



CIO recommends investors keep a long-term perspective with regard to their financial goals and focus on quality companies in their equity holdings. (UBS)

# Volatility can be an opportunity rather than a threat

03 September 2024, 3:02 pm CEST, written by UBS Editorial Team

**Global equities have held near record highs at the start of September, a month that has traditionally been marked by volatility. Over the past five years, the S&P 500 fell 4.2% on average in September, the worst-performing month. Meanwhile, the VIX index of implied stock volatility has risen each September since 2021.**

The trend could continue, as investors will parse a range of data releases to gauge the state of the US economy, especially Friday's employment data for August, ahead of a widely expected interest rate cut by the Federal Reserve this month. The campaigns for the US presidential election are likely to heat up further, with 5 November just two months away. And geopolitical uncertainties remain elevated.

But we maintain a positive outlook for equities despite the potential volatility, forecasting the S&P 500 to rise to 5,900 by year-end and 6,200 by June next year, up from 5,648 as of Friday's close.

**Monetary easing typically leads to stronger equity performance.** Historically, in the absence of a recession, the S&P 500 index has gained 17% on average in the 12 months following the first Fed rate cut of a cycle. With Fed Chair Jerome Powell saying "the time has come" for a first cut since the pandemic, we see a constructive market environment in the coming months. We expect the US central bank to cut rates at each of its three remaining meetings this year.

**The risk of the US economy falling into a recession is low, in our view.** Investors will find out more about the health of the US economy with Friday's release of the labor report. This could help settle the debate in markets about whether an accelerated rise in unemployment in July was due to hurricane-related disruptions or reflected genuine economic weakness. But recent data, including retail sales, corporate profit margins, and services sentiment, suggest that a soft landing remains the most likely scenario. We expect US growth to bottom slightly below the 2% trend rate in our base case.

**Resisting the temptation to time the market has historically been a successful strategy.** Outside of bear markets, which occur on average about once every seven years, market selloffs tend to be so short-lived that the chances of successful market timing are low. When one has a long investment time horizon, market losses are far rarer, and it becomes clearer that volatility is an opportunity rather than a threat.

We therefore recommend investors keep a long-term perspective with regard to their financial goals and focus on quality companies in their equity holdings. Investors should also ensure their portfolios are well diversified across asset classes, regions, and sectors, including allocations to alternatives and hedges such as gold. Structured strategies offer another way to manage potential volatility ahead.

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Original report: [Equity market outlook positive despite potential swings, 3 September 2024.](#)

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