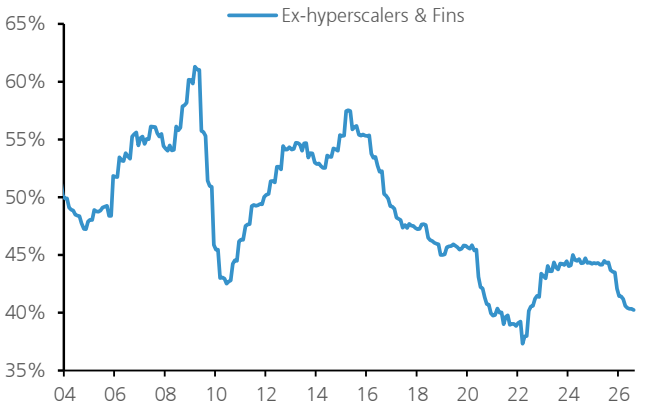
Evidence from recent earnings season. Q2 earnings have validated this broader capex thesis. Across the Multi-Industry sector, average and median organic growth accelerated to 8% and 6%, respectively, up 300bps and 100bps from the prior quarter (Mehrotra). Further, over the last couple weeks, AI-exposed Industrials have underperformed non-AI Industrials which is a result of capex broadening. There is improving recovery across traditional industrial end markets as evidenced by MMM's results, for instance, which experienced organic growth of 5.4% in Q2 (up from 1.2% in Q1). Our analysts remain positive on the outlook for electrical equipment, thermal management and power-generation supplier (Mehrotra).

Figure 31: Operating cash flow has surged for Tech and ex-Tech



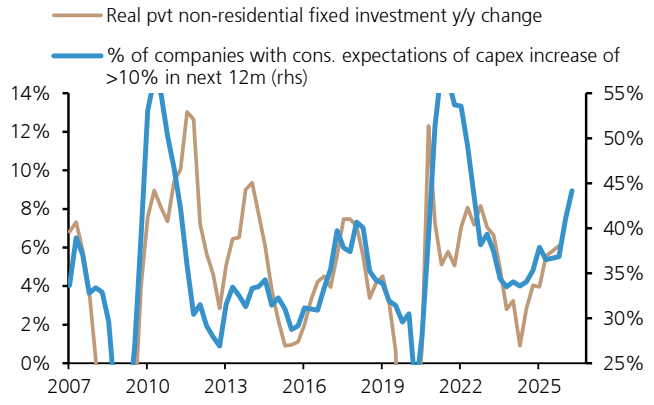
Source: FactSet, UBS. Note: Ex-Tech OCF uses LTM earnings for Financials (not OCF).

Figure 32: Capex as a % of OCF outside of hyperscalers/fins is near historical lows



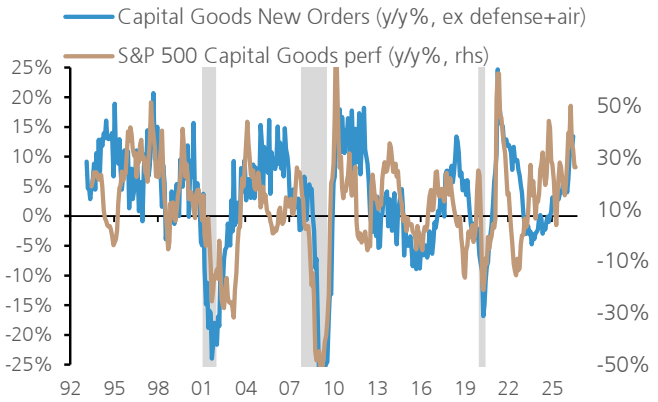
Source: FactSet, UBS. Note: Data are on LTM basis.

Figure 33: 45% of SPX companies with NTM capex > 10% points to pickup in non resi investment (2Q lead)



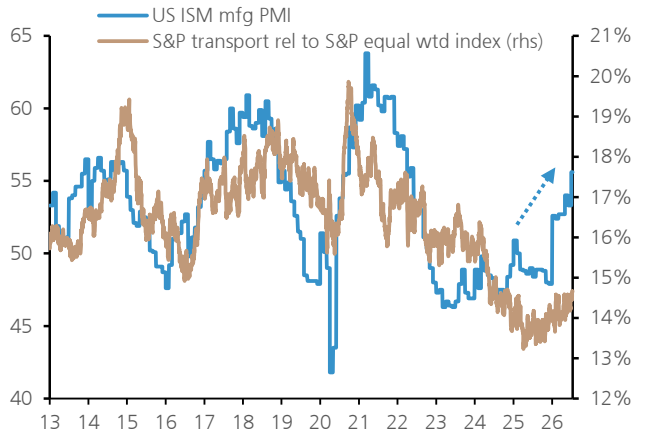
Source: Factset, UBS

Figure 34: Capital goods order growth points to strong S&P Cap Goods returns



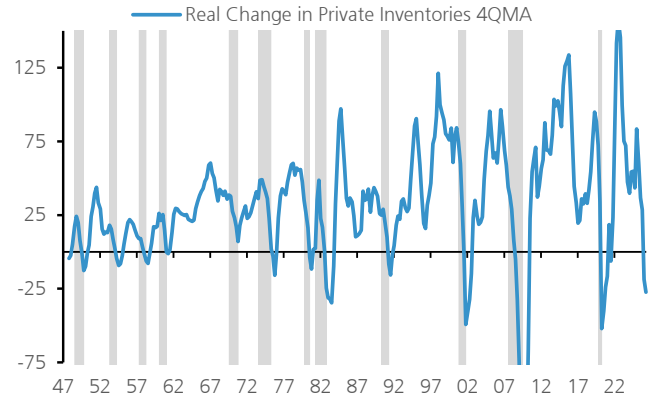
Source: Refinitiv Datastream, UBS

Figure 35: ISM mfg turning positive after 2022-25 downturn supports Transports rel perf



Source: Refinitiv Datastream, UBS

Figure 36: US inventories set to recover after de-stocking



Source: Haver, UBS

Basket: Capex broadening beyond AI

We construct a basket of 48 stocks to capitalize on the broadening in capex beyond AI and data centers as the US manufacturing recovery plays out. We see the capex broadening basket as a complement to our still positive view on AI related industrials, and allows investors to trade both and track performance and fundamentals for both.

Selection criteria. We selected US liquid stocks (ADV > $10mm) within Cap Goods, Transportation and Materials based on the following:

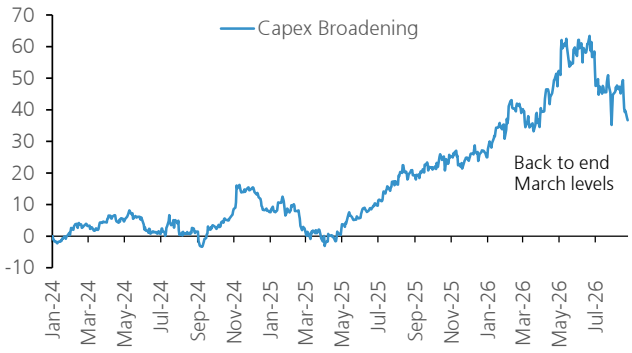
- **Capex and mfg cycle exposure:** Companies included in the basket have had a positive relationship between stock returns and ISM New Orders Index and Core Capital Goods New Orders (ex-aircraft and defense). Additionally, stocks with lower betas to the broader Industrials sector were excluded, as were certain subindustries (i.e., Aerospace & Defense).
- **Lower AI exposure:** We exclude stocks included in any UBS AI related basket.
- **Earnings strength**: We screen out companies that score in the bottom 50%ile across all stocks in our liquid universe on a weighted average of earnings level and earnings change composite score using REVS.
- **UBS analyst input:** We exclude additional stocks that have weak fundamentals or are not poised to benefit from a broadening of capex based on analyst input.

Weighting methodology. Instead of simply equal weighting stocks or optimizing around ADV/liquidity, we weight capex exposed stocks by their fundamental momentum and valuations on the idea that better growth, profitability and revisions that are not fully priced mean those companies are more likely benefitting from the areas that are growing or expected to recover. Thus, we weight the stocks in the basket based on the following:

- **Growth momentum vs what's priced:** Using REVS variables, we construct a weighted average measure of earnings and valuation metrics for each company and provide a percentile score on an Industry group neutral basis (earnings composite level and change, CFROI, valuation composite, implied valuation upside/downside based on P/E framework). The target weights for each stock is based on the percentile ranking, which ranged from ~55 to ~90, and thus the max target weight was less than 2x the min weight.
- **Basket size and ADV:** We target a basket size of $100mm with 10% of ADV the max position for each stock. We optimize to the target weights based on the above score, the ADV limitation and the target basket size.

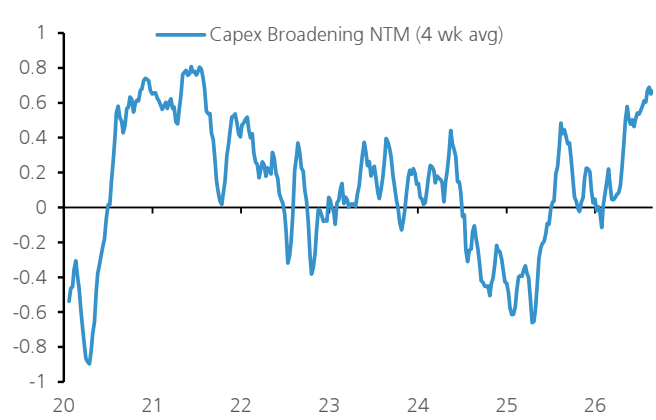
Basket tearsheet and rationale: Capex broadening

Figure 37: Performance rel to SPX eq wt is back to Mar levels despite fundamental acceleration



