

Equity Newsletter

3rd Quarter 2026

First Trust

We hold a balanced, moderately positive view of U.S. equities as we believe robust capital expenditures should drive economic growth and earnings, while our outlook for consumer spending is mixed. In our view, the artificial intelligence (“AI”) buildout supports business capital expenditures (“CapEx”) in multiple categories, including semiconductors and networking equipment, as well as electrical equipment and infrastructure.

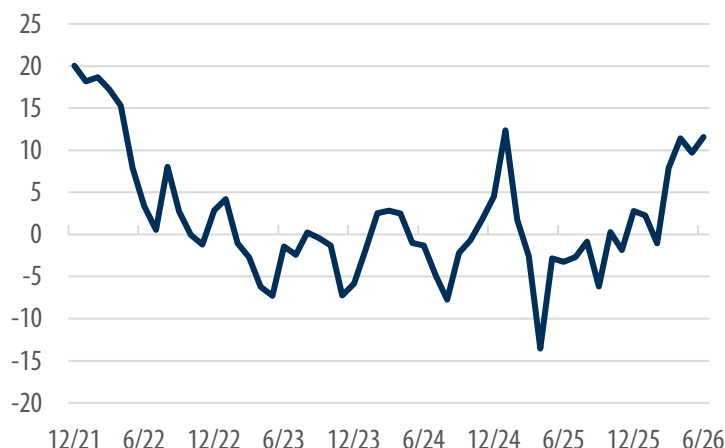
We believe strong economic growth, driven by business investment, will lift earnings across a broader set of companies and sectors, extending gains beyond mega-cap names and information technology.

Outside of information technology, we believe the industrials sector may benefit from the infrastructure spending requirements to build and power AI data centers. Additionally, reshoring initiatives to secure supply chains and avoid tariffs are supportive of business investment in industrial equipment and construction.

Recent business sentiment surveys evidence strong trends in industrial activity, with the headline May ISM Manufacturing Survey (54) indicating robust expansion, while the new orders component of the survey was particularly elevated at 56.8. Regional Federal Reserve CapEx intentions surveys also point to an uptick in investment (Chart 1).

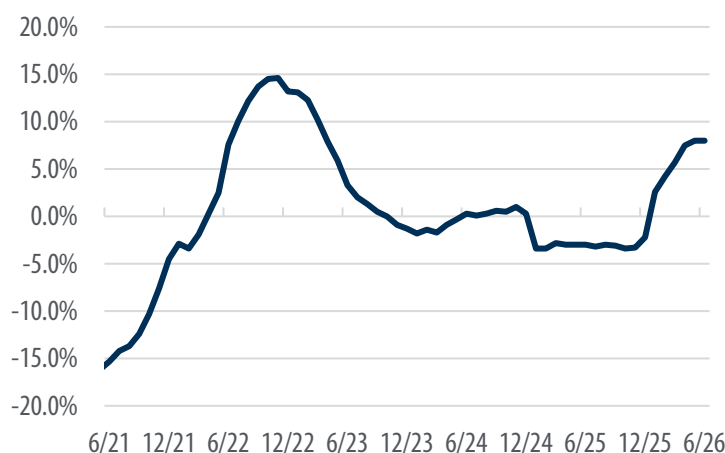
Improving CapEx trends are positive for loan growth, in our view. Commercial and industrial (“C&I”) loans are expanding at a healthy pace so far in 2026 (Chart 2), in our view. We expect strong loan growth, especially for C&I loans, regulatory relief, and robust initial public offerings (IPOs) and merger activity to be key drivers for operating performance in the financials sector.

Chart 1: U.S. Average of Regional Federal Reserve CapEx Intention Surveys



Source: Bloomberg. Data from 12/31/2021 to 6/30/2026. Average of CapEx expectation surveys for the Kansas City, Chicago, Philadelphia, New York Empire, Richmond and Dallas regional surveys.

