Beyond technology, CIO sees opportunities in quality companies with competitive market positions, resilient earnings streams, and exposure to structural growth drivers such as the energy transition. (UBS)

The US economy remains on track for a soft landing

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US value stocks outperformed their growth peers at the start of the week, as an equity market rotation continued ahead of the Federal Reserve's interest rate decision on Wednesday.

Investors remain uncertain how far the Fed will cut. But while we believe equity gains will broaden out, we also think there is room for growth stocks—particularly technology stocks—to rise further.

The US economy remains on track for a soft landing. As investors look to consumer spending to assess the health of the US economy, recent economic data, including those on inflation and the labor market, are consistent with our view that the recession fears that triggered the early August sell-off were overdone. We acknowledge that the excess savings built during the pandemic have been largely used up, and that the high level of interest rates appears to be weighing on activity, especially in the housing market. But as the Fed embarks on a policy easing cycle, lower rates should ease some downward pressure on the economy.

Corporate earnings are solid, with rate cuts likely to benefit growth stocks. We continue to expect the earnings per share of S&P 500 companies to grow 11% this year and 8% in 2025 amid healthy macro and corporate fundamentals. In addition, while Fed rate cuts in non-recessionary periods have historically been favorable for equities overall, they also make growth stocks more attractive, as lower rates increase the present value of these companies' future cash flows.

The secular growth story of artificial intelligence shows no signs of ending. OpenAI last week announced a new model that promises significant improvements in its proficiency in math, coding, and science, while Apple marked its foray into the AI race through its consumer AI services with the iPhone 16 series. With big tech's heavy capital spending and growing demand for the technology, we believe the AI theme will continue to drive growth for years. Over the coming quarters, we expect global tech to deliver earnings growth near 15-20%.

Without taking any single-name views, we continue to like AI beneficiaries within the tech sector. Beyond technology, we also see opportunities in quality companies with competitive market positions, resilient earnings streams, and exposure to structural growth drivers such as the energy transition.

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