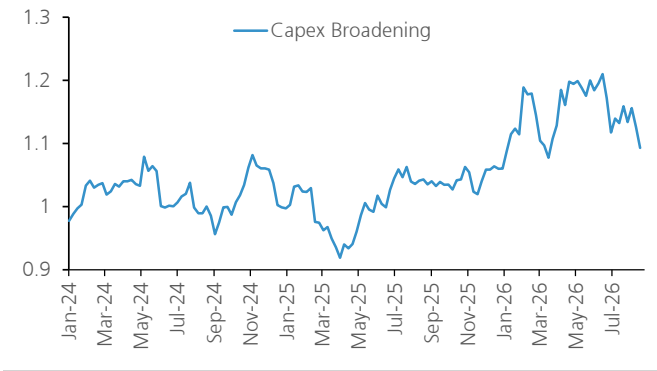
Source: FactSet, UBS

Figure 38: EPS revision ratios have jumped to 2020-21 levels



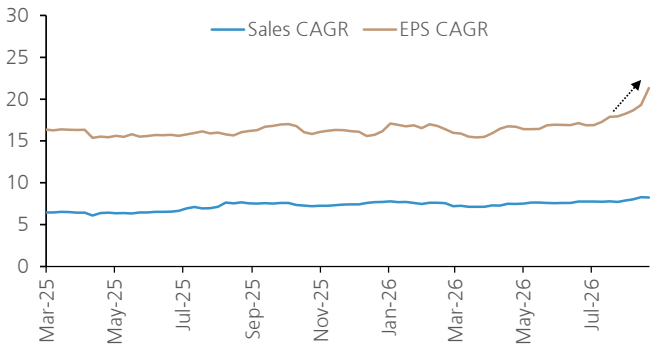
Source: FactSet, UBS

Figure 39: P/E relative to SPX eq wt has fallen to 1.1x



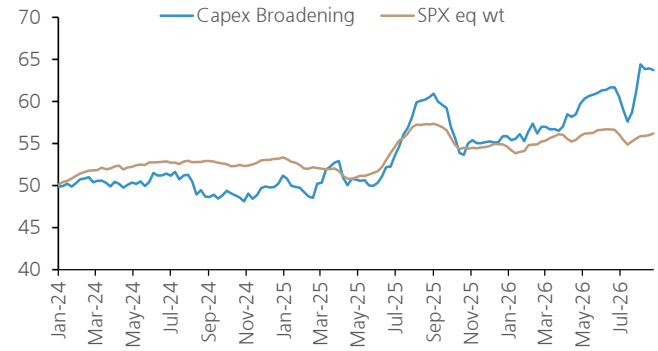
Source: FactSet, UBS

Figure 40: EPS CAGR increased 4pp to 21% the last 2mo for Capex Broadening



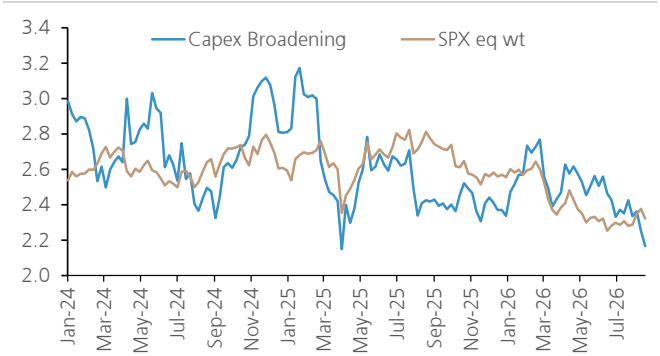
Source: FactSet, UBS

Figure 41: Earnings level score has jumped to 64, well above the market avg



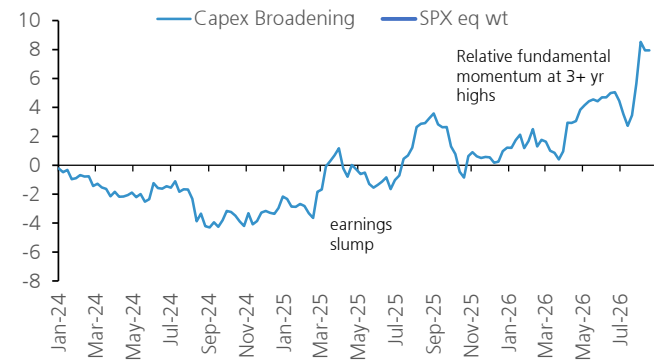
Source: FactSet, UBS

Figure 42: PEG has fallen to 2.2x from 2.8x since Feb 2026



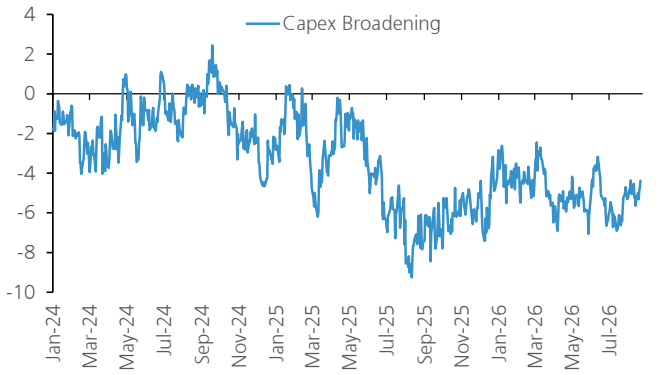
Source: FactSet, UBS

Figure 43: Relative earnings score has jumped



Source: FactSet, UBS

Figure 44: Crowding for basket has remained well below the market average



Source: Quant Answers, UBS

Figure 45: Capex broadening stocks and weights

Capex Broadening

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
ZWS	Zurn Elkay	Cap Goods	Building Products	7,897	24.3	2.4
OC	Owens Corning	Cap Goods	Building Products	10,966	12.2	1.8
WMS	Advanced Drainage	Cap Goods	Building Products	10,237	20.1	1.7
APG	APi Group	Cap Goods	Constr. & Eng.	17,304	21.1	2.5
ACM	AECOM	Cap Goods	Constr. & Eng.	8,569	10.7	2.4
MYRG	MYR Group	Cap Goods	Constr. & Eng.	4,462	20.9	2.2
GVA	Granite Construction	Cap Goods	Constr. & Eng.	5,221	31.5	2.2
VMI	Valmont Industries	Cap Goods	Constr. & Eng.	9,295	19.2	2.1
STRL	Sterling Infrastructure	Cap Goods	Constr. & Eng.	14,881	20.7	2.0
IESC	IES Holdings	Cap Goods	Constr. & Eng.	12,854	24.2	1.9
ECG	Everus Construction	Cap Goods	Constr. & Eng.	5,987	20.4	1.8
AME	AMETEK	Cap Goods	Elec. Equip.	54,500	26.7	2.4
EMR	Emerson Electric	Cap Goods	Elec. Equip.	85,243	21.2	2.3
ST	Sensata Technologies	Cap Goods	Elec. Equip.	6,270	10.8	2.0
DD	DuPont	Cap Goods	Ind. Conglomerates	17,770	17.0	1.8
WAB	Westinghouse Air Brake	Cap Goods	Machinery	47,778	23.7	2.4
ITT	ITT, Inc.	Cap Goods	Machinery	18,267	22.3	2.4
MLI	Mueller Industries	Cap Goods	Machinery	14,098	14.7	2.3
IR	Ingersoll Rand	Cap Goods	Machinery	29,628	20.2	2.2
PH	Parker-Hannifin	Cap Goods	Machinery	121,332	26.9	2.0
NPO	Enpro Inc.	Cap Goods	Machinery	6,286	28.4	2.0
DOV	Dover Corp.	Cap Goods	Machinery	25,977	16.9	2.0
LECO	Lincoln Electric	Cap Goods	Machinery	15,068	22.8	2.0
RBC	RBC Bearings	Cap Goods	Machinery	15,467	31.2	1.9
SNA	Snap-on	Cap Goods	Machinery	19,811	18.4	1.9
TKR	Timken	Cap Goods	Machinery	8,535	17.6	1.8
OSK	Oshkosh Corp.	Cap Goods	Machinery	9,698	12.2	1.7
RUSHA	Rush Enterprises	Cap Goods	Trading & Distrib.	5,969	17.8	2.3
XMTR	Xometry	Cap Goods	Trading & Distrib.	5,168	84.2	2.3
MSM	MSC Industrial	Cap Goods	Trading & Distrib.	6,780	22.3	2.2
URI	United Rentals	Cap Goods	Trading & Distrib.	62,856	18.5	2.2
GWW	WW Grainger	Cap Goods	Trading & Distrib.	62,385	26.7	2.1
HRI	Herc Holdings	Cap Goods	Trading & Distrib.	4,711	14.8	2.0
PPG	PPG Industries	Materials	Chemicals	25,015	13.4	2.1
JHX	James Hardie	Materials	Constr. Materials	17,642	20.8	1.8
EXP	Eagle Materials	Materials	Constr. Materials	5,966	14.6	1.8
CENX	Century Aluminum	Materials	Metals & Mining	4,630	4.3	2.8
CMC	Commercial Metals	Materials	Metals & Mining	7,775	9.7	2.3
NUE	Nucor Corp.	Materials	Metals & Mining	59,230	13.8	2.3
MP	MP Materials	Materials	Metals & Mining	9,712	97.1	2.0
MTRN	Materion Corp.	Materials	Metals & Mining	5,088	30.9	1.9
UNP	Union Pacific	Transportation	Ground Transport	172,056	21.0	2.3
CSX	CSX Corp.	Transportation	Ground Transport	91,531	22.6	2.2
XPO	XPO, Inc.	Transportation	Ground Transport	22,609	31.4	2.1
SNDR	Schneider National	Transportation	Ground Transport	3,233	23.3	1.9
JBHT	JB Hunt	Transportation	Ground Transport	25,711	29.1	1.7
KEX	Kirby Corp.	Transportation	Marine Transport	7,433	17.7	1.9
MATX	Matson, Inc.	Transportation	Marine Transport	6,746	13.7	1.7

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

4) Longevity & wellness: >80yr cohort to grow 7%+ in '27

The secular trend of longevity and aging is set to meet a cyclical upswing in 2027 with the US 80+ years old cohort set to jump next year and double by the mid 2040s. At the same time, wellness spending growth remains strong, led by the rapid rise of GLP1s. We provide a basket of 46 stocks predominantly exposed to the longevity theme, with some benefiting from the wellness trend too.

- The 80+ year old cohort is projected to grow 7.4% in 2027, a 4pp acceleration, making longevity more attractive tactically in addition to being a secular theme.
- Healthcare spending per capita for the 85+ cohort in US is 75% higher than the 65-84 cohort ($35,995 vs $20,503).
- UBS analysts estimate a $130–135bn global GLP1 market by 2030 with 45-50mm patients globally treated by then (Yee).
- **Basket rationale**: Fundamental trends are accelerating for the Longevity basket heading into next year, in which the 80+ year old cohort growth jump could further support outperformance, while strong growth does not appear priced with a PEG well below market and crowding below avg.
    - The basket's earnings score and earnings revisions ratio have inflected to above average levels after bottoming in the beginning of July, while crowding remains below the average stock in the S&P 500.
    - The avg forward sales CAGR for the Longevity basket is 15% adjusting for the positive/negative outliers. At a ~25x NTM P/E, the basket trades at a 1.7x PEG on sales CAGR, which is well below the market avg of 2.4x.

Aging US population and increased incidence of chronic conditions. In the US, the size of population aged 80+ is expected to roughly double from approximately 15 million today to nearly 30 million by the mid-2040s, while the 85+ population is projected to increase by over 70% by 2040 as reported by Brookings. Healthcare demand rises disproportionately with age with individuals aged 65+ already accounting for approximately 37% of healthcare spending despite representing only 17% of the population, while annual healthcare expenditure for those aged 85+ averages roughly $36,000 per capita (Rice). In the cohort of people aged 85+, 80% reported having multiple chronic conditions (2 or more) compared to 50% among the 35-64 year cohort (Watson et. al). Adults aged 85 years and older account for roughly 8% of all new cancer diagnoses, even though they make up only about 2% of the overall population (DeSantis et al).

The elderly cohort account for an outsized portion of individuals diagnosed with chronic conditions such as cancer, heart disease, diabetes and arthritis.

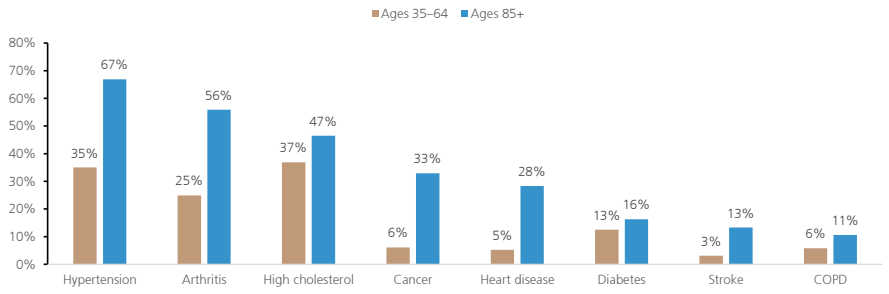
Increased focus on healthspan alongside lifespan. According to the Global Wellness Institute, global wellness spending has surpassed $7 trillion and continues to grow at approximately 7% annually, supported by rising demand for preventive healthcare, fitness, nutrition, diagnostics, health monitoring and chronic disease management solutions. The rapid rise in GLP1's popularity underpins the wider trend towards wellbeing and fitness. UBS analysts estimate a $130–135bn global GLP1 market by 2030, with penetration of the eligible obese population still relatively low (Yee). UBS forecasts 1% of the US population going on GLPs for obesity each year for the next 5yrs. The result is a structural shift in spending towards prevention and early intervention which is a positive for consumer health and medtech.

