(UBS)

Is this a good time to sell?

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At the outset of the year, investors had a Goldilocks view of strong growth and retreating inflation pressures. Since then, markets have been volatile as investors have digested news of an escalating trade war, increased economic uncertainty, and uncertainty regarding the artificial intelligence revolution.

From their last all-time highs, the S&P 500 has fallen about 10% and the “Magnificent 7" stocks have dropped 20%. Strong returns from bonds, international stocks, and commodities have helped to offset US stocks' weakness this year, but most balanced portfolios have experienced a modest pullback.

Over the past month, sentiment has shifted quickly as tariffs, DOGE cost-cutting efforts, and government layoffs have injected significant uncertainty into the outlook. Although this uncertainty hasn't materialized in hard economic data—for example, jobless claims, layoffs, and the unemployment rate remain low—we have seen slower hiring and a lower growth outlook for the US economy.

Increased uncertainty is also manifesting itself in investor sentiment. For example, the American Association of Individual Investors weekly survey of investors indicates that only about 21% of investors expect stocks to go higher in the next six months. This is more pessimistic than 94% of all past readings since 1987. Ironically, markets have tended to deliver above-average returns after period of elevated fear and uncertainty. We often all this the “pessimism paradox.” After previous readings like this, the S&P 500 has delivered an average return of **8.7%** over the next six months (positive returns **78%** of the time), and an average return of **16.7%** over the following year (average returns **87%** of the time).

In our view, this selloff is an opportunity for investors to deploy any excess cash in a well-diversified portfolio, including buying quality stocks that have recently pulled back and adding to bonds in the intermediate part of the yield curve. Investors seeking exposure to a market rebound while protecting against downside risks may want to consider options strategies and structured investments.

This doesn't look like a good time to sell investments. Capital markets remain open, recession risks remain low, and there is ample liquidity in the system—particularly after the recent Fed decision to slow quantitative tightening. Despite US policy uncertainty, we are optimistic that robust economic growth and AI tailwinds will help to drive portfolios higher from here. We continue to foresee two rate cuts in 2025—in June and September—and expect the 10-year Treasury yield to trend toward 4% by year-end. We also expect the S&P 500 to rally more than 10% through year-end.

For more, see the blog **Should you borrow from the market, or from the bank?** 26 March, 2025.