



CIO thinks the fundamental backdrop is supportive for equities, driven by solid economic and earnings growth, likely interest rate cuts, and rising investment in AI. (UBS)

The fundamental backdrop is still supportive for stocks

29 April 2024, 5:08 pm CEST, written by UBS Editorial Team

The S&P 500 has pulled back from all-time highs over the past month amid concerns about higher-for-longer Federal Reserve policy rates, geopolitical risks, and tech sector volatility. But we think solid economic and earnings growth, the likelihood that interest rates will still fall, and rising investment in AI should create a supportive backdrop for equities in 2024.

CIO sees opportunities in quality stocks—including the US IT sector—and in small caps.

The S&P 500 has pulled back from record highs.

- The S&P 500 has fallen roughly 3% since its record closing high in late March, though the index is still up around 7% year-to-date (as of 26 April).
- Higher-than-expected US inflation data have prompted investors to scale back their expectations for Fed rate cuts this year.
- Concerns about an escalation in the Middle East conflict have added to market volatility.

But we think the fundamental backdrop is still supportive for stocks.

- US economic growth remains solid, and we expect inflation to resume its gradual downward trend.
- We still think the Fed is likely to cut interest rates this year although uncertainty about the pace and timing of policy easing may keep equity markets choppy.
- We expect earnings growth of 9% for the S&P 500 in 2024.

We are neutral on equities overall and favor quality stocks.

- We expect the S&P 500 to end the year around 5,200 (vs. 5,100 as of 26 April).
- Quality stocks—including the US IT sector—should deliver resilient earnings growth. Despite the recent volatility in the tech sector, we believe the AI growth story remains intact.
- We like US small-cap stocks due to their discounted valuations and potential catalysts such as Fed rate cuts and stronger earnings growth. We also see opportunities in European small- and mid-cap stocks.

Did you Know ?

- The S&P 500 closed at a record high 22 times during the first quarter of 2024, the most since 1998.
- The S&P 500's gain of more than 20% between early October 2023 and the end of March ranked among the best six-month performances by the index in the past 80 years.
- Companies with “quality” attributes typically have strong returns on invested capital, resilient operating margins, and relatively low debt on their balance sheets.

Investment view

We are neutral on equities overall. Our December 2024 target for the S&P 500 is 5,200 in our base case and 5,500 in an upside economic scenario. We think investors should hold a diversified, strategic exposure to the tech sector while remaining mindful of concentration risks. For those diversifying beyond technology, we see opportunities in quality companies; alternative growth themes (e.g., the low-carbon transition, healthtech, and the ocean economy); and in small- and mid-cap stocks.

Main contributors - Vincent Heaney, Alison Parums, David Lefkowitz

Original report - [What's next for equity markets?, 29 April 2024.](#)

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2023. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.