Wellness, GLP 1 adoption and aging demographics are lifting Healthcare demand, while lower policy uncertainty is reopening the BioPharma funding and M&A cycle.

Strong innovation pipelines. Aging populations are expected to drive sustained demand for therapies targeting oncology, cardiovascular disease, obesity, diabetes, neurodegenerative disorders and other age-related conditions. Importantly, sales growth expectations are improving despite concerns around an upcoming patent cliff, supported by strong innovation pipelines, GLP-1 adoption and next-generation therapies. Pharma & Biotech is also supported by a favourable macro backdrop and strong fundamentals as policy uncertainty is abating and M&A activity continues to ramp up.

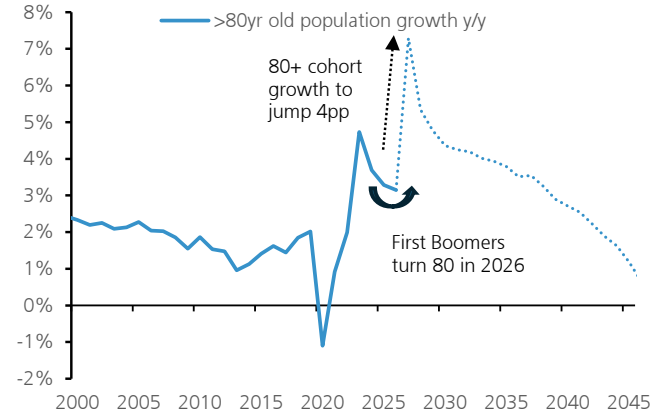
Long-term care is set to increase. As patients move into older age cohorts, healthcare utilization shifts away from acute interventions and toward ongoing management, rehabilitation, home health, skilled nursing, hospice and assisted living. As older adults increasingly prefer to "age in place", home healthcare spending is expected to grow at a 7.8% CAGR through 2034, well above overall healthcare expenditure growth of approximately 5.4% (Rice). At the same time, senior housing occupancy has increased to roughly 89.5%, driven by aging demographics and constrained supply growth.

Figure 46: 2023 Chronic disease prevalence by age group



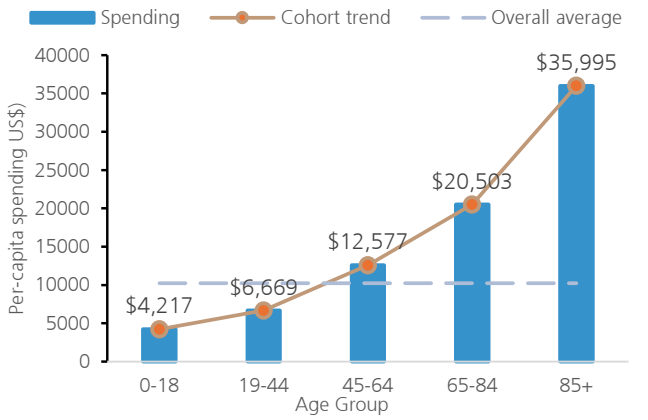
Source: CDC, BRFSS, NHIS, UBS

Figure 47: The >80 year old cohort in the US is set to grow by over 7% y/y in '27



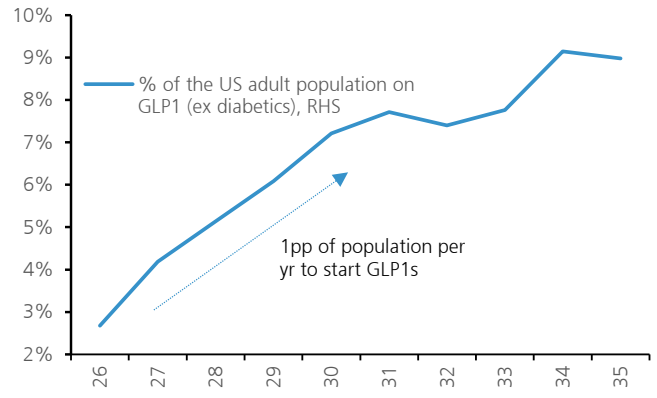
Source: Dept of Commerce, Haver, UBS

Figure 48: 2020 Total personal health care per-capita spending by age group



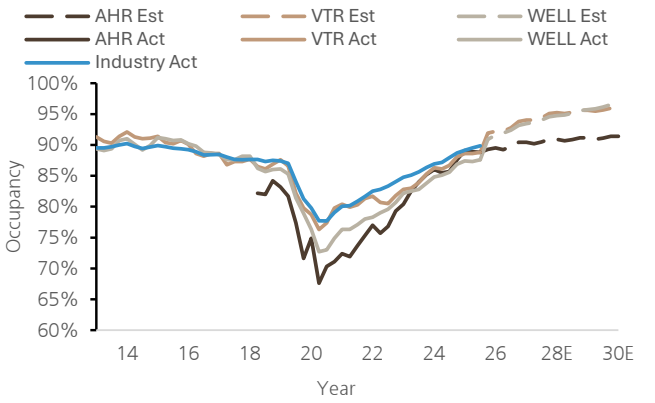
Source: Centers for Medicare & Medicaid Services, UBS

Figure 49: UBS forecasts for GLP1 takeup for obesity



Source: UBS Research

Figure 50: Occupancy rates across senior housing is expected to rise



Source: NIC, UBS Estimates Note: Actuals based on total occupancy where estimates are based on same property occupancy (ex new properties)

Basket: Longevity and wellness

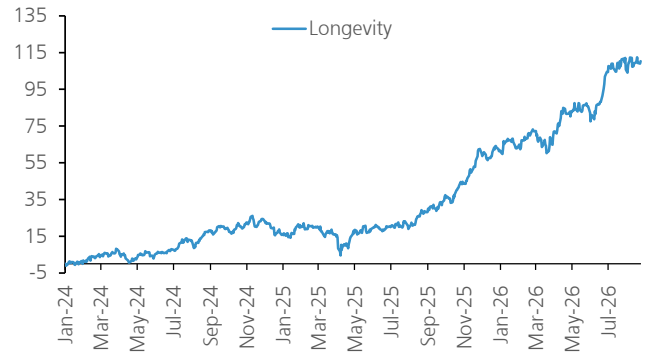
We identified healthcare verticals that should be positively impacted by a shift in demographics to an older population within pharma/biotech (cardiovascular, neurological, oncology) and facilities (skilled nursing facilities, assisted living, in-home support) as well as medtech. We also identified relevant verticals positively impacted by healthier lifestyles and consumption patterns (GLP1s, health tracking).

We constructed the basket of 46 stocks based on the following:

- **UBS analyst input.** We reached out to respective UBS analysts across the pharma/biotech, healthcare facilities, medtech, and healthcare REITs sectors to identify stocks from their coverage that would best fit the themes of longevity and wellness.
- **Weight by theme exposure.** The Analysts scored each stock based on strength of theme relevance. These theme exposure scores were used to weight the stocks in the basket.
- **Basket size and ADV:** We target a basket size of $100mm with 5% of ADV the max position for each stock. We optimize to the target weights based on the above theme score, the ADV limitation and the target basket size.

