



CIO expects April to be an air pocket for markets with the S&P 500 still on track to end the year around 5,200—up from 5,070 at the close on Tuesday. (UBS)

# A strong earnings season looks likely to help restore market confidence

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**Stocks have regained a steadier footing after three weeks of consecutive declines, amid worries over conflict in the Middle East, the pace of rate cuts, and greater caution over the outlook for AI.**

After the stabilization, investors are asking what comes next. One potential challenge to sentiment could come from the release on Thursday of the first official estimate of first-quarter US GDP growth. While this is not typically a market-moving release, since it is backward-looking, the data looks set to underline the strength of the economy—and hence the potential for interest rates to stay higher for longer. The Atlanta Fed's GDPNow measure is pointing to annualized growth of 2.9%, still well above the historical average. Even if the final number falls short of 3%, this release is likely to be a remarkable demonstration of resilience, coming after 4.9% and 3.4% growth in the prior quarters, and the most aggressive Fed tightening cycle in over four decades.

But despite continued caution on the outlook for rate cuts, we believe markets can regain their poise as the factors behind the recent sell-off abate:

**Fed easing should come back into focus as the slowdown in inflation resumes.** Inflation data for the start of 2024 have been undeniably discouraging, with the core consumer price index (CPI) rising by a monthly 0.4% in each of the first three months—too high to be consistent with the Federal Reserve's 2% annual target. However, we believe consumer spending is unlikely to stay at this pace. Real-time rent data points to a decline in the lagging indicator of shelter inflation,

which is roughly a third of the CPI basket. The labor market is getting back into balance with almost all indicators of wage growth continuing to decline, which makes the threat of an inflation re-acceleration a low risk.

Hopes that the strength of the US economy might be moderating were kindled by the release of a cooler-than-expected business activity survey. The composite purchasing managers' index for April fell to 50.9—the lowest in four months and only modestly above the 50-level that separates expansion from contraction. The services sector portion of the survey also pointed to a moderation of activity, potentially providing encouragement to Fed officials who have been concerned by an overheating in this part of the economy.

**Geopolitical risks should remain contained, in our view.** While the conflict between Iran and Israel has unsettled markets in recent weeks, the latest news suggests a worst-case outcome between the two countries should be avoided. So far, both countries seem set on walking a fine line between ensuring no aggression goes completely unpunished, while also minimizing casualties and damage as to avoid further escalation and an all-out war. Although, of course, we cannot underestimate risks having increased, and the possibility of mistakes or miscalculations is real.

**A strong earnings season looks likely to help restore market confidence.** This is a big week for earnings with around 180 companies from the S&P 500 unveiling their results, including four members of the Magnificent 7. Tesla rose in after-hours trading as investors focused on the company's announcement of a swifter rollout of new, cheaper vehicle models, despite an earnings miss. So far, however, results have generally supported our positive outlook. We continue to expect earnings per share growth of 7–9% for the S&P 500 over the quarter, putting us on track for a 9% rise in profits for 2024 overall.

So, we expect April to be an air pocket for markets with the S&P 500 still on track to end the year around 5,200—up from 5,070 at the close on Tuesday. We also still like small-caps, which have scope to rebound once rates do eventually trend lower and as earnings growth broadens.

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Original report - [Equities markets regain their poise, 24 April 2024.](#)

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