In CIO's view, the combination of solid growth and Fed rate cuts provides a supportive backdrop for risk assets, while the AI trend should lend further fundamental support to equities. (UBS)

Data suggest the market can rally further from here

31 October 2024, 12:50 pm CET, written by UBS Editorial Team US Editorial Team

The latest macroeconomic data and third quarter earnings results from megacap tech companies suggest that the market can rally further from here.

US third quarter GDP data support a benign growth (or "no landing") scenario. The US economy grew at an annualized rate of 2.8% in the third quarter, primarily driven by consumer spending, which increased at a 3.7% annualized rate. Growth was also driven by a 6% increase in goods spending, compared to 2.6% in services. The ADP employment survey for October showed a strong rise in private job creation (up 233,000 versus 111,000 expected) ahead of Friday's nonfarm payrolls release. These data must also be seen in the context of recent annual revisions to the past five years' National Economic Accounts by the Bureau of Economic Analysis, which show that GDP growth has averaged 2.5% per year since 2019. The data suggest that the US economic expansion appears sustainable, with limited risk of a near-term recession.

With Federal Reserve policy restrictive, more rate cuts are on the way. Wednesday's GDP data also show third quarter personal consumption expenditures (PCE) inflation moderated further, falling to 1.5% relative to 2.5% in the second quarter and with core PCE at 2.2%. Thursday's PCE price index report for September should offer additional clarity. With the Fed's preferred measure of inflation close to target, the latest data should be no hindrance to a further rate cut at next week's FOMC meeting. Recent comments from Fed officials suggest that a 25-basis-point rate reduction remains probable, as the US central bank continues to move toward a neutral policy stance. We expect 50 basis points of rate cuts for the rest of this year and a further 100 basis points of easing in 2025. Historically, Fed rate cuts in non-recessionary periods have been favorable for equities.

The structural AI growth story should continue to support stocks. On Wednesday, both Microsoft and Meta reported earnings and revenue that beat consensus estimates, with the former reporting strong growth in cloud and software businesses, and the latter projecting better-than-expected holiday quarter sales. Their results followed Alphabet's 35% year-over-year revenue growth in cloud, reported earlier in the week. Microsoft and Meta shares fell in after-hours trading, which may reflect concerns over the impact of increased capex on near-term margins. But, without taking single-name views, the continued growth in AI-related capex reported by all three tech giants supports the positive structural trend. We see the best opportunities in AI-linked semiconductors and US megacaps.

The combination of solid growth and Fed rate cuts provides a supportive backdrop for risk assets, in our view, while the AI trend should lend further fundamental support to equities. We view US equities as Attractive, and we target 6,600 for the S&P 500 by end-2025.

Main contributors: Solita Marcelli, Mark Haefele, Vincent Heaney, Brian Rose, Dean Turner, Jon Gordon

Original report:- **Solid fundamentals point to further potential equity gains, 31 October 2024.**