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

Historically, record highs have been no barrier to further stock market gains

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The S&P 500 rose to an all-time high in February, 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 we think 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 around current levels. We recommend seeking exposure to quality stocks, including the US IT sector, which should offer resilient earnings growth.

The S&P 500 reached a record high in February.
- The S&P 500 closed above 5,000 for the first time on 9 February.
- Growth data have 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 which economic growth slows but remains positive, and inflation falls further.
- The Federal Reserve is set 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 8% in 2024.

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

- We expect the S&P 500 to end the year around current levels in our base case.
- Quality companies—with strong balance sheets, high profitability, and exposure to resilient earnings streams—should be best positioned to deliver performance, especially if economic growth slows. We like 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.
- With around 50% of US small-cap debt floating rate (versus 10% for large caps), the segment is highly sensitive to interest rates, and so would be a particular beneficiary of faster Fed rate cuts.

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 small-caps, and small- and mid-caps in Europe and Switzerland). Our December 2024 target for the S&P 500 is 5,000 in our base case, and 5,300 in an upside economic scenario.

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Original report - **Mixed data point to uneven path to soft landing, 16 February 2024.**