



A solid US economy, positive earnings growth, and the continuation of the global rate-cutting cycle set up a constructive environment for stocks. (UBS)

Historically, stocks have performed well after volatility spikes

06 January 2025, 2:54 pm CET, written by UBS Editorial Team US Editorial Team

After a strong 2024, CIO expects further gains for the S&P 500 in the coming year and sees the index reaching 6,600 by December 2025. A solid US economy and further advancements in AI should support the rally.

Tariff proposals should continue to contribute to volatility for European and Chinese markets, but we see value in maintaining diversified exposure to Asia ex-Japan. In Europe, we like EMU small-and mid-cap stocks and Swiss high-quality dividends.

Equity markets rallied to record highs in 2024.

- The S&P 500 rose 23% in 2024, setting 57 record closing highs during the year.
- US economic data has been solid, and the Federal Reserve continued to cut interest rates.
- Investors have focused on the potential for pro-growth policies under the incoming US administration.

Despite the potential for volatility ahead, we think the fundamental backdrop remains constructive.

- Uncertainty over US trade and fiscal policy may trigger bouts of market volatility.

- But we believe the US economy remains on track for a benign economic scenario of solid growth and gradual Fed rate cuts. This should be positive for US and global equities.
- Artificial intelligence will likely remain a key driver of equity market returns for several years.

We rate US equities as Attractive.

- We expect the S&P 500 to rise to 6,600 by December 2025.
- Elsewhere, we like the Asia ex-Japan market, including Taiwan and India. We also see opportunities in Eurozone small- and mid-cap stocks, the health care sector, and high-quality dividend stocks in Switzerland.
- Investors who are underinvested in AI can use periods of volatility to gain exposure. Structured strategies with capital preservation features can help investors navigate market volatility while staying invested.

Did you know?

- Historically, stocks have performed well after volatility spikes. The S&P 500 delivered 12-month total returns of around 15% after the VIX index rose above 25, versus 11% in all periods.
- Within the US equity market, the IT, financial, and utilities sectors are among those we see as Attractive. While the tech industry could face headwinds from trade tensions, we do not believe this will outweigh the structural growth story over the medium term, including optimism over AI's accelerating commercialization.
- Fed rate cuts in non-recessionary periods have also been favorable for stocks, historically.

Investment view

A solid US economy, positive earnings growth, and the continuation of the global rate-cutting cycle set up a constructive environment for stocks. Exposure to US stocks and especially technology is crucial to capture the AI opportunity, in our view. We also see opportunities in Eurozone small- and mid-cap stocks and in Asian ex-Japan equities. Structured strategies can help investors navigate market volatility.

Main contributors: Vincent Heaney, Alison Parums, Daisy Tseng

Original report: [Can equities grind higher?, 6 January 2025.](#)

The document and the information contained herein is intended for UBS internal use only and solely for the UBS employee to whom it was provided. It may in no circumstances be distributed outside of UBS. Information contained in this document has not been tailored to the specific needs, investment objectives, personal and financial circumstances of a client or any other recipient outside of UBS. This document shall not be construed to include any legal or tax advice, investment research, sales prospectus, an offer or a solicitation of an offer to enter in any investment activity. Neither UBS nor its directors, employees or agents accept any liability for any loss or damage arising out of the use of all or any part of this document. For further information, please contact the document owner.

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.