Cooling inflation, positive economic growth, and lower interest rates should create a supportive backdrop for stocks in 2024. (UBS)

Can equities rally further from all-time highs?

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The S&P 500 rallied to record highs in early 2024, helped by resilient US economic data and the rally in AI-related stocks.

Markets are likely to be choppy amid shifting expectations for central bank policy easing. But CIO thinks lower interest rates, positive economic growth, and growing corporate earnings should create a supportive backdrop for equities in 2024. In our base case, we see the S&P 500 ending the year modestly above current levels.

The S&P 500 set record highs in early 2024.

- The S&P 500 closed above 5,000 for the first time on 9 February, and has risen 7.7% year-to-date as of 1 March.
- Growth data has been resilient, and inflation has been trending lower.
- Enthusiasm for artificial-intelligence-related stocks also fueled the rally.

But we think the fundamental backdrop remains supportive for stocks.

- Our base case scenario is for a soft landing in the US, in which economic growth slows but remains positive and inflation falls further.
- The Federal Reserve is likely to cut interest rates this year, although uncertainty about the pace and timing of policy easing may keep equity markets choppy in the near term.
- We expect S&P 500 earnings per share growth of 9% in 2024.

We are neutral on equities overall, and see quality stocks as a core holding for investors.

- In our base case, we expect the S&P 500 to end the year modestly higher than current levels.

- Quality companies—with strong balance sheets, high profitability, and resilient earnings—should be best positioned to deliver performance, especially if economic growth slows. We see opportunities across regions, including the US IT sector.
- US small-caps, small- and mid-cap stocks in Europe, and emerging market equities should fare well in our base case and especially in an upside economic scenario of robust growth and lower rates.

Did you Know ?

- Historically, record highs have been no barrier to further stock market gains. Over the past 60 years, in the one-, two-, and three-year periods following a new all-time high, S&P 500 returns have averaged 12%, 23%, and 39%, respectively. This is hardly different from the 12%, 25%, and 38% average returns for all other periods over the same time frames.
- Companies with "quality" attributes typically have strong returns on invested capital, resilient operating margins, and relatively low debt on their balance sheets.
- We see AI as the key growth theme of the decade. We estimate AI revenues will grow by around 70% a year out to 2027, reaching USD 420 billion.

Investment view

We are neutral on global equities. We like quality stocks, including the US IT sector. We also see tactical opportunities in areas that would likely outperform both in our base case and in an upside economic scenario (e.g., emerging markets, US and European small-caps, and select mid-caps in Europe and Switzerland). Our December 2024 target for the S&P 500 is 5,200 in our base case, and 5,500 in an upside economic scenario.

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