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.

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Original report: **Can equities grind higher?, 6 January 2025.**