CIO sees a constructive outlook for equity markets over our forecast horizon amid resilient US earnings growth, likely interest rate cuts, and rising AI investment. (UBS)

Can equities rebound?

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After ending August near its all-time high, the S&P 500 fell more than 4% in the first week of September. While various economic and geopolitical risks remain—and market volatility may resurface in the coming months—we believe robust earnings growth, the prospect of lower interest rates, and rising investment in AI continue to create a constructive backdrop for equities.

We recommend focusing on quality growth stocks.

Equity market swings have been pronounced over the past month.
- After rebounding in late August, the S&P 500 fell more than 4% in the first week of September.
- Investor confidence in an economic “soft landing” has waxed and waned.
- The S&P 500 is still up 13% year to date.

But we believe the fundamental backdrop remains constructive.
- US earnings growth remains solid, and inflation continues to cool.
- We expect the Federal Reserve to cut interest rates at all three of its remaining meetings in 2024.
- Companies remain committed to their AI investment plans.

Within equities, we recommend focusing on quality companies.
- In our base case, we forecast the S&P 500 rising to around 6,200 by June 2025.
- We recommend that investors ensure they hold sufficient long-term exposure to AI.
- We also favor quality growth stocks more broadly, including those exposed to the energy transition, and select quality companies in Europe and Japan.

Did you know?

- The S&P 500 set its 38th record closing high of the year on 16 July.
- Historically, stocks have performed well after volatility spikes. The S&P 500 has delivered 12-month total returns of around 15% after the VIX index rose above 25 versus 11% in all periods.
- Structured strategies with capital preservation features can help investors manage potential volatility (e.g., around the US election).

Investment view

We see a constructive outlook for equity markets over our forecast horizon amid resilient US earnings growth, likely interest rate cuts, and rising AI investment. We recommend focusing on quality stocks, as we believe they are well placed to deliver resilient earnings growth, especially if cyclical concerns mount.

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Important information