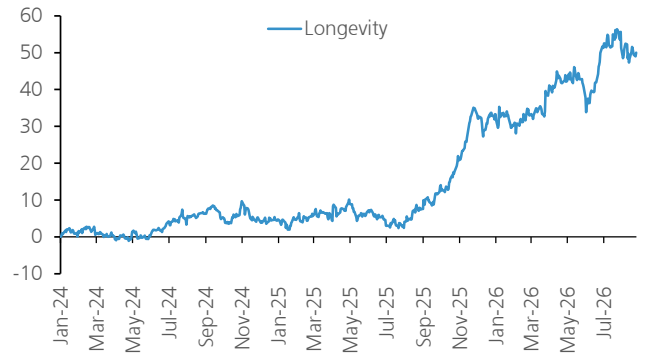
Basket tearsheet and rationale

Figure 51: Longevity basket on a strong uptrend



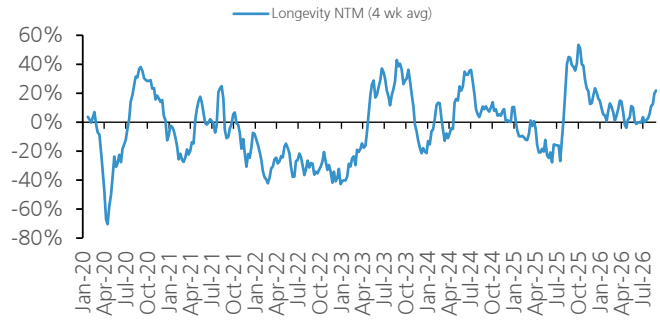
Source: Factset, UBS

Figure 52: Relative outperformance the last year has paused recently



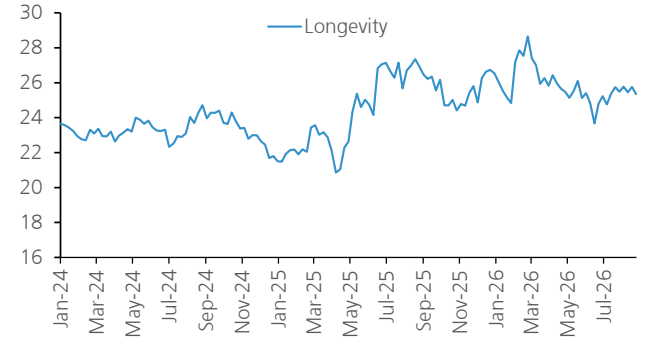
Source: FactSet, UBS

Figure 53: Earnings revision ratio has ticked up



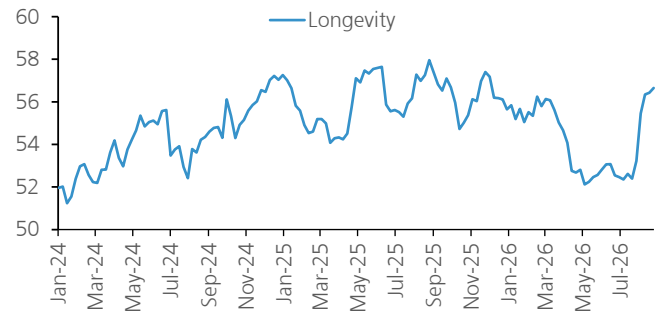
Source: Factset, UBS

Figure 54: P/E multiple has been relatively stable



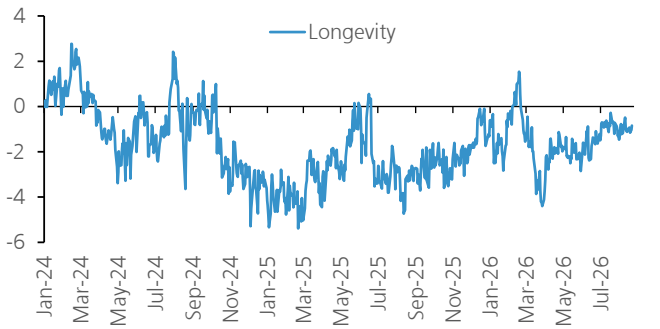
Source: Factset, UBS

Figure 55: Earning score has jumped through Q2 reporting



Source: Factset, UBS

Figure 56: Crowding score rel to SPX eq wt is up from lows but below avg



Source: UBS

Figure 57: Longevity and wellness stocks and weights

Longevity and Wellness

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
LLY	Eli Lilly	Pharma, Biotech & Life Sci.	Pharma	1,081,958	26.5	3.0
AXSM	Axsome Therapeutics	Pharma, Biotech & Life Sci.	Pharma	10,826	90.4	3.0
MRK	Merck	Pharma, Biotech & Life Sci.	Pharma	370,890	20.5	2.4
BMY	Bristol Myers	Pharma, Biotech & Life Sci.	Pharma	136,494	10.0	2.4
JAZZ	Jazz Pharma	Pharma, Biotech & Life Sci.	Pharma	16,022	9.6	2.4
MBX	MBX Biosciences	Pharma, Biotech & Life Sci.	Pharma	2,972		1.6
RVMD	Revolution Medicines	Pharma, Biotech & Life Sci.	Biotech	45,015		3.0
AMGN	Amgen	Pharma, Biotech & Life Sci.	Biotech	236,381	18.2	3.0
UTHR	United Therapeutics	Pharma, Biotech & Life Sci.	Biotech	20,914	17.4	3.0
BIIB	Biogen	Pharma, Biotech & Life Sci.	Biotech	32,629	14.5	2.4
ABBV	AbbVie	Pharma, Biotech & Life Sci.	Biotech	453,195	16.5	2.4
LEGN	Legend Biotech	Pharma, Biotech & Life Sci.	Biotech	4,163	51.8	2.4
EXEL	Exelixis	Pharma, Biotech & Life Sci.	Biotech	14,622	15.0	2.4
ACAD	ACADIA Pharma	Pharma, Biotech & Life Sci.	Biotech	4,828	34.5	2.4
CYTK	Cytokinetics	Pharma, Biotech & Life Sci.	Biotech	10,110		1.8
DNLI	Denali Therapeutics	Pharma, Biotech & Life Sci.	Biotech	3,561		1.6
IDYA	IDEAYA Biosciences	Pharma, Biotech & Life Sci.	Biotech	3,846		1.5
ORKA	Oruka Therapeutics	Pharma, Biotech & Life Sci.	Biotech	6,125		1.2
MDGL	Madrigal Pharma	Pharma, Biotech & Life Sci.	Biotech	12,501	224.6	1.2
KOD	Kodiak Sciences	Pharma, Biotech & Life Sci.	Biotech	2,222		1.0
IMCR	Immunocore	Pharma, Biotech & Life Sci.	Biotech	1,861		0.8
EW	Edwards Lifesciences	HC Equip. & Svcs.	HC Equip.	51,818	27.6	3.0
ISRG	Intuitive Surgical	HC Equip. & Svcs.	HC Equip.	129,547	31.4	3.0
BSX	Boston Scientific	HC Equip. & Svcs.	HC Equip.	69,273	14.1	2.4
MDT	Medtronic	HC Equip. & Svcs.	HC Equip.	120,456	15.4	2.4
SYK	Stryker	HC Equip. & Svcs.	HC Equip.	116,272	18.7	2.4
ZBH	Zimmer Biomet	HC Equip. & Svcs.	HC Equip.	18,706	11.0	2.4
ABT	Abbott Labs	HC Equip. & Svcs.	HC Equip.	187,452	18.4	2.4
ALGN	Align Technology	HC Equip. & Svcs.	HC Equip.	11,269	13.1	1.8
DXCM	DexCom	HC Equip. & Svcs.	HC Equip.	33,170	29.6	1.2
ENSG	Ensign Group	HC Equip. & Svcs.	HC Providers	9,954	20.6	3.0
BTSG	BrightSpring Health	HC Equip. & Svcs.	HC Providers	12,016	28.3	2.4
EHC	Encompass Health	HC Equip. & Svcs.	HC Providers	12,015	18.8	2.4
PACS	PACS Group	HC Equip. & Svcs.	HC Providers	6,729	16.7	1.8
ADUS	Addus HomeCare	HC Equip. & Svcs.	HC Providers	2,218	16.1	1.2
GDRX	GoodRx	HC Equip. & Svcs.	HC Tech	373	10.3	0.3
CTRE	CareTrust REIT	REITs	HC REITs	9,218	24.0	3.0
OHI	Omega Healthcare	REITs	HC REITs	14,054	21.0	3.0
SBRA	Sabra Health Care	REITs	HC REITs	5,309	30.6	2.8
AHR	American Healthcare	REITs	HC REITs	11,907	75.6	2.4
WELL	Welltower	REITs	HC REITs	170,218	75.8	2.4
VTR	Ventas	REITs	HC REITs	46,304	109.3	2.4
DOC	Healthpeak Properties	REITs	HC REITs	14,239	70.2	1.8
HR	Healthcare Realty	REITs	HC REITs	6,553	561.7	1.2
HCSG	Healthcare Services	Comm. & Prof. Svcs.	Comm. Svcs.	1,498	17.9	0.9
SCI	Service Corp. Intl.	Consumer Svcs.	Cons. Services	11,205	18.4	3.0

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo

5) Quality capital providers over weaker borrowers

The capital required to fund the AI buildout and capex broadening is contributing to an inflection in corporate borrowing and deal activity after years of deleveraging. Rising demand for capital is set to benefit higher quality capital providers while weak borrowers are at risk of getting crowded out as governments also issue to fund deficits. We like pairing a basket of 28 higher quality US capital providers and IBs against a basket of 86 higher leverage companies for the theme. Amid rising rates and worries about crowding out, quality capital providers trade at a ~7% discount to our high leverage basket despite much better earnings trends on improving credit growth and deal activity.

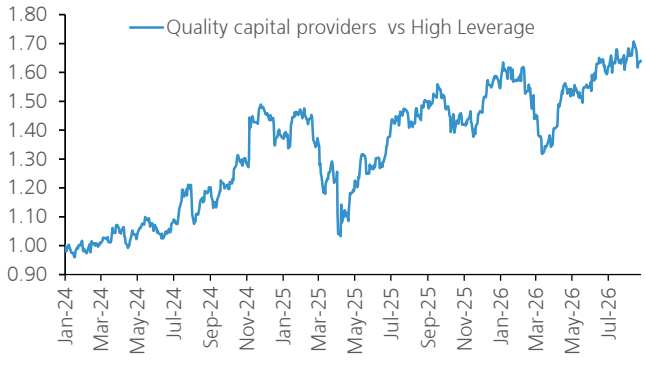
Quality capital providers basket rationale: The corporate leveraging cycle is early, with Q1 corp debt growth just in line with GDP, while deregulation is freeing up bank capital to meet rising borrowing demand and lifting ROEs/payouts.

- The basket has lagged since Jan despite stronger earnings trends than the avg stock and a jump in CFROI. Bank ROEs increased ~10pp during the deregulation and corporate leveraging cycle in the 1990s.
- The quality capital providers basket currently has a total payout yield of 5.7%. Financials buybacks plus dividends are up nearly 50% y/y on a quarterly basis as regulatory and earnings tailwinds have enabled increased payouts. Further clarity on Basel 3 and stress capital buffers this fall and next can be catalysts.

High leverage basket rationale: Weaker borrowers are at risk amid higher rates and an expected rise in corporate debt issuance near-term and medium term, led by AI related financings, while government deficits also need to be funded. AI can also disrupt business models and industries, leaving levered companies more vulnerable.

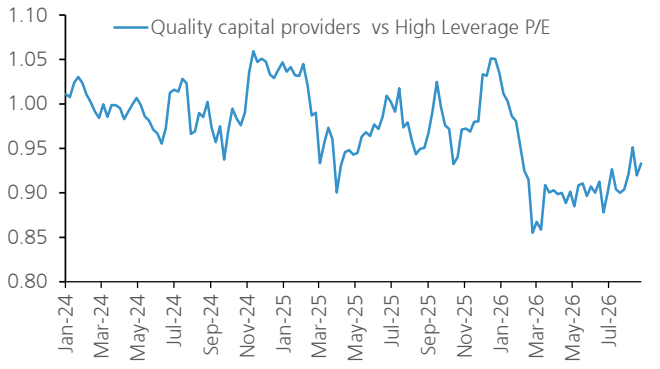
- The high leverage basket is up nearly as much as the equal wtd SPX despite persistent earnings downgrades and continued declines in EBIT margins.

Figure 58: Relative performance of quality capital providers vs high leverage has been on an uptrend



Source: Factset, UBS

Figure 59: Relative P/E of quality capital providers vs high leverage is ~7% below avg



Source: Factset, UBS

Private sector releveraging amid fiscal dominance

We believe the US is in the early stages of a releveraging cycle for the private sector. After deleveraging since COVID with total credit growth running well below GDP, nonfinancial corporate debt growth y/y picked up notably this year and looks to be continuing the trend with further to run in our view. US housing is in the doldrums waiting for rates to fall enough to stimulate activity, but housing activity has been running at recession levels for years and has upside convexity while home equity loans are actually rising.

Demand for capital is rising fueled by AI buildout. The AI build out requires vast amounts of debt and equity capital, so corporate demand for capital is rising. Capex is also broadening out as discussed above with AI acting as a call on capacity across supply chains and strategic domestic sourcing a priority in certain industries. Consumers are also borrowing on home equity to support spending and this trend can continue with non-bank financial blockchain-based lending platforms making it that much easier for consumers to tap net wealth quickly.

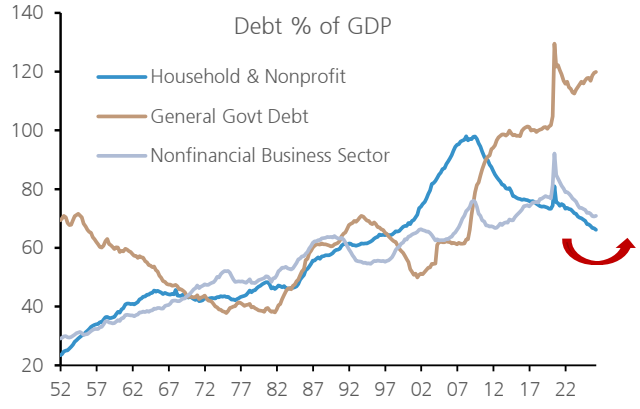
Regulatory loosening can support supply of capital. On the supply side, US bank regulatory loosening is freeing up capital that can support a releveraging of the private sector. UBS estimates excess capital could reach ~$300bn from the relaxing of the various constraints across Basell III, SCB, etc (Najarian). Uncertainty coming down around capital requirements could also see banks deploy more of their capital around lower duration/risk opportunities as some IBs did earlier in the year, or eventually strategically increase loan portfolios. Additionally, non bank financial institutions are increasingly facilitating the provisioning of credit. Greater decentralization of financing will likely see more flare ups, with legacy software private credit and related business services an overhang as UBS credit strategists highlight (Mish), but the system is healthier in our view, and more dynamic in allocating capital.

Competition for capital is rising amid fiscal dominance. Private sector borrowing and equity issuance is happening amid exceptional government deficits and issuance. Thus the competition for capital should rise. Strong borrowers can fund the build out and/or business pivots while highly levered companies are likely to face higher WACCs, refinancing pressure, and capital scarcity. Private credit issues/outflows, AI financing structures/needs and IPOs/equity issuance are examples of the capital raising process impacting the market at various points. US bank lending standards for C&I loans remains somewhat tight, bankruptcies are on the rise and CCC spreads continue to widen - all evidence that the marginal borrower is facing increasing pressure.