Chart 2: Commercial and Industrial Loan Growth (YoY %)



Source: Federal Reserve Economic Data (FRED). Monthly data from 6/1/2021 to 6/1/2026. Percent change from previous year of billions in U.S. dollars, seasonally adjusted. Includes all commercial banks.

CapEx is a strategic investment in long-term assets that is depreciated over time on a company's financial statements.

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Sector Views

Communication Services

- Cloud service providers increasing CapEx to build out AI capacity as adoption increases. Return on CapEx investment is the key question for the industry, in our view.
- We believe agentic AI adoption may lead to a dramatic inflection in utilization for AI cloud service providers.

Consumer Discretionary

- Solid wage growth and relatively low unemployment are current positives for consumption, but job additions have been trending lower in the last few months, with only 57,000 jobs added to non-farm payrolls in June.
- Cumulative impact of inflation in recent years remains painful for consumers, especially on the lower end of income distribution, although the recent decline in energy prices provides optimism for inflation relief over time. High-income consumers are better positioned, in our view, benefiting from a positive wealth effect from rising asset prices.
- Increasing e-commerce penetration and automation of warehouses are secular positives for profitability.

Consumer Staples

- Defensive sector relatively unexposed to AI disruption, but offers what we see as relatively meager growth.
- Valuation not particularly attractive, in our view.

Energy

- While negotiations between the U.S. and Iran are taking place and crude oil prices have declined significantly from their peak in anticipation of increasing exports from the Persian Gulf, uncertainty remains. The need to refill strategic reserves and increase refining activity may be supportive to energy over time. Additionally, the U.S. economy is a key source of demand for energy, and we believe the U.S. will avoid recession in the immediate term.
- Energy sector equities provide a hedge against any re-escalation of Middle East geopolitical tensions, in our view.

Financials

- Investment banking revenue and trading volumes expected to strengthen amid increased capital markets activity and market volatility, respectively.
- We expect C&I loan growth, as we believe the outlook for business CapEx is strong. Reshoring also provides a tailwind to C&I growth, in our view.
- We expect a more industry-friendly regulatory stance towards banking, including less scrutiny of mergers and acquisitions, and easing of capital requirements.
- Credit quality remains reasonable, in our view. That said, we believe any significant rise in unemployment would increase delinquencies.
- AI adoption may increase efficiency in the financials sector through automation of underwriting, fraud detection and document processing.

Healthcare

- We expect increasing consolidation in the biopharma industry as big pharma replenishes their pipelines.
- Provides potential opportunity to invest in growth that is less correlated to the business cycle.
- We expect life science tools industry fundamentals to improve, as we believe the biopharma industry is becoming more willing to invest in capital equipment, and we expect government grants to normalize over time. AI may also result in more lab spending, as the industry builds out more capacity to generate data to train AI models. We expect robust bioprocessing growth, as well.
- Valuation is attractive in the sector, in our opinion.

Industrials

- Increasing infrastructure requirements to support data centers is a key secular driver for some industrial firms.
- Reshoring initiatives to secure supply chains and avoid tariffs are also supportive of business investment in capital equipment and construction, in our view.
- Strong recent ISM Manufacturing readings indicate expanding industrial activity.
- Defense industry names tend to benefit from increasing geopolitical risk, as well as a potential increase in defense spending on the part of U.S. allies over time.
- We see increasing innovation in the aerospace and defense industry, such as space technologies and drone warfare.

Information Technology

- We expect robust information technology corporate spending driven both by AI related capital spending, and in end markets outside of AI, such as traditional enterprise servers.
- Key semiconductor end markets such as AI, high bandwidth memory, and vehicle electrification may benefit from secular tailwinds.
- While we believe AI increases uncertainty across the software industry, particularly software as a service (SaaS), we see cybersecurity and infrastructure software as relatively insulated from AI disruption.

Materials

- Macro sensitive sector may benefit from spending on construction and infrastructure.
- We believe incremental demand from clean energy grid infrastructure and electric vehicle transition is a secular positive for some metals, such as copper.
- We believe the materials sector may benefit over time from policies and investment designed to reshore supply chains and improve resource security amid geopolitical tensions.

