Coffee Break

Coffee Break is our daily publication, offering topical insights as an intellectual ingot to start the day.

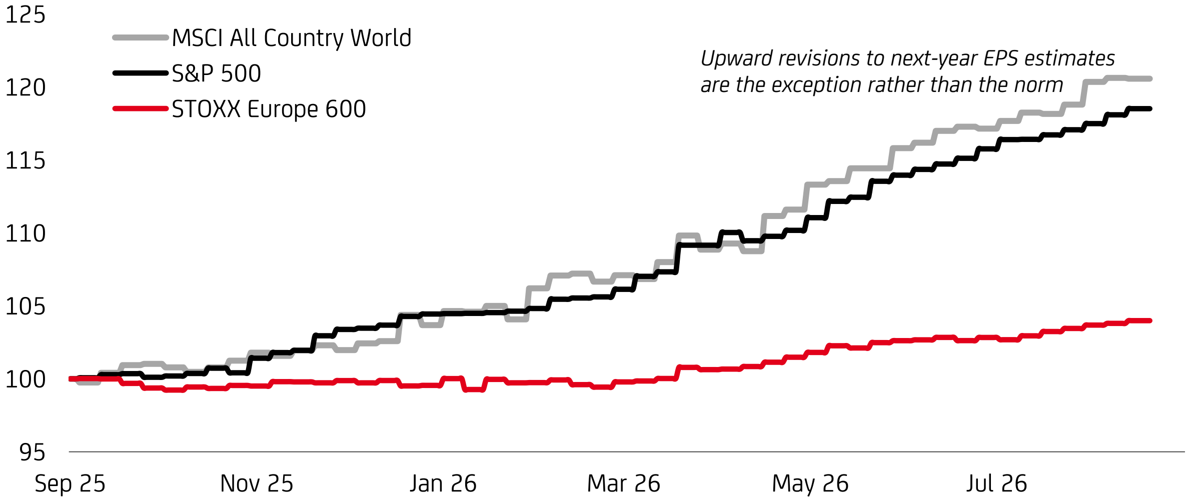
...but remember to come back in September

25 August 2026

Everyone knows the adage "Sell in May and go away" but far fewer are familiar with its more-important second part "...but remember to come back in September." The strong 2Q earnings season supports this view, with next year's earnings expectations continuing to move higher, a historically rare and highly constructive signal for equities.

POSITIVE EARNINGS REVISIONS REMAIN THE BACKBONE OF STOCK-MARKET SUPPORT

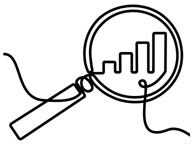
2027 EPS ESTIMATES, SEPTEMBER 2025= 100



Source: LSEG Datastream, The Investment Institute by UniCredit

THE CONTEXT

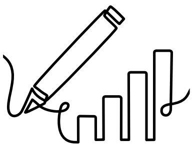
"Sell in May and go away but remember to come back in September" is a famous stock-market saying. Rather than a market-timing rule, it reflects a seasonal pattern during which a disproportionate share of long-term equity returns are historically generated between October and April, while the summer months often deliver more-subdued performance. This year has again demonstrated why seasonality should never be viewed as a mechanical trading signal. Equities have continued to advance during the summer, albeit at a more moderate pace, supported by resilient economic activity and, most importantly, a remarkably strong earnings backdrop. For investors returning from summer holidays, the key question is therefore not whether the old adage holds true but whether the foundations for further gains remain in place. In our view, the answer depends primarily on one factor: corporate earnings.



THE DATA

The backdrop for equities remains constructive. The latest earnings season has reinforced the earnings-driven nature of the current bull market, with companies across most regions delivering results above expectations and earnings revisions continuing to move higher. Particularly encouraging is the ongoing upward revision of consensus 2027 earnings forecasts across broad segments of the market. Historically, earnings estimates for the following year tend to be revised downward over time rather than upward. The fact that revisions are currently moving in the opposite direction provides a strong indication that the earnings cycle remains healthy and continues to support equity markets.

In the **US**, earnings growth reached its strongest pace since 2021, supported by continued investment in artificial intelligence, resilient corporate spending and strong profitability in the technology and energy sectors. **Europe** also delivered positive surprises, with earnings expectations revised steadily higher throughout the reporting season. Importantly, the recovery is becoming increasingly broad-based, extending beyond energy to financials, industrials, materials and technology. The rise in European manufacturing PMIs to 52.8 in August, firmly in expansion territory, further supports the prospect of improving earnings momentum over the coming quarters. In **Emerging Markets**, earnings strength remains concentrated in Taiwan and South Korea, where AI-related demand continues to drive substantial upgrades to profit expectations. Semiconductor and hardware companies continue to be the primary beneficiaries of the ongoing AI investment cycle.



OUR VIEW

Looking ahead, we expect AI-related capital expenditure to remain one of the most important drivers of global growth, demand and corporate profitability. Hyperscaler investment continues to accelerate, while spending on AI infrastructure, cloud computing and related technologies is expected to expand significantly over the coming years. While hyperscalers are driving this investment cycle, the most immediate beneficiaries continue to be semiconductor producers and other critical suppliers of AI infrastructure, reflecting their central role in enabling the build-out of computing capacity. Together with rising cloud revenues and ongoing productivity gains, this should provide a durable and broad-based tailwind for corporate earnings.

We also expect market leadership to broaden further. While large-cap technology companies remain important earnings drivers, improving profit expectations are increasingly spreading across sectors and market caps. Europe is particularly well positioned to benefit from this trend, given its cyclical sector composition and strong orientation toward industrial companies. The strong year-to-date performance of small-and-mid-cap companies reflects this broadening earnings recovery. The Russell 2000 has advanced by approximately 21% year-to-date, nearly double the performance of the S&P 500, providing tangible evidence that participation in the equity rally is widening. From an investment perspective, corporate earnings remain the single most important reason to remain constructive on equities. Valuations in some market segments are undoubtedly demanding, but continued earnings growth and the ongoing upward-revision cycle provide important support.

The principal risk to this constructive outlook would be a material increase in long-term interest rates, particularly in the US, although this is not our base-case scenario. Higher bond yields would likely translate into tighter financial conditions and higher discount rates, thereby reducing valuation support for risk assets. In addition, investors should remain mindful of the risk of unexpected developments in the global AI landscape, including technological breakthroughs or competitive announcements from China, which could alter market leadership and trigger periods of elevated volatility.

That said, as long as the earnings cycle remains intact, with consensus expectations for 2027 continuing to move higher and economic activity proving resilient, we see further upside potential for global equities over the medium term.

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