AI disruption. At the same time, AI is disrupting many business models, as magnified in software private credit, and could potentially impact labor markets. There are also cross currents from AI on inflation, with data center demand driving price increases in many components (memory, etc) while AI is disinflationary in many respects given its potential impact on labor.

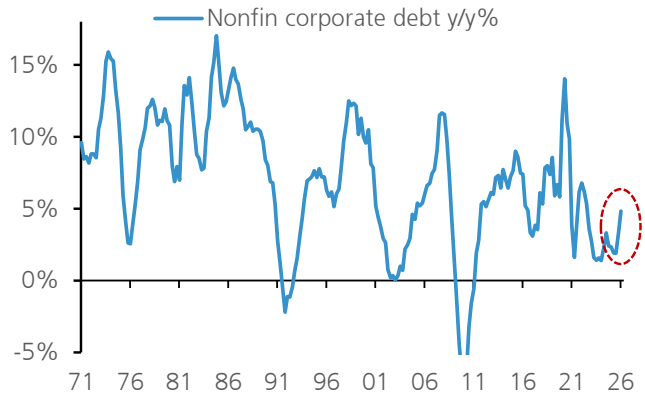
The capital required to fund AI and capex buildout is contributing to an inflection in corporate borrowing and deal activity after years of deleveraging. We like quality lenders over weaker borrowers.

Figure 60: Debt as a % of GDP



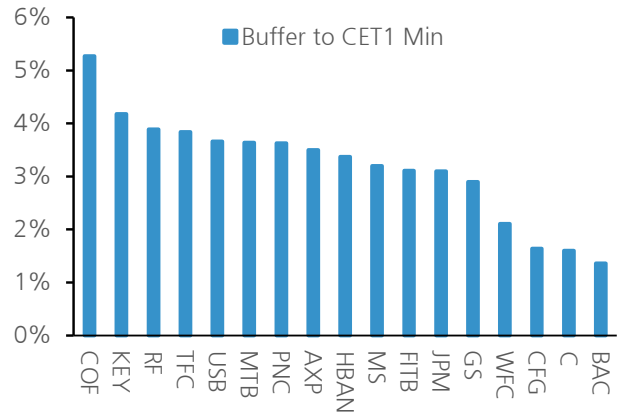
Source: FRB, Haver, UBS

Figure 61: US non-financial corporate growth turning up



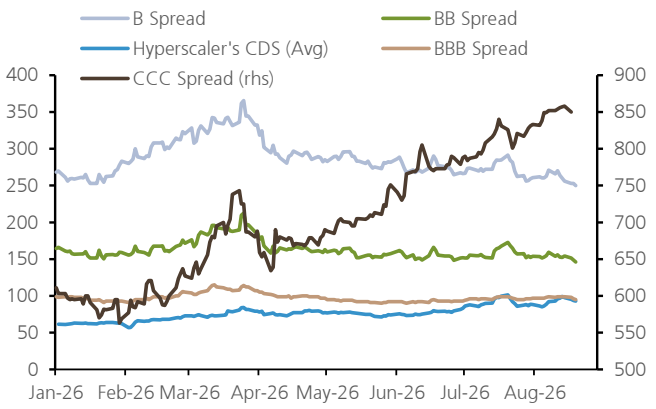
Source: FRB, Haver, UBS

Figure 62: US banks capital levels relative to CET1 requirement



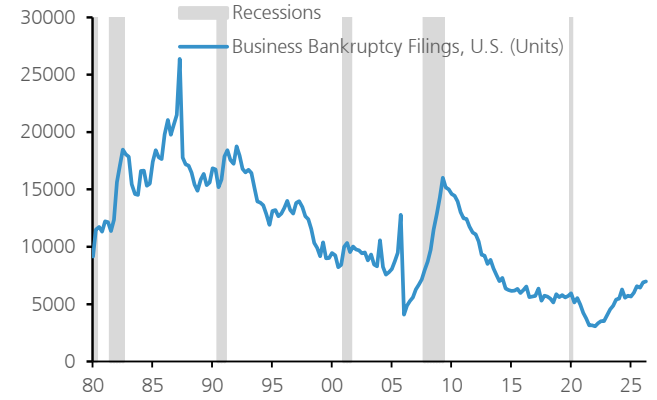
Source: FactSet, UBS

Figure 63: Credit spreads rising for higher risk cohorts as weaker borrowers "crowded out"



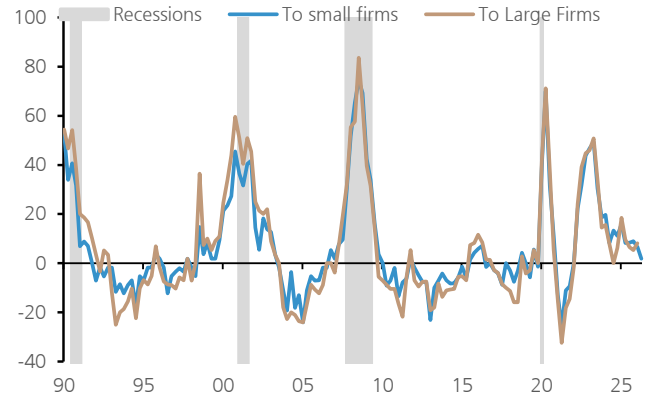
Source: Bloomberg, UBS

Figure 64: Business bankruptcy filings rising



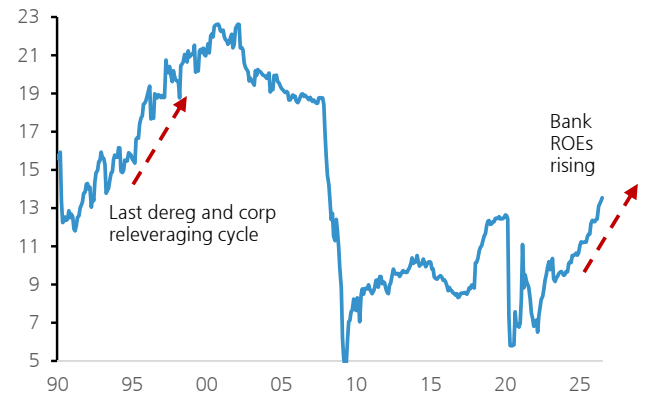
Source: FRB, Haver, UBS

Figure 65: Bank C&I loan standards still somewhat tight



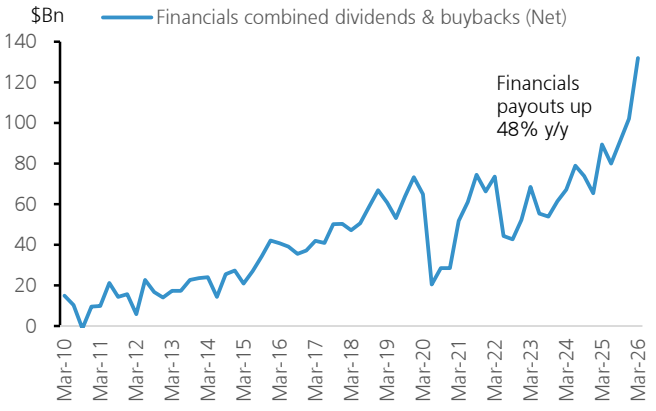
Source: FRB, Haver, UBS

Figure 66: US Banks CFROI continues to rise (adjusted cash earnings to tangible equity)



Source: UBS HOLT, mkt cap wtd, Banks CFROE reduced 150bp to get comparable CFROI.

Figure 67: Financials total payouts are rising



Source: FactSet, UBS

Basket: Quality capital providers

To capitalize on the trend of increasing corporate borrowing and equity issuance, as well as rising deal activity, we constructed a basket of 28 stocks based on the following:

- **UBS analyst input.** We reached out to respective UBS analysts across the Financials subsectors to identify stocks from their coverage that would benefit most from the pickup in corporate financing needs. Analysts also provided input on relative quality across the stocks for the theme.
- **Weight by theme exposure.** Analysts scored each stock based on strength of theme relevance. The scores were used to weight the stocks in the basket.
- **Basket size and ADV:** We target a basket size of $100mm with 10% of ADV the max position for each stock. We optimize to the target weights based on the above theme score, the ADV limitation and the target basket size.

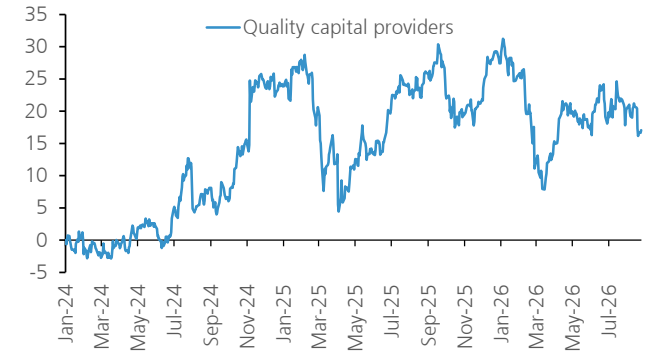
Basket tearsheet and rationale

Figure 68: Quality capital providers have pulled back recently after solid performance since Apr



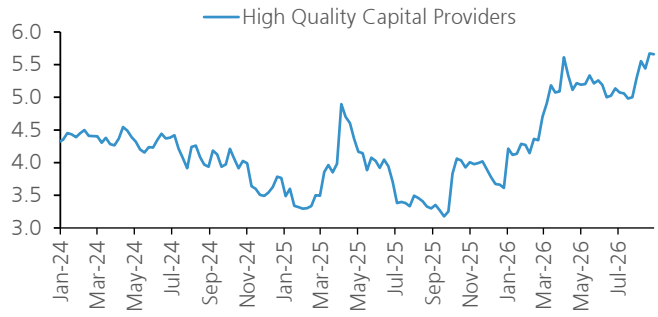
Source: FactSet, UBS

Figure 69: Relative performance vs SPX eq wt is well below Jan highs



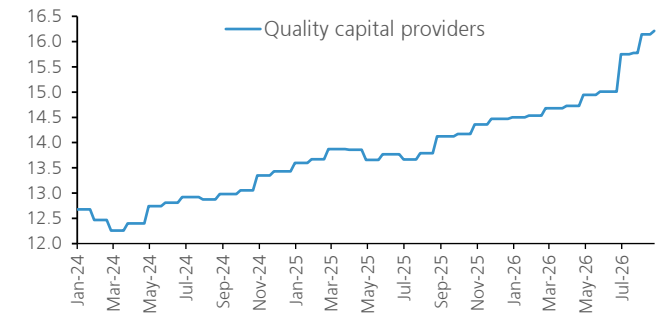
Source: FactSet, UBS

Figure 70: Total yield has risen to 5.7% as payouts dividends + buybacks have jumped



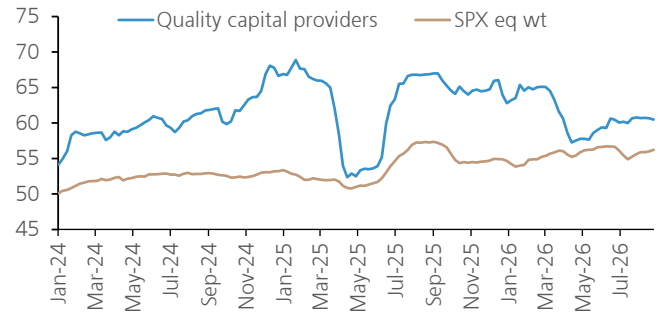
Source: FactSet, UBS

Figure 71: HOLT CFROI for quality capital providers continues to rise, as ROEs are higher