Real Estate Investment Trusts (REITs)

- Higher yielding sector sensitive to interest rate movements, potential to benefit if rates decline.
- In our view, data center REITs provide a strong secular opportunity but on a cyclical basis, are sensitive to the information technology spending environment.

Utilities

- Utilities are sensitive to interest rate movements, a potential positive if rates have peaked.
- Data center power consumption is a source of secular growth in electricity demand.
- Defensive, dividend paying nature typically more attractive in times of macroeconomic uncertainty.

DEVELOPED MARKETS

Europe

- Inexpensive valuation in comparison to U.S. stocks.
- While we believe European policymakers have expressed more willingness to stimulate their economies, which could support long-term growth, we believe Chinese imports redirected from the U.S. may negatively impact Europe's balance of trade, and potentially impact the competitive position of Europe's exports.
- We expect slower European macroeconomic growth relative to the U.S.
- Europe's economy is sensitive to energy prices given its reliance on energy imports, lower energy prices may provide a measure of relief to EU consumers.
- Geopolitical risk not only from Middle East and Ukraine/Russia conflicts, but also increased influence of populism on national politics within Eurozone.

United Kingdom

- We expect relatively slow macroeconomic growth.
- The Bank of England is likely to keep interest rate policy on hold, in our view.
- We believe fiscal policy will tighten. That said, Andy Burnham, who is expected to become Prime Minister in late July, may advocate for policies that require more borrowing, creating fiscal uncertainty.
- Inexpensive valuation in comparison to U.S. stocks.

Japan

- We expect robust capital expenditures and exports to the U.S. and EU to support corporate profits.
- Strong readings for the June Manufacturing PMI and the Tankan Manufacturing survey indicate a robust outlook for industrial activity, in our view.
- Bank of Japan raised interest rates in June, and may continue a modest tightening cycle over time, potentially strengthening the Yen.
- Japan benefits from "friend-shoring" and increased secular demand for advanced technology exports such as automation equipment.
- We expect corporate governance reforms to improve capital efficiency via increased share buybacks and less cross-shareholder ownership, offering the possibility for higher return on equity for Japanese corporations over time.
- Challenging demographics potentially limit long-run economic growth.

Australia

- We expect moderate economic growth, driven by business investment in data centers and energy infrastructure.
- Exports of raw materials are another key driver of economic growth.

Canada

- U.S. is key trading partner and Canada stands to benefit from strong U.S. growth, in our view; that said, the U.S. declined to extend the U.S.-Mexico-Canada Agreement (USMCA), and instead will conduct annual reviews of trade with the two countries.
- Energy and metals exporter, which stands to benefit when oil prices rise and demand for basic materials is strong, would likely be sensitive to any slowdown in U.S. economic growth, or weak commodity prices, in our view.

EMERGING MARKETS

Emerging Asia

- Chinese policymakers have signaled a willingness to support growth with fiscal and monetary policy easing, and are taking steps to rationalize industrial overcapacity, as well. That said, we believe Chinese property market weakness remains a headwind.
- Although Chinese exports to the U.S. remain subject to U.S. tariff policy, China's electronics exports have been robust. Additionally, we expect China's export share to countries outside the U.S. to trend higher.
- Potential for geopolitical tensions presents risk to supply chains for key technologies and materials, and complicate U.S. firms' decisions to invest in China.
- Taiwan and South Korea are key exporters of semiconductor and electronic components, which creates opportunity when information technology spending is high, but presents risk if demand for information technology slows, in our view.

Latin America

- Mexican economy stands to benefit from exports to the U.S. Supply chain diversification away from China may be a structural tailwind to exports.
- Brazil and Latin America overall are sensitive to demand for commodity exports.
- Recent election results in Latin America, such as in Peru and Colombia, may result in more business-friendly policies, in our view.



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