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The fear of all-time highs

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Equity markets are hovering near record highs, supported by enthusiasm around artificial intelligence, solid corporate earnings, and a surprisingly resilient US and global economy—even as oil shocks and tensions in the Middle East trigger bouts of volatility. This backdrop naturally raises a question: If markets are at all-time highs, is a sharp decline imminent?

The phrase "all-time high" sounds dramatic, but in a growing market it is routine: prices should reach new highs regularly. Treating each new peak as an anomaly reflects psychology more than economics.

In September, the S&P 500 reached a near all-time high. However, over the past 100 years, the index has traded at or within 10% of its all-time high roughly two-thirds of the time. Being near a peak is therefore not exceptional; it is the typical state of a market that trends higher over time.

Record highs do not predict poor returns

Average forward returns following all-time highs have been broadly similar to unconditional long-run averages. Likewise, after accounting for the broader backdrop, volatility and drawdown risk have not been materially different from those observed in other periods.

Simply stating that "the market is at a record high" adds little predictive power for future returns. The level itself—record or otherwise—is a weak signal. More important is the reason the market has reached that level.

What matters more

Taken together, valuations, interest rates, growth prospects, and policy provide more useful information about future returns than the word "record." Long-horizon expected returns are more closely linked to valuation measures than to whether an index is at a high. Elevated valuations tend to be associated with lower subsequent long-term returns.

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At present, the S&P 500's 12-month forward price-to-earnings ratio is around 3% above its 10-year average. The index is also more heavily weighted toward growth stocks than in the past—companies that typically command higher valuation multiples—which helps explain the slight premium.

The durability and breadth of earnings growth, together with underlying economic momentum, will be key. UBS expects double-digit earnings growth for global equities both this year and next.

Interest rates, central bank policy, and fiscal conditions shape discount rates and investor risk appetite. UBS expects short-term rates to rise in some major economies, albeit by less than markets currently imply. Even so, one or two additional rate hikes in the US would be unlikely to derail the equity rally. In our view, the strength of earnings growth remains the dominant driver of equity markets.

The challenge of market timing

Moving in and out of markets around perceived highs and lows may sound appealing, but it is difficult and risky. The strongest market days often occur close to the weakest ones, so missing even a handful of powerful rebounds can materially erode long-term returns. Successful market timing requires getting both the exit and the re-entry right—a feat that often depends more on luck than skill.

For most investors, "time in the market beats timing the market" is more than a slogan; it is an empirical observation. Remaining uninvested while waiting for the "perfect" entry point can be costly. The long-term opportunity cost of staying on the sidelines has often exceeded the temporary cost of enduring geopolitical or macroeconomic drawdowns.

What to do instead of calling the top

Rather than treating record highs as a sell signal, investors can take several steps to strengthen portfolio resilience. First, rebalance regularly to target allocations. Second, reduce concentration risk, for example by avoiding excessive reliance on a handful of US mega-cap AI leaders. Third, maintain regional diversification. Fourth, stay invested and accept that volatility and drawdowns are part of the investment journey; portfolios should be designed to withstand them. Above all, investment decisions should be guided by long-term objectives and risk tolerance—not by headlines about "new peaks."

Record highs are a feature of functioning equity markets, not a flaw. Investors are better served by building and maintaining resilient, goal-aligned portfolios than by trying to predict when the next high will give way to the next correction.

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