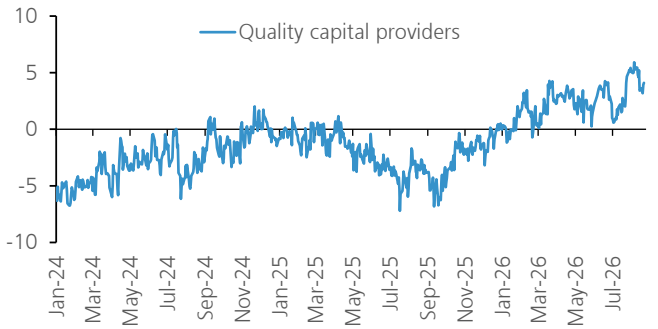
Source: FactSet, UBS

Figure 72: Earnings score remains above the market



Source: FactSet, UBS

Figure 73: Crowding vs SPX eq wt has been slightly positive



Source: FactSet, UBS

Figure 74: Quality capital providers stocks and weights

Quality Capital Providers

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
BAC	Bank of America	Banks	Banks	438,305	12.4	5.9
KEY	KeyCorp	Banks	Banks	23,669	10.9	5.9
EWBC	East West Bank	Banks	Banks	17,917	11.8	4.7
ONB	Old National Bank	Banks	Banks	9,962	9.3	4.7
SSB	SouthState Bank	Banks	Banks	10,471	10.8	4.7
WTFC	Wintrust Financial	Banks	Banks	10,398	11.3	4.7
C	Citigroup	Banks	Banks	231,017	11.2	3.5
PNC	PNC Fin Svcs	Banks	Banks	97,981	11.9	3.5
PNFP	Pinnacle Financial	Banks	Banks	15,264	9.2	3.5
JPM	JPMorgan	Banks	Banks	953,332	14.3	2.4
COLB	Columbia Banking	Banks	Banks	8,713	9.6	2.4
FHN	First Horizon	Banks	Banks	11,816	11.1	2.4
RF	Regions Financial	Banks	Banks	25,916	10.9	2.4
TFC	Truist Financial	Banks	Banks	63,097	10.6	2.4
VLY	Valley National Bank	Banks	Banks	7,750	9.6	2.4
BX	Blackstone	Fin Svcs	Cap Mkts	102,198	19.6	4.7
GS	Goldman Sachs	Fin Svcs	Cap Mkts	302,414	14.4	4.7
MS		Fin Svcs	Cap Mkts	341,944	16.2	4.7
EVR	Evercore	Fin Svcs	Cap Mkts	11,457	13.8	4.7
BLK	BlackRock	Fin Svcs	Cap Mkts	173,808	18.2	3.5
PJT	PJT Partners	Fin Svcs	Cap Mkts	4,671	21.0	3.5
BAM	Brookfield AM	Fin Svcs	Cap Mkts	82,843	24.5	2.4
ARES	Ares ManagemenT	Fin Svcs	Cap Mkts	31,388	20.5	2.4
OWL	Blue Owl	Fin Svcs	Cap Mkts	8,036	12.3	2.4
JEF	Jefferies	Fin Svcs	Cap Mkts	10,700	12.4	2.4
MC	Moelis & Co.	Fin Svcs	Cap Mkts	5,113	18.8	2.4
HLI	Houlihan Lokey	Fin Svcs	Cap Mkts	7,431	17.8	2.4
APO	Apollo Global	Fin Svcs	Fin. Services	78,938	13.2	4.7

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo

Basket: High leverage

We construct a basket of 86 stocks that have high leverage levels and could be more exposed to potential crowding out as the government continues to issue and corporate borrowing needs are picking up. We also see the potential for investors with less liquid credit positions to hedge in more liquid equity markets as the corporate credit cycle evolves. Last, companies with high leverage have less embedded "call options" given less capacity to invest after levering up, which is a negative headwind as competition likely picks up as corporates deploy AI and disruption plays out.

Selection criteria. We selected US stocks based on:

- **Net debt / EV:** We include companies where net debt is a material portion of their enterprise value (>25%) to screen out speculative, high growth stocks where debt markets are not as significant a driver of the stock. We also exclude companies with higher average credit ratings.
- **Leverage score:** We construct a weighted average measure of net debt to EV, net debt to EBITDA and coverage ratios to rank stocks based on leverage risk. We include companies that score in the top 30% on an absolute basis and the top 25% within their industry group.
- **Low valuations**: We exclude companies with very low valuations, that rank in the bottom 15% based on actual P/E vs our model implied, and also exclude the bottom 10% of stocks based on our valuation composite score.
- **Stronger earnings:** We exclude companies that score in the top 15% across all US liquid stocks and within their respective industry group based on our composite score for earnings level and change (CAGRs, revisions, profitability, etc).
- **Highly shorted excluded**: We remove companies with short interest as a % of float above 15% and/or a high borrow cost.

Weighting methodology. We weight selected stocks by the relative leverage score above as well as target basket size and ADV/liquidity:

- **Basket size and ADV:** We target a basket size of $100mm with 10% of ADV as the max position for each stock. We optimize to the target weights based on the leverage score, the ADV limitation and the target basket size.

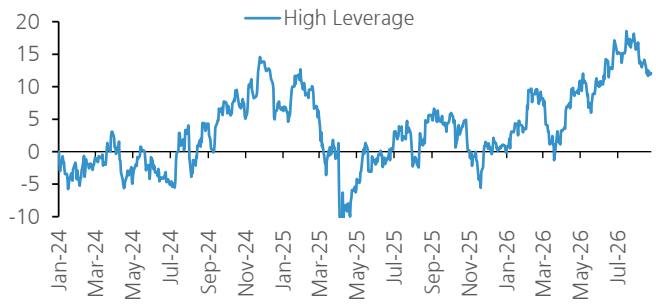
Leverage stats for basket. The average leverage ratios for the stocks in the basket are elevated on average:

- Net debt to EV is an avg of ~50%
- Net debt to EBITDA avg of ~6x
- Interest coverage avg of ~2x
- Debt due before 2028 of ~20%



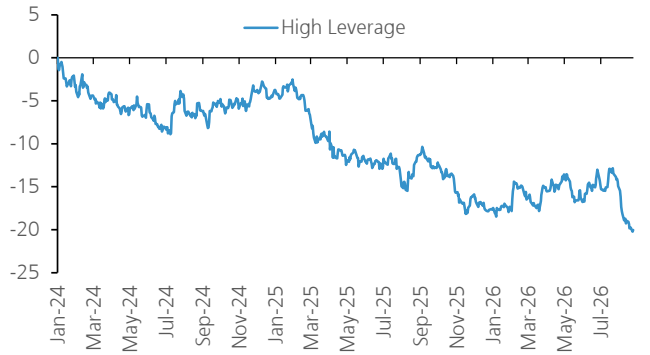
Basket tearsheet and rationale: High Leverage

Figure 75: High leverage stocks are up notably YTD despite the recent pullback



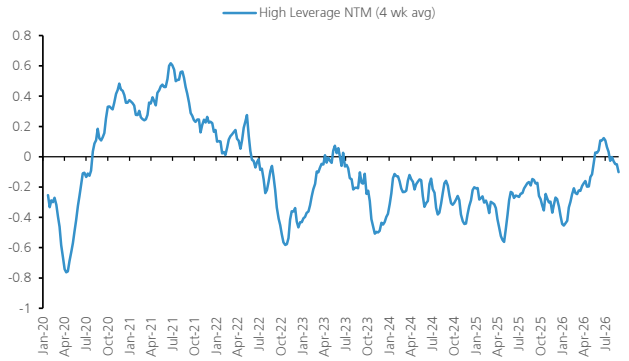
Source: FactSet, UBS

Figure 76: High leverage stocks have underperformed recently and have lagged since 2024



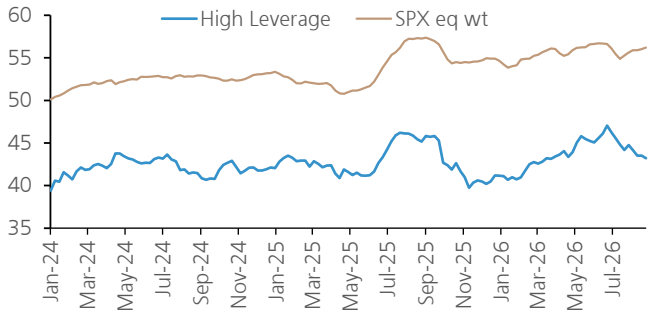
Source: FactSet, UBS

Figure 77: Revisions ratios have been predominantly negative since 2022 and look to be turning down again



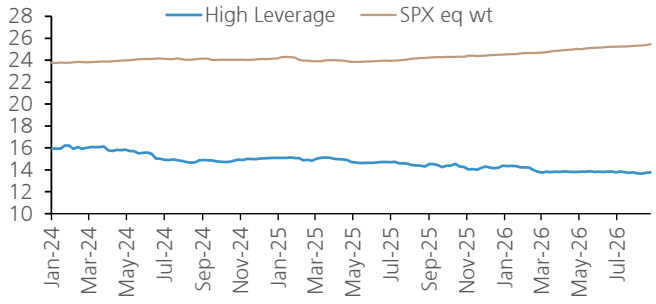
Source: FactSet, UBS

Figure 78: Earnings score remains below market averages



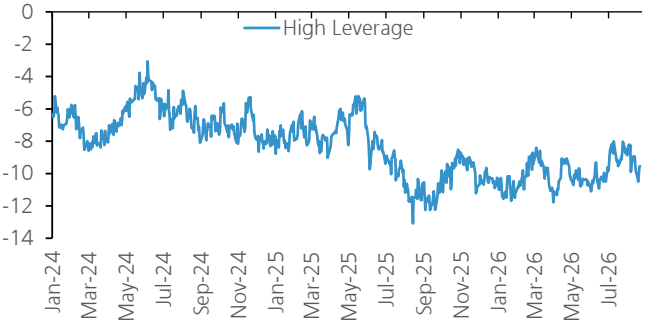
Source: FactSet, UBS

Figure 79: EBIT margin deterioration for leverage basket continues with the gap vs mkt avg widening



