(UBS)

Tactical US Equity Themes: July update

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This month, we make a few changes to our tactical US equity themes stock lists. We add Ford (F) to our investing in self help theme and remove Abbott Laboratories (ABT) from our diabetes and obesity theme. Additionally, on our time for quality theme, we add Texas Instruments (TXN) and remove both Accenture (ACN) and Qualcomm (QCOM).

Earnings could test the recent broadening rally

A hallmark of the current bull market has been the narrow concentration of performance, led by AI-related stocks. The wide dispersion is evident in the S&P 500 market cap weighted index performance, up 18% year to date, versus that of the equal weighted index, up only 9%—with nearly half of that coming in just the last week. Cooler-than- expected June CPI sparked a strong, long-awaited broadening of the rally, with cyclicals and interest-rate sensitive sectors and small-caps outperforming. Fed funds futures quickly repriced, pulling forward and shifting up rate cuts for this year to 65bps versus 50bps previously.

We believe the broadening is healthy for the market, but its durability will depend on the macro growth backdrop and corporate earnings growth. That said, we believe the market will remain in an uptrend supported by secular growth tailwinds.

Many of our tactical equity themes are positioned to benefit, and we continue to advise exposure. We see opportunities in select secular growth trends, including artificial intelligence, housing, reshoring, infrastructure, energy transition, and healthcare innovation—which can be accessed through our "Artificial intelligence," “Diabetes and obesity,” "Housing recovery" and “Made in America” themes. We also advise maintaining exposure to quality stocks (“Time for quality") and taking advantage of idiosyncratic self-help stories that can improve profitability ("Investing in self-help”).

Time for quality

- Within tech, we add **Texas Instruments (TXN)** and remove both **Accenture (ACN)** and **Qualcomm (QCOM)**.
- Texas Instruments is a high-quality, leading provider of analog semiconductors. We believe the company will benefit from a cyclical uptick in demand in its key industrial and automotive end markets, along with lean inventory levels at customers. We expect margins and earnings to improve significantly as production volumes increase.
- For Accenture, we see near-term headwinds to growth in an IT spending environment that is somewhat constrained while corporates also divert money to AI projects. While Generative AI could ultimately be a positive for the company, it's unclear how big of a revenue driver this could be as AI projects represented just 3% of YTD bookings as of the most recent quarter.
- Although we continue to have a most preferred view on Qualcomm, the stock has outperformed year to date and currently trades at a high forward P/E relative to history, which may limit upside in the near term.

Diabetes and obesity

- In this update, we remove **Abbott Laboratories (ABT)**. We continue to believe the company's leading presence in the diabetes market provides it with strong growth over the medium and long term. However, ongoing litigation may create headline risks in the near term.

Investing in self-help

- In this update, we add **Ford (F)**. The company is pulling back investment spending on electric vehicles (EVs) and we expect some of this capital to be reallocated to capital returns. Additionally, the company has re-organized how it reports its segment financials which now showcase its highly profitable 'Pro' division.
- This division sells and services trucks, vans, and cars to governments, contractors, and businesses and benefits from increased domestic infrastructure spending and overall reshoring. Ford is also focusing on improving overall quality which should lower warranty costs going forward.
- Finally, with rate cuts on the horizon, this could allow for easier financing for consumers who are buying cars.

Click here to see the latest Tactical US Equity Themes: Monthly update, which includes full stock lists.