Source: FactSet, UBS

Figure 80: Crowding remains well below market levels



Source: FactSet, UBS

Figure 81: High Leverage stocks and weights - Part 1

High Leverage

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
PATK	Patrick Industries	Autos & Comp.	Auto Comp.	2,661	16.6	1.0
F	Ford Motor	Autos & Comp.	Autos	57,263	7.6	1.2
BLDR	Builders FirstSource	Cap Goods	Building Products	7,079	16.3	1.2
REZI	Resideo Technologies	Cap Goods	Building Products	3,019	10.6	1.2
WSC	WillScot Holdings	Cap Goods	Constr. & Eng.	3,620	16.1	1.2
CTRI	Centuri Holdings	Cap Goods	Constr. & Eng.	2,074	23.0	1.1
RRX	Regal Rexnord	Cap Goods	Elec. Equip.	10,845	13.3	1.1
CNH	CNH Industrial	Cap Goods	Machinery	17,823	24.4	1.3
TRN	Trinity Industries	Cap Goods	Machinery	2,256	12.7	1.3
ALH	Alliance Laundry	Cap Goods	Machinery	4,518	15.8	1.1
GATX	GATX Corp.	Cap Goods	Trading & Distrib.	6,287	16.3	1.3
BCO	Brink's	Comm. & Prof. Svcs.	Comm. Svcs.	4,484	10.9	1.1
PBI	Pitney Bowes	Comm. & Prof. Svcs.	Comm. Svcs.	2,385	9.8	1.1
ABM	ABM Industries	Comm. & Prof. Svcs.	Comm. Svcs.	2,756	11.0	1.1
LAD	Lithia Motors	Cons. Disc. Retail	Specialty Retail	8,503	9.6	1.2
SAH	Sonic Automotive	Cons. Disc. Retail	Specialty Retail	1,586	10.9	1.2
KMX	CarMax	Cons. Disc. Retail	Specialty Retail	8,982	21.7	1.2
AN	AutoNation	Cons. Disc. Retail	Specialty Retail	7,021	8.9	1.2
NWL	Newell Brands	Cons. Durables	Household Durables	2,602	8.6	1.3
KBH	KB Home	Cons. Durables	Household Durables	3,203	12.4	1.2
SGI	Somnigroup Intl.	Cons. Durables	Household Durables	16,087	20.1	1.0
PII	Polaris	Cons. Durables	Leisure Products	3,558	18.9	1.1
UAA	Under Armour	Cons. Durables	Textiles & Luxury	2,047	35.9	1.2
VFC	VF Corp.	Cons. Durables	Textiles & Luxury	5,288	11.4	1.1
PVH	PVH Corp.	Cons. Durables	Textiles & Luxury	3,429	6.0	1.1
UNFI	United Natural Foods	Cons. Staples Retail	Staples Retail	2,659	13.1	1.2
PFGC	Performance Food	Cons. Staples Retail	Staples Retail	15,537	16.8	1.1
PENN	PENN Entertainment	Consumer Svcs.	Hotels/Rest. & Leisure	2,289	13.5	1.3
HGV	Hilton Grand Vac.	Consumer Svcs.	Hotels/Rest. & Leisure	3,268	7.9	1.2
WYNN	Wynn Resorts	Consumer Svcs.	Hotels/Rest. & Leisure	9,426	18.7	1.2
FLUT	Flutter Entertainment	Consumer Svcs.	Hotels/Rest. & Leisure	17,373	15.3	1.1
PRKS	United Parks	Consumer Svcs.	Hotels/Rest. & Leisure	1,834	11.7	1.1
RRR	Red Rock Resorts	Consumer Svcs.	Hotels/Rest. & Leisure	3,379	19.8	1.1
KGS	Kodiak Gas	Energy	Energy Equip.	6,328	22.9	1.1
CLMT	Calumet	Energy	Oil & Gas	4,670	72.7	1.2
CRK	Comstock Resources	Energy	Oil & Gas	4,481	29.7	1.1
OKE	ONEOK	Energy	Oil & Gas	60,156	15.8	1.1
DK	Delek Holdings	Energy	Oil & Gas	4,400	9.1	1.1
GLNG	Golar LNG	Energy	Oil & Gas	5,295	75.2	1.1
KMI	Kinder Morgan	Energy	Oil & Gas	69,922	20.6	1.1
BKV	BKV Corp.	Energy	Oil & Gas	2,852	14.7	1.1
PRMB	Primo Brands	Food, Bev. & Tob.	Beverages	7,963	15.3	1.1
JBS	JBS	Food, Bev. & Tob.	Food Products	10,112	11.0	1.2

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

Figure 82: High Leverage stocks and weights - Part 2

High Leverage

Ticker	Company	Industry Group	Industry	MCap ($mn)	12m fwd P/E	Weight %
TFX	Teleflex	HC Equip. & Svcs.	HC Equip.	5,863	14.2	1.1
BAX	Baxter Intl.	HC Equip. & Svcs.	HC Equip.	13,354	12.6	1.1
SGRY	Surgery Partners	HC Equip. & Svcs.	HC Providers	1,867	27.8	1.2
DVA	DaVita	HC Equip. & Svcs.	HC Providers	11,739	11.3	1.1
CON	Concentra Group	HC Equip. & Svcs.	HC Providers	4,396	19.4	1.1
COTY	Coty	Household & Personal	Personal Care	2,580	9.3	1.3
OLN	Olin Corp.	Materials	Chemicals	1,980	46.5	1.3
CC	Chemours	Materials	Chemicals	2,303	9.2	1.3
DOW	Dow, Inc.	Materials	Chemicals	21,266	14.7	1.1
MOS	Mosaic Company	Materials	Chemicals	8,218	20.8	1.1
SMG	Scotts Miracle-Gro	Materials	Chemicals	3,462	12.4	1.1
WLK	Westlake	Materials	Chemicals	9,558	23.0	1.1
FUL	H.B. Fuller	Materials	Chemicals	2,899	10.3	1.0
EMN	Eastman Chemical	Materials	Chemicals	8,143	10.6	1.0
GPK	Graphic Packaging	Materials	Containers & Pkg.	3,088	10.6	1.2
SLGN	Silgan Holdings	Materials	Containers & Pkg.	4,352	10.3	1.2
AMCR	Amcor	Materials	Containers & Pkg.	20,875	10.6	1.1
IP	International Paper	Materials	Containers & Pkg.	19,721	15.0	1.1
LION	Lionsgate Studios	Media & Ent.	Entertainment	3,324	25.6	1.2
CWK	Cushman & Wakefield	RE Mgmt. & Dev.	RE Mgmt. & Dev.	3,206	8.3	1.1
HHH	Howard Hughes	RE Mgmt. & Dev.	RE Mgmt. & Dev.	3,829	24.6	1.1
HR	Healthcare Realty	REITs	HC REITs	6,553	561.7	1.2
PEB	Pebblebrook Hotel	REITs	Hotel REITs	2,035	0.0	1.2
COLD	Americold Realty	REITs	Industrial REITs	4,060	0.0	1.3
LINE	Lineage	REITs	Industrial REITs	8,692	0.0	1.2
VNO	Vornado Realty	REITs	Office REITs	6,832	0.0	1.3
KRC	Kilroy Realty	REITs	Office REITs	4,320	94.9	1.2
BXP	BXP	REITs	Office REITs	10,807	33.1	1.2
HIW	Highwoods Properties	REITs	Office REITs	3,440	34.8	1.2
CUZ	Cousins Properties	REITs	Office REITs	4,792	79.4	1.2
MAC	Macerich	REITs	Retail REITs	6,590	622.2	1.2
AKR	Acadia Realty	REITs	Retail REITs	2,786	56.6	1.2
CCI	Crown Castle	REITs	Specialized REITs	32,262	30.1	1.1
SMA	SmartStop Storage	REITs	Specialized REITs	1,804	56.2	1.1
GXO	GXO Logistics	Transportation	Air Freight & Log.	5,542	14.3	1.2
AAL	American Airlines	Transportation	Airlines	8,692	8.2	1.3
ALK	Alaska Air	Transportation	Airlines	4,692	13.8	1.2
PCG	PG&E Corp.	Utilities	Electric Utilities	31,494	8.2	1.2
PNW	Pinnacle West	Utilities	Electric Utilities	11,819	18.5	1.2
FE	FirstEnergy	Utilities	Electric Utilities	27,063	16.3	1.1
SR	Spire	Utilities	Gas Utilities	4,888	15.3	1.2
CWEN	Clearway Energy	Utilities	IPP & Renewables	3,856	94.3	1.3
DTE	DTE Energy	Utilities	Multi-Utilities	28,317	16.7	1.1

Source: FactSet, UBS. Note: This list of securities contains stocks that may be impacted by a specific scenario. The scenario described herein might not necessarily be aligned with the base-case view of UBS equity analysts. Such views/reports are available on UBS Neo.

R.E.V.S framework for sectors, subindustries and stocks

We enhance R.E.V.S. for a market where abrupt changes in growth, profitability and expectations make past revisions and historical multiples less useful. The additions sharpen turning-point detection, distinguish structural growth from fleeting momentum and test whether fundamentals are already priced. We create scores across REVS components for nearly 2000 liquid stocks and aggregate stock level signals to identify sector, subindustry and stock opportunities.

We build upon the UBS strategy team's R.E.V.S. framework to quantitatively evaluate sectors and industry groups based on Regime, Earnings, Valuation, and Sentiment. We incorporate additional fundamental and proprietary variables to predominantly improve upon the Earnings and Valuation components of the scorecard, while also adding UBS unique data assets and quant models. These additions can help better identify growth and profitability inflections as well as incorporate what is priced relative to fundamentals based on our P/E framework. The result is a more actionable ranking tool for sectors, industry groups, sub-industries and themes as well as single stocks, with the respective components summarized below.

Refer to our prior work on R.E.V.S. for more detail on the original construction and variables (Le Roux).

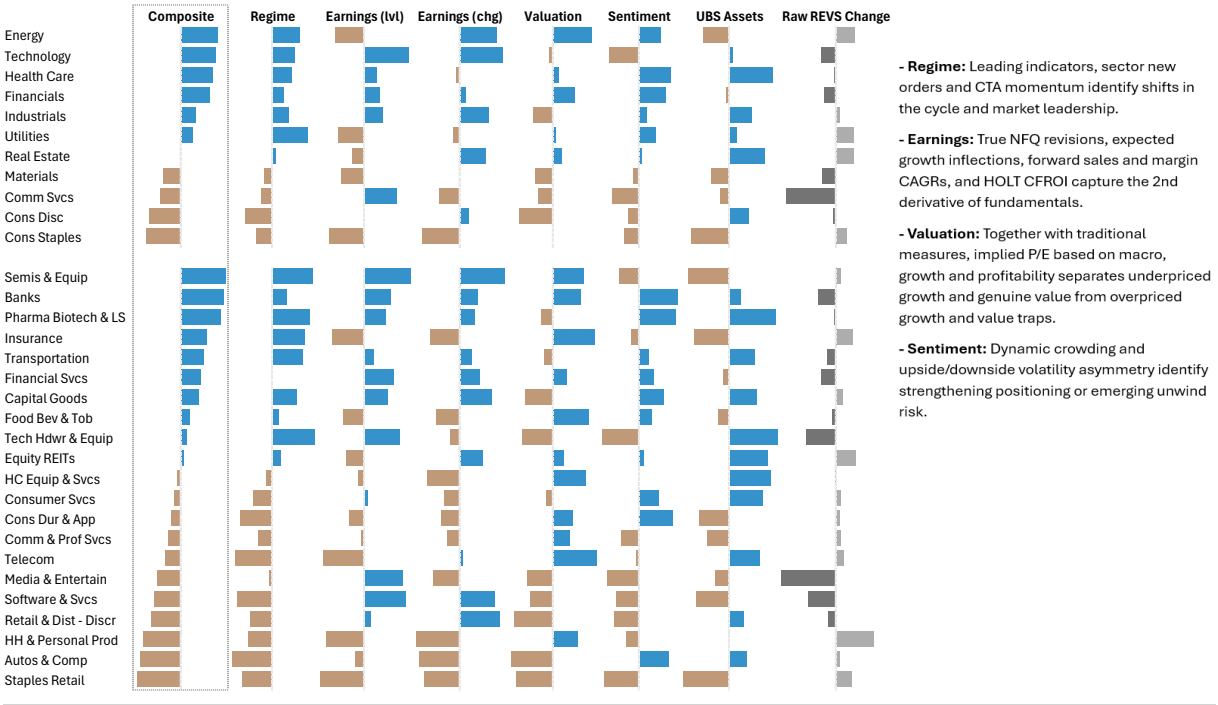
- **Regime**: Leading indicators, sector new orders and CTA momentum identify shifts in the cycle and market leadership.
- **Earnings**: True NFQ revisions, expected growth inflections, forward sales and margin CAGRs, and HOLT CFROI capture the second derivative of fundamentals.
- **Valuation**: Together with tradition measures, implied P/E based on macro, growth and profitability separates underpriced growth and genuine value from overpriced growth and value traps.
- **Sentiment**: Dynamic crowding and upside/downside volatility asymmetry identify strengthening positioning or emerging unwind risk.
- **UBS assets**: Analyst surprise asymmetry, Quant ML forecasts and Evidence Lab transcript signals add differentiated, forward-looking intelligence.

Sector and industry group scorecard

We aggregate single stocks scores across the variables in the R.E.V.S. framework to create sector and industry group rankings across each component as well as a weighted composite score. Our enhanced approach adds fundamental variables to better capture secular growth and tactical inflections in growth momentum. In addition, we deploy our SPX P/E framework at the stock level to estimate what is priced relative to drivers of valuation. We use a combination of z-scores and percentiles for the variables and components in the aggregation.

- **Overweight**: 1) Tech with Semis/Tech Hdwr over Software & Svcs, 2) Industrials as capex is broadening and inventories de-stocked, 3) Healthcare/BioPharma amid improving earnings and falling policy uncertainty, 4) Financials on private sector releveraging, deal activity and regulatory loosening, 5) Energy jumped in our scorecard as oil rose, and 6) Metals.
- **Underweight**: Staples, most parts of Discretionary, REITs, Materials (ex Metals), Business Services, Media & Entertainment, Telecom.

Figure 83: Sector and industry group scoring across R.E.V.S. framework



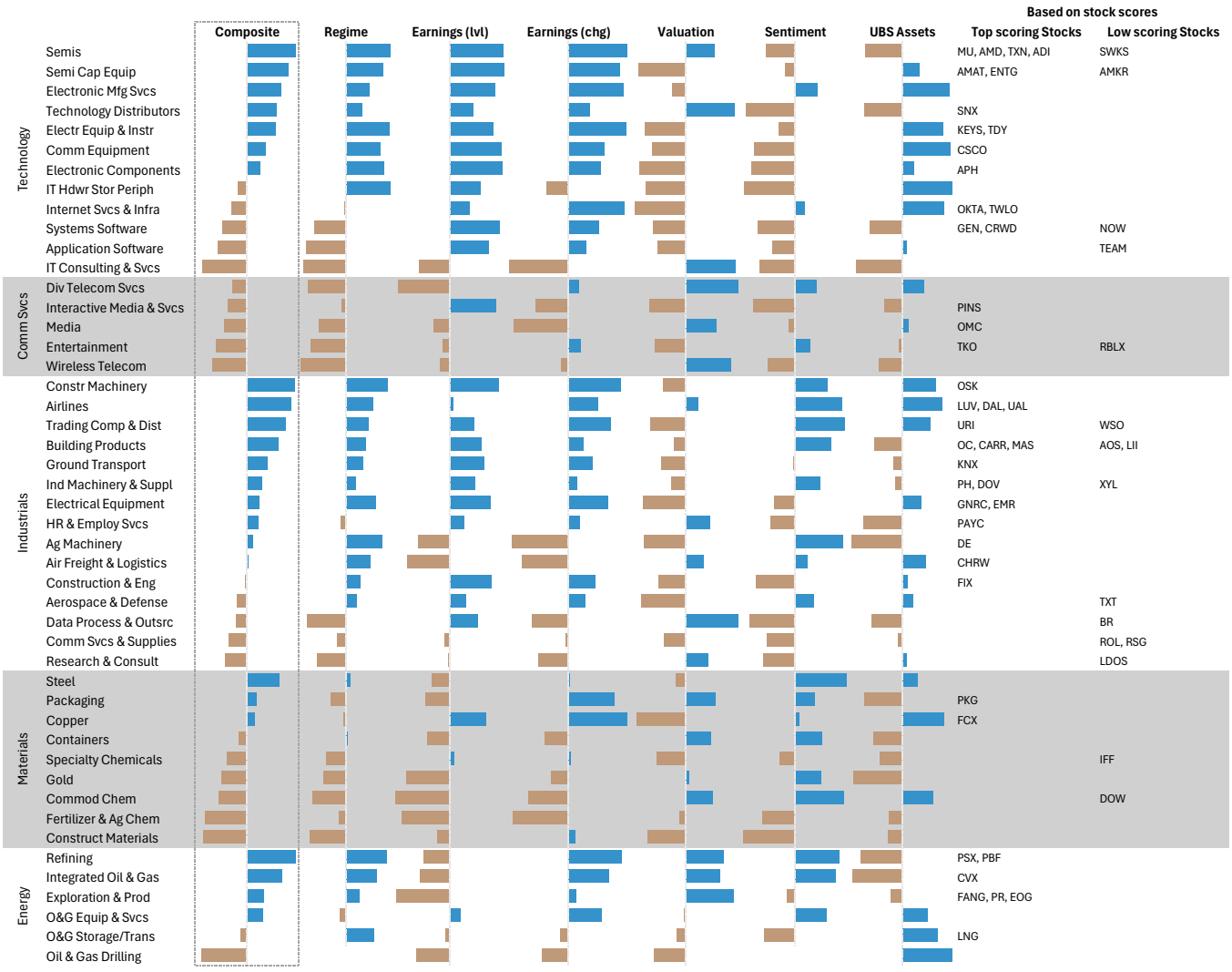
Source: UBS

Subindustry scorecard with select stocks

Subindustry granularity. We create a R.E.V.S. scorecard for sub industries within sectors to better identify relative value opportunities at a more granular level.

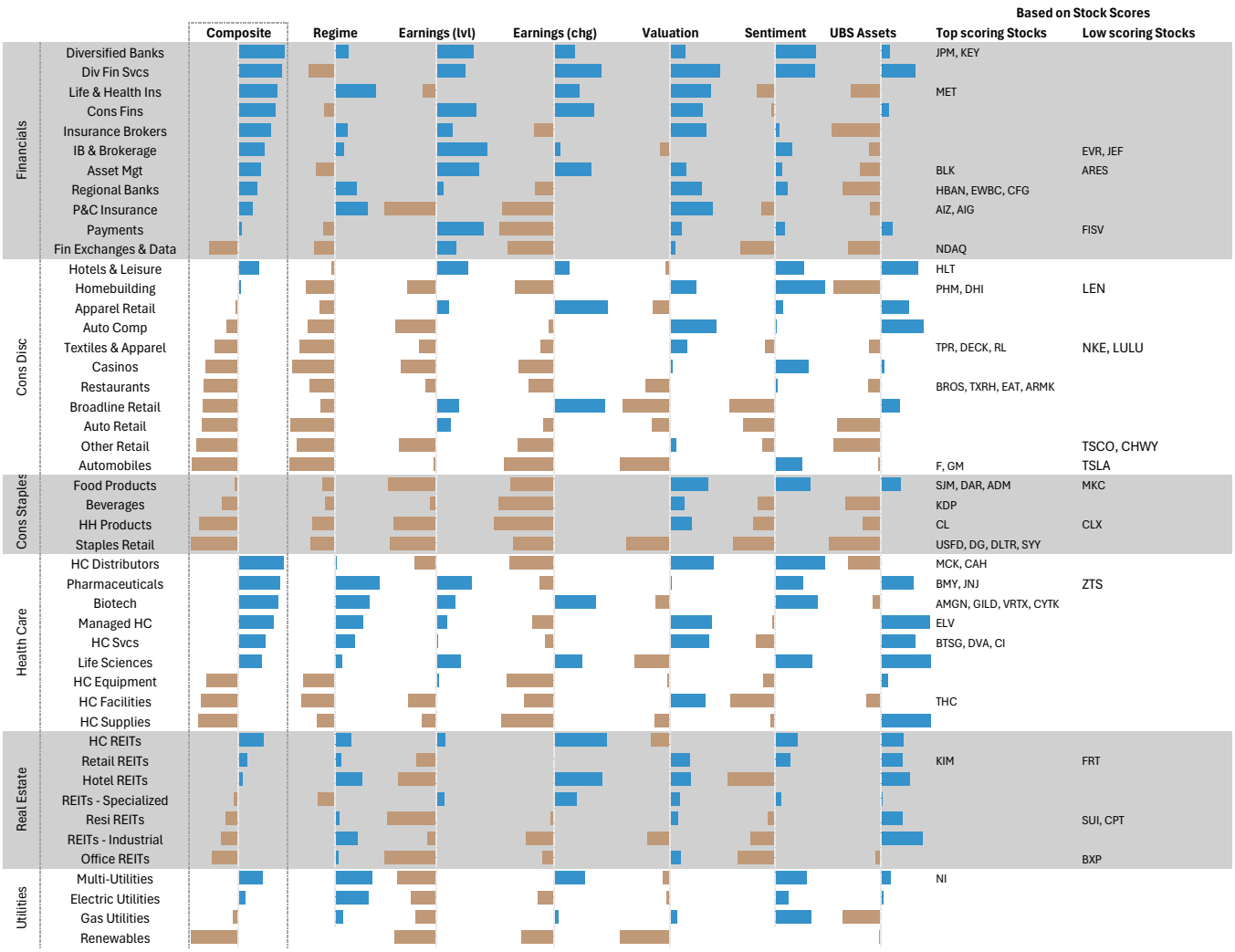
Stock highlights from R.E.V.S. Additionally, for each of the sub industries, we highlight select stocks that score in the top 35% based on the composite R.E.V.S. score and are UBS Buy-rated, as well as stocks that have low scores and are Sell- or Neutral-rated.

Figure 84: Subindustry scoring across R.E.V.S. framework



Source: UBS

Figure 85: Subindustry scoring across R.E.V.S. framework



Source: UBS

Valuation Method and Risk Statement

Equity market returns are influenced by corporate earnings, interest rates, risk premia, as well as other variables influenced by the business cycle. The outlook for any and all of these variables is subject to change.
Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes. Our quantitative models rely on reported financial statement information, consensus earnings forecasts and stock prices. Errors in these numbers are sometimes impossible to prevent (as when an item is misstated by a company). Also, the models employ historical data to estimate the efficacy of stock selection strategies and the relationships among strategies, which may change in the future. Additionally, unusual company-specific events could overwhelm the systematic influence of the strategies used to rank and score stocks. Past performance is not a guarantee of future performance. Valuation methods across sectors include DCF, SOTP and multiples analysis.
Options, structured derivative products and futures (including OTC derivatives) are not suitable for all investors. Trading in these instruments is considered risky and may be appropriate only for sophisticated investors. Prior to buying or selling an option, and for the complete risks relating to options, you must receive a copy of "The Characteristics and Risks of Standardized Options." You may read the document at http://www.theocc.com/publications/risks/riskchap1.jsp or ask your salesperson for a copy. Various theoretical explanations of the risks associated with these instruments have been published. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be supplied upon request. Past performance is not necessarily indicative of future results. Transaction costs may be significant in option strategies calling for multiple purchases and sales of options, such as spreads and straddles. Because of the importance of tax considerations to many options transactions, the investor considering options should consult with his/her tax advisor as to how taxes affect the outcome of contemplated options transactions. All options discussed in this report